



Victoria Government Gazette

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National Electricity (Victoria) Act 2005 SECOND VNI SIPS MINISTERIAL ORDER

I, Lily D'Ambrosio, Minister for Energy, Environment and Climate Change and Minister responsible for administering the **National Electricity (Victoria) Act 2005** (Act), having consulted with the Premier, the Treasurer and AEMO in accordance with section 16ZA of the Act, make the following Order pursuant to section 16Y of the Act.

Note: In accordance with section 16ZB of the Act, my reasons for making this Order are published in this same issue of the Government Gazette and will be made available at www.delwp.vic.gov.au as soon as practicable after the making of this Order.

PRELIMINARY

1. Commencement

This Order commences on the day it is published in the Government Gazette.

2. Definitions and interpretation

In this Order, unless the context otherwise requires:

- (1) The following words have the following definitions:

AEMO's contracting costs means the costs AEMO incurs as a result of the making of this Order, carrying out a function conferred on it by this Order or complying with a requirement under this Order, including (without limitation) any:

- (a) amounts payable directly by AEMO under the VNI SIPS agreement or any tripartite deed entered into by AEMO in accordance with clause 4(a), or imposed by law in connection with either of those documents; and
- (b) other costs AEMO incurs in performing, complying with, administering, managing or enforcing the VNI SIPS agreement or any tripartite deed entered into by AEMO in accordance with clause 4(a), or any offer deed poll that is ancillary to any VNI SIPS agreement entered into in accordance with clause 4(a),

but does not include:

- (c) any costs incurred by AEMO prior to the commencement of this Order;
- (d) AEMO's VNI SIPS evaluation and negotiation costs;
- (e) any costs for which AEMO is reimbursed, or is to be reimbursed, by the State; or
- (f) any amounts payable by AEMO under a VNI SIPS agreement, tripartite deed or any other agreement or deed that is ancillary to a VNI SIPS agreement, that do not relate to the provision of VNI SIPS non-network services;

AEMO's VNI SIPS evaluation and negotiation costs has the same meaning as in clause 9(6) of the first VNI SIPS Ministerial Order;

first VNI SIPS Ministerial Order means the Ministerial Order made under section 16Y of the Act and published in Special Gazette S238 on 15 May 2020;

VNI SIPS agreement has the same meaning as in the first VNI SIPS Ministerial Order;

VNI SIPS non-network services has the same meaning as in the first VNI SIPS Ministerial Order;

Note: Clause 3 of the first VNI SIPS Ministerial Order provides that VNI SIPS non-network services are specified non-network services for the purposes of Division 7 of Part 3 of the Act.

SPECIAL

VNI SIPS service provider means Victorian Big Battery Pty Limited ACN 644 584 421.

- (2) Words and expressions that are defined in the Rules have the same meaning as they have under the Rules, except where modified by this Order.

Note 1: Words and expressions defined in the Rules that are used in this Order include:

(all definitions are in Chapter 10 of the Rules)

AEMO

declared transmission system

maximum allowed revenue

prescribed common transmission services

regulatory year

Rules

Note 2: See also Ministerial Order under section 30 of the Act made 26 June 2009, published in Special Gazette S222 on 30 June 2009, which Order describes the declared transmission system.

- (3) Any reference to a section, division, subdivision or part is a reference to a section, division, subdivision or part of the National Electricity (Victoria) Law.

AEMO'S FUNCTIONS

3. AEMO required to carry out the functions conferred on it by this Order

- (1) AEMO is required to carry out the functions in respect of the VNI SIPS non-network services conferred on it by this Order.

Note: The functions conferred on AEMO by this Order include functions in respect of contracting for VNI SIPS non-network services. Pursuant to section 16X(1)(a) and section 16X(2)(a) of the Act, those functions are taken to be conferred by the Act for the purposes of section 50C(1)(f) of the National Electricity (Victoria) Law.

- (2) Except to the extent that this Order provides otherwise, nothing in this Order:
- (a) limits AEMO's functions under the National Electricity (Victoria) Law or the Rules; or
 - (b) without limiting paragraph (a), limits AEMO in terms of any other agreement that it has entered into or may enter into with respect to the declared transmission system.

4. AEMO functions in respect of VNI SIPS non-network services

AEMO is conferred the following functions:

- (a) entering into:
- (i) a VNI SIPS agreement with the VNI SIPS service provider; and
 - (ii) a financier tripartite deed with the VNI SIPS service provider and any financier of the VNI SIPS service provider relating to the VNI SIPS agreement referred to in paragraph 4(a)(i),

following the issuing of an invitation to tender for VNI SIPS non-network services, the evaluation of tenders submitted in response to that invitation to tender and any negotiation with the VNI SIPS service provider or its related bodies corporate, or any other tenderer, by AEMO in accordance with clause 5(1), clause 5(2) and clause 6 of the first VNI SIPS Ministerial Order; and

Note: See section 16X(1)(a), section 16X(2)(a) and section 16Y(2)(l) of the Act.

- (b) exercising and enforcing its rights with respect to the provision of VNI SIPS non-network services in accordance with any VNI SIPS agreement or tripartite deed entered into in accordance with paragraph (a), or any offer deed poll that is ancillary to any VNI SIPS agreement entered into in accordance with paragraph (a)(i).

PERFORMANCE OF AEMO'S FUNCTIONS**5. Date of VNI SIPS agreement**

AEMO must use its reasonable endeavours to enter into a VNI SIPS agreement in accordance with clause 4(a) by 30 November 2020.

COST RECOVERY**6. AEMO's costs**

- (1) Despite anything to the contrary in the Rules, AEMO's contracting costs may be recovered through charges in respect of prescribed transmission services.
- (2) For the purposes of subclause (1), AEMO complying with this Order, including (without limitation) the carrying out by AEMO of the functions specified in clause 4 of this Order, is deemed to be the provision of prescribed common transmission services.
- (3) The definition of *prescribed common transmission services* in the Rules is modified accordingly.
- (4) Despite anything to the contrary in the Rules:
 - (a) AEMO's contracting costs are to form part of AEMO's maximum allowed revenue for this and subsequent regulatory years;
 - (b) consequent on the above and despite anything to the contrary in the Rules, AEMO may publish amended prices for prescribed shared transmission services for the regulatory year commencing on 1 July 2021 to take effect from 1 July 2021;
 - (c) AEMO may amend its revenue methodology for this and subsequent regulatory years to provide for AEMO's contracting costs; and
 - (d) AEMO is not required to consult with the public in respect of any amendment that is required to its revenue methodology in order to provide for AEMO's contracting costs or AEMO's VNI SIPS evaluation and negotiation costs.

Notes:
See clause S6A.4.2 of the Rules.
Section 16ZC(1) of the Act provides that this Order has effect despite anything to the contrary in any agreement or contract.
- (5) Except to the extent that this Order provides otherwise, nothing in this clause limits the provisions of the National Electricity (Victoria) Law or the Rules that otherwise apply to AEMO in respect of its maximum allowed revenue, revenue methodology or prices for prescribed common transmission services.

Dated 2 November 2020

HON. LILY D'AMBROSIO MP
Minister for Energy, Environment and Climate Change

**Reasons for Making the Second VNI SIPS Ministerial Order Under
Section 16Y of the National Electricity (Victoria) Act 2005**

In accordance with section 16ZB(1) of the **National Electricity (Victoria) Act 2005** (the Act), I make the following statement of reasons for making the Second VNI SIPS Ministerial Order under section 16Y of the Act.

As noted in the reasons for making the first VNI SIPS Ministerial Order (Victoria Government Gazette, No. S 238, 15 May 2020), recent fires and weather events have impacted Victoria's transmission network. Climate change is resulting in hotter summers and increasing peak demand for electricity. Victoria's coal-fired generators are ageing and becoming increasingly unreliable. As a result, Victoria's electricity system is facing unprecedented challenges in delivering reliable electricity to consumers.

Accordingly, there remains a crucial need in Victoria to secure additional reliable electricity supplies and increase the resilience of Victoria's declared transmission system.

I have considered the options available under the National Electricity Law and the National Electricity Rules to address the immediate reliability and security needs of the electricity system in Victoria, including alternatives to augmentation of the declared transmission system.

The electricity system need in Victoria can be met by increasing the capacity of the Victoria New South Wales Interconnector (VNI) to import electricity from NSW to Victoria.

To this end, and pursuant to the first VNI SIPS Ministerial Order, the Australian Energy Market Operator (AEMO) has completed an invitation to tender process to identify the best offer to supply a System Integrity Protection Scheme (SIPS).

AEMO has recommended to the Victorian Government that Victorian Big Battery Pty Limited provides the SIPS from a new 300 MW/377 MWh battery energy storage system (BESS) to be constructed at Moorabool. To provide the SIPS service, Victorian Big Battery Pty Limited will reserve 250 MW/125 MWh of the BESS's capacity to enable the VNI to operate at a higher capacity to import up to a further 250 MW into Victoria during peak times.

The invitation to tender process found that the SIPS will relieve constraints on the VNI and provide for more flexibility in electricity dispatch, increasing competition between generators and placing downward pressure on wholesale electricity prices.

The invitation to tender process also found that the optimal SIPS configuration is a seasonal service operated between November and March each year for 11 seasons, starting from 1 November 2021. This is because the SIPS is most effective when both temperatures and demand are high in Victoria. Contracting for the SIPS only when it is required, rather than all year round, saves Victorian electricity consumers money and allows Victorian Big Battery Pty Limited to offer the full capacity of the BESS to provide other essential services to the grid in the off-season via existing national electricity market mechanisms.

In consultation with AEMO, the Premier and the Treasurer, the SIPS is considered a suitable, cost-effective option to address the immediate reliability and security needs of the electricity system in Victoria.

The Second VNI SIPS Ministerial Order directs AEMO to enter a contract with Victorian Big Battery Pty Limited to supply the SIPS. The costs to provide the service will be apportioned to customers in accordance with the existing rules and procedures for transmission charges. Independent analysis of the SIPS demonstrates these costs will be substantially outweighed by the lower wholesale electricity prices delivered by the facility. This analysis shows that the SIPS will reduce consumers bills over the life of the service while delivering increased reliability of electricity supply. AEMO will regularly report to the State on the performance and costs of the SIPS to ensure that the service continues to meet the needs of Victorian electricity consumers.

HON. LILY D'AMBROSIO MP
Minister for Energy, Environment and Climate Change

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