

WHOLESALE ELECTRICITY MARKET

Submission to Procedure Change Proposal

AEPC_2020_02

Certification of Reserve Capacity Market Procedure

Submitted by	
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Submission

Clause 2.10.7 of the Wholesale Electricity Market Rules provides that any person may make a submission for a Procedure Change Proposal (including proposals developed by AEMO, the Economic Regulation Authority or the Rule Change Panel) by completing this Procedure Change Submission form.

Submissions should be provided by email to the nominated contact in the call for submissions published with the Procedure Change Proposal.

Please provide your views on the Procedure Change Proposal, including any objections or suggested revisions

Step 5.3 Assessment of fuel supply, staffing constraints and other restrictions

Tronox notes that the Western Australian natural gas market, which will provide the primary fuel for generation from the Kwinana Cogeneration plant (CoGen) is dynamic and could be observed to be out of step with the assessment of fuel supply arrangements outlined in this step.

In recent years commercial arrangements for the supply of natural gas market has favoured short-term purchases. There is no shortage of natural gas in Western Australia and therefore short-term contracts are regarded as risk-free for a business such as Tronox. Therefore, we argue that the assessment should be able to incorporate a risk assessment for the supply of the primary fuel, where a current supply agreement is not in place for the full term of the capacity period.

With respect to the requirement for “90% firm”, in general, commercial arrangements are settled to motivate customers to take natural gas between a bandwidth of +/- 10% anyway and a failure to do so is more likely to be due to failure upstream than with the business practices of a generator such as Tronox. Tronox is similarly motivated to contract for natural gas supply with vendors that offer a low risk of failing to supply. Like many in manufacturing, the Tronox business model is based on 24/7 operations that is dependent on reliable supply of raw materials, including energy.

Tronox’s experience of reserving natural gas as its primary fuel is secured with a significant impost. Furthermore, that impost has grown five-fold over what it could be secured in recent times. Those costs are damaging to Tronox’s commercial position and as outlined above are not necessary in the current market where natural gas can be procured at short notice without penalties being applied. AEMO should be well-placed to assess how robust the WA natural gas market is and take opportunities wherever possible to support processes that reduce and sharpen the cost structure of the market.

Tronox also seeks recognition within the assessment for its track record of securing fuel and the sustainability of its operations. On the one hand, Tronox has demonstrated for many years that it can and has secured natural gas for generation requirements aligned with the production capacity of the plant supplied by the CoGen. On the other, the future success of Tronox’s Kwinana operations is essentially guaranteed by continuing to procure natural gas as a primary fuel. Any risk assessment of Tronox’s fuel supply would validate that AEMO can reasonably expect that the CoGen is likely to be available at the determined level of capacity, particularly when based on past performance. Nothing is absolutely certain in business but an evaluation of the sustainability of future operations, which in this case is only short-term, should also support the assessment.

Tronox recommends that assessment criteria that is too prescriptive and out of step with commercial arrangements needs to be re-shaped so that it reflects what is actually happening in the market and can be reasonably substantiated by a risk assessment.

Step 4.2 Data accuracy and sufficiency assessment

We note that under step 4.2 of the Procedure, AEMO may, in its sole discretion, carry out a preliminary screening review of an application that has been submitted at least 10 Business Days before the deadline. We note this is provided as a “courtesy” only and only to applications which AEMO “in its sole discretion” chooses to review.

In our view this review should be conducted to all applications made at least 10 Business Days before the deadline. To do otherwise AEMO – giving some applicants the benefit of a preliminary screening review and others not - risks being at odds with one of its Wholesale Market Objectives to avoid discrimination in the market against particular energy options and technologies.

Further, where AEMO, following its preliminary screening review, requires clarification or further information, it must, as soon as practicable, request that clarification or further information. However if an applicant does not respond to that request by the deadline, AEMO must reject the application. Applicants must be given a reasonable period in which to respond. Without this comfort there is a risk that, by submitting early, an application might be reviewed and a request for further information made just prior to the deadline and if the applicant can’t respond their application is rejected.

Please provide an assessment whether the Procedure Change Proposal is consistent with the Market Objectives and the Wholesale Electricity Market Rules.

Please see comments above.

Please indicate if the Procedure Change Proposal will have any implications for your organisation (for example changes to your IT or business systems) and any costs involved in implementing these changes.

Please see comments above.

Please indicate the time required for your organisation to implement the changes, should they be accepted as proposed.

Tronox will be in a position to implement the changes 12 months after their adoption.