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5 February 2018

Sarah-Jane Derby  
Australian Energy Market Commission  
PO Box A2449  
Sydney South, New South Wales 1235

Project number: EPR0060

Dear Sarah-Jane

### **Reliability Frameworks Review- Interim Report**

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (MEA Group) are pleased to provide comments to the AEMC in relation to its interim report into the market and regulatory frameworks that underpin reliability in the National Electricity Market (NEM).

As you are aware, MEA Group is the owner and operator of the Mt Mercer and Mt Millar Wind Farms as well as Powershop Australia, an innovative retailer committed to providing lower prices for customers, which recognizes the benefits for customers of a transition to a more renewable-based and distributed energy system. MEA Group is an active investor in the NEM, having recently entered into an agreement to purchase the Hume, Burrinjuck and Keepit hydro power stations, as well as entering into long term power purchase agreements for the Kiamal Solar Farm stage 1, the Crudine Ridge Wind Farm and the Salt Creek Wind Farm.<sup>1</sup>

In response to the Commission's interim report, MEA Group would like to make the following comments.

#### Forecasting and information provision

MEA Group considers that all market participants have an interest in working together and with AEMO to improve the short term forecasts of all generators within the NEM. However, MEA Group would like to note that it would be a mistake to characterise the challenges of forecasting, in the context of an evolving electricity system, solely as a result of the increasing penetration of distributed energy resources and variable renewable generation. AEMO's Power System Incident Report<sup>2</sup> outlines a number of incidents with 'traditional' infrastructure in 2017. As infrastructure, particularly the coal fired generation fleet and distribution and transmission networks age, it is reasonable to expect an increased volume of incidents, contributing to forecasting challenges which could possibly outweigh any incremental improvements in the forecasting ability of distributed and variable renewable generation. In addition, it should be noted that variable, in the context of renewable energy, does not equate to non-forecastable. MEA Group looks forward to working with the AEMC and AEMO and making an ongoing contribution to improvements across the NEM in respect of forecasting technologies.

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<sup>1</sup> <https://blog.powershop.com.au/media-release-meridian-energy-australia-invests-renewable-energy-adding-hydro-solar-wind-projects-meet-going-customer-growth/>

<sup>2</sup> <https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Market-notice-and-events/Power-System-Operating-Incident-Reports>

## The contract market

MEA Group agrees with the AEMC in that restarting the AFMA survey of the turnover of OTC contracts is welcome.

## Wholesale demand response

MEA Group agrees with the AEMC in so far as regulatory barriers do not seem to exist to the development of demand response. While separating energy from demand response, through some mechanism, might allow the development of a retailer-independent demand response market, the potential costs to consumers and the impacts on the NEM, would need to be carefully balanced against any potential benefits.

## Strategic reserves

MEA Group considers the design of the system 'failsafe' to be one of the more important NEM topics currently under discussion. MEA Group believes AEMO should operate any failsafe mechanism. Recent political rhetoric means that load shedding has become extremely undesirable. However, while AEMO's most recent statement of opportunities report<sup>3</sup> highlights an increased risk that the current NEM reliability standard will not be met, it does not actually forecast missing the standard in any period between the 18-19 and 26-27 financial years, in VIC, NSW or SA. With that forecast in mind, great care must be taken in designing any failsafe mechanism such that:

- 1) direct costs to consumers; and
- 2) indirect costs to consumers are minimised.

Indirect costs to consumers could arise if the failsafe mechanism leads to the perception that the mechanism will be activated every time supply and demand are tight, reducing high wholesale prices, and reducing the need for ongoing investment in peaking generation. On direct costs, MEA Group notes the estimated costs of moving to close to zero unserved energy in Victoria of \$200m per annum.<sup>4</sup> If this cost were to be passed onto all consumers in Victoria, this would increase electricity bills by \$100 per annum (if consumers with concession cards were to be excluded). MEA Group considers that this figure, along with the complexity of this issue, means that a detailed analysis of the costs of the various failsafe options, including extension or enhancement of the RERT, as well as strategic reserves, should be undertaken, and that community and market participants should be consulted, so that the trade-off between reliability and cost can be made with the interests of the community at the core.

## Day-ahead markets

MEA Group agrees with the assessment of the AEMC in that the problems in the NEM that a day ahead market will address have not been identified. MEA Group considers that the introduction of a (particularly US style) day ahead market would mean an upheaval of the NEM. While the Energy Security Board's recent report<sup>5</sup> described the NEM as 'not in the best of health', care must be taken as to whether the NEM can be nursed back to health, or whether an alternative NEM structure should be considered. We note that some investment positivity is returning to the sector with amongst others, MEA Group's recent announcement,<sup>6</sup> AGL's plans to replace the Liddell coal fired power station,<sup>7</sup> Snowy 2.0,<sup>8</sup> corporate PPAs,<sup>9</sup> and the Clean Energy Regulator's recent announcement<sup>10</sup> outlining that the RET will be met. In this context, caution should be exercised when considering radical departures from the current NEM design. In our view, the uncertainty created, would lead to a marked decrease in investment, and as a result higher prices for consumers.

In summary, we encourage the AEMC to continue to make a balanced assessment of reliability frameworks.

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<sup>3</sup> <https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Planning-and-forecasting/NEM-Electricity-Statement-of-Opportunities>

<sup>4</sup> Page 154 Reliability Frameworks Review - Interim Report

<sup>5</sup> <http://www.coagenergycouncil.gov.au/publications/health-national-electricity-market-report>

<sup>6</sup> <https://blog.powershop.com.au/media-release-meridian-energy-australia-invests-renewable-energy-adding-hydro-solar-wind-projects-meet-going-customer-growth/>

<sup>7</sup> <https://www.agl.com.au/about-agl/media-centre/asx-and-media-releases/2017/december/agl-announces-plans-for-liddell-power-station>


<sup>8</sup> <http://www.snowyhydro.com.au/our-scheme/snowy20/>

<sup>9</sup> <https://exchange.telstra.com.au/renewable-energy-murra-warra-wind-farm/>

<sup>10</sup> <http://www.cleanenergyregulator.gov.au/About/Pages/News%20and%20updates/NewsItem.aspx?ListId=19b4efbb-6f5d-4637-94c4-121c1f96fcfe&ItemId=468>

If you have any further questions please feel free to contact me.

Yours sincerely

A handwritten signature in black ink, appearing to read "Ed McManus". The signature is fluid and cursive, with a long horizontal stroke at the end.

Ed McManus  
Chief Executive Officer  
Meridian Energy Australia Pty Ltd