



14 February 2018

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2499
Sydney South NSW 1235

Dear Mr Pierce

Interim Report – Reliability Frameworks Review

Energy Queensland Limited (Energy Queensland) welcomes the opportunity to provide comment to the Australian Energy Market Commission (AEMC) regarding its *Interim Report – Reliability Frameworks Review*.

The attached submission is provided by Energy Queensland that operates a portfolio of businesses providing energy services across Queensland, including:

- Distribution network service providers (DNSPs), Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy Network);
- A regional service delivery retailer, Ergon Energy Queensland Limited (Ergon Energy Retail), limited in its scope of operations by jurisdictional legislation; and
- Affiliated contestable business Energy Impact Pty Ltd (trading as Yurika).

Should you require additional information or wish to discuss any aspect of Energy Queensland's submission, please do not hesitate to contact either myself on (07) 3851 6416 or Trudy Fraser on (07) 3851 6787.

Yours sincerely



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Encl: Energy Queensland submission

Energy Queensland

Submission to the Australian Energy Market Commission

Interim Report – Reliability Frameworks Review

Energy Queensland Limited

14 February 2018



About Energy Queensland

Energy Queensland Limited (Energy Queensland) is a Queensland Government Owned Corporation that operates a group of businesses providing energy services across Queensland, including:

- Distribution Network Service Providers, Energex Limited (Energex) and Ergon Energy Corporation Limited (Ergon Energy);
- a regional service delivery retailer, Ergon Energy Queensland Pty Ltd (Ergon Energy Retail); and
- affiliated contestable business Energy Impact Pty Ltd (trading as Yurika).

Energy Queensland's purpose is to 'safely deliver secure, affordable and sustainable energy solutions with our communities and customers and is focused on working across its portfolio of activities to deliver customers lower, more predictable power bills while maintaining a safe and reliable supply and a great customer experience.

Our distribution businesses, Energex and Ergon Energy, cover 1.7 million km² and supply 37,208 GWh of energy to 2.1 million homes and businesses. Ergon Energy Retail sells electricity to 740,000 customers.

The Energy Queensland Group also includes the new energy services business Yurika which will provide customers with greater choice and control over their energy needs and access to the next wave of innovative technologies and renewables.

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1 Introduction

Overall, Energy Queensland supports the Australian Energy Market Commission's (AEMC) preliminary views outlined in the Interim Report and note that policy certainty at this juncture is necessary. Given the current transformation of Australia's energy system it is critical that we restore the landscape. We agree with the AEMC that a reasonable approach is to "step back" and examine existing arrangements and proposed changes with a view to adopting a more holistic overview that will provide more balanced solutions.

Energy Queensland is generally encouraged by the review and its sentiment. We would emphasise the importance of where possible adopting a light-handed approach to regulation as this will avoid interference within the existing market structures without first having compelling reasons to do so. We further support "competitive markets" as the mechanism that will ultimately provide the appropriate conditions for meeting the reliability standard in the most efficient manner and therefore lowest cost to the consumer.

The Interim Report has referenced a number of recent rule changes underway or recently completed. These rule changes should be given time to take effect before changes are considered which would distort the market. For example, the Declaration of Lack of Reserve Conditions rule change should have the effect of improving the signalling of risk of load shedding to the market. This should give proponents more certainty to make investment decisions with confidence.

2 Forecasting and information provisions

Energy Queensland agrees that accurate forecasting is an essential element of operating, and participating in the market. Such information is important as it enables participants to make sound investment and operational decisions, which in turn, benefits the market as a whole. Energy Queensland considers that with greater visibility and transparency of forecasting and information processes, more efficient investment and operational decisions can be made.

We also agree with the AEMC's assessment that it is preferable for the Australian Energy Market Operator (AEMO) to continue to improve its forecasting tools and methodologies to better manage system security issues.

We note that AEMO's Demand Side Participation Guidelines will require participants to provide demand side participation data at NMI level to AEMO from April. We believe that the AEMC should assess the effectiveness of these Guidelines and other rule changes before contemplating further regulation. While AEMO should be encouraged to continually improve and refine its forecasting methodologies, it is equally important to understand the effectiveness of existing tools before considering further amendments to the framework.

The Five Minute Settlement rule change which was not supported by industry more broadly highlights how accurate forecasting becomes even more important. Especially, if the anticipated withdrawal of peaking plant occurs in the short to medium term and there is a reduction in the availability of cap contracts.

3 Demand Response

Energy Queensland is a strong supporter of demand response participation and suggests there is a growing market for demand response services. Our retailer, Ergon Energy Queensland, is an active purchaser of these services and uses it in some circumstances as a method for managing price exposure. As there is a rapidly developing market for demand response as a result of advancing technologies and growing consumer awareness of electricity costs, certain issues, as it relates to demand response need to be considered by the AEMC in determining the level of regulation required including the following:

- Demand response can be expensive to organise and set up, relative to its wholesale value. However, we note its value to manage electricity supply and price exposure in some circumstances; The technology required to respond in a timely manner is expensive and has long lead times to implement especially in regional areas;
- Where the demand response is not firm, it is usually dependent on behavioural activities;
- Technology neutral – technologies shouldn't be excluded and face regulatory barriers over other technologies; and
- AEMO currently has no visibility and little ability to anticipate loading beyond each transmission connection point. With increasing levels of demand response originating from within the distribution network, a necessary capability will be the ability to identify and manage constraints within the distribution network and then orchestrate demand response such that it dynamically facilitates the effective operation while ensuring the safety, security and reliability of both the distribution and transmission systems.

Energy Queensland's DNSPs, Energex and Ergon Energy, currently provide non-firm response during low reserve conditions. Although demand response exists throughout much of the electricity supply chain, Energy Queensland considers that the DNSPs role is underutilised. As such we wish to highlight the following demand response initiatives that may better manage electricity supply during peaks.

- Demand response procured by DNSPs could provide value to the market at least as an interim measure until a demand response market has reached a sustainable level of maturity;

- Energy's Queensland's existing DNSPs demand response may play a role in providing non-firm response (as a secondary priority after meeting DNSP constraints) to the wholesale market. In addition, DNSPs may provide non-firm response to the existing reliability and emergency reserve trader (RERT) mechanism or strategic reserves to AEMO during low reserve conditions. Energex actively participates in these events and is not compensated for the demand response supplied. Energy Queensland encourages the AEMC to contemplate development of a standard product for RERT conditions to allow market participants to determine a value for the service currently provided by Energex's demand response.

We consider AEMO's Demand Side Participation Guidelines will improve the understanding and visibility of demand response across the National Energy Market (NEM) and inform whether market barriers or further challenges exist.

Energy Queensland also considers that if demand response was required to be bid into the market it will likely allow generators to adjust their bidding practices to maximise their own dispatch and reduce the frequency and volume of dispatch of providers of demand response. This is a reasonable response from a generator, however, would likely reduce the value to the customer providing the demand response.

4 Strategic Reserves

It is our view that there is no compelling case for a strategic reserve for retailers and that such a mechanism would likely be expensive and results in costs being borne by consumers. However, there may be value for distributors who have demand response available for network purposes. Arguably, distributors could capture the value of demand response for strategic reserve purposes with no additional costs.

We would question the assertion that community expectations have changed in relation to reliability across the NEM. For example, in the context of Queensland, the Energy Consumers Association annual consumer sentiment survey (June 17)¹ highlights that reliability satisfaction has remained at or above 75% since 2016.

¹ <http://energyconsumersaustralia.com.au/wp-content/uploads/Energy-Consumer-Sentiment-Survey-June2017.pdf>