

26 July 2018

John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Lodged electronically: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Pierce,

### **ENHANCEMENT TO THE RELIABILITY AND EMERGENCY RESERVE TRADER RULE CHANGE CONSULTATION PAPER (ERC0237)**

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in solar, wind, hydro, bioenergy, marine and geothermal energy, energy storage and energy efficiency along with more than 5,000 solar installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

The CEC welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC's) Consultation Paper in relation to the enhancement to the Reliability and Emergency Reserve Trader (RERT) rule change proposal. The Australian Energy Market Operator (AEMO) has proposed this rule change as it believes an enhanced RERT is a stronger safety net to mitigate against the risks associated with unanticipated shortfalls. The concept of an enhanced RERT represents an enhanced market intervention and suggests an enduring failure in the current RERT and National Electricity Market (NEM) designs. We consider the case for an enhanced RERT has not been adequately justified and several questions remain unanswered. This suggests the proposed rule change may not satisfy the National Electricity Objective given the enhanced RERT could distort the market and lead to increased costs that would need to be recovered from customers.

#### **Is an enhanced RERT needed?**

A strong evidence base that supports the need for an enhanced RERT has not been given. AEMO has provided little detail that would indicate there are current challenges in procuring RERT that has meant it has been unsuccessful in securing a sufficient amount of RERT to date or into the future. In addition, unserved energy forecasts in AEMO's most recent Electricity Statement of Opportunities indicate the current Reliability Standard should not be exceeded in the forthcoming outlook period and in fact, any challenges to reliability diminish over the outlook period. This reliability outlook does not support a need for an enhanced RERT.

### **What are the implications of an enhanced RERT for investment and incentives?**

The CEC is concerned that the enhanced RERT could create perverse incentives that have potential implications for efficient market operations. AEMO proposes that in the event it projects a longer-term requirement, reserves be allowed to be procured for the RERT for up to three years. Such a long procurement lead time could crowd out or defer efficient market responses. If the market knows that AEMO has procured RERT three years ahead of an identified shortfall, this would likely discourage long-term, economic investment in in-market energy resources.

A longer procurement lead time in conjunction with availability payments could even act as a strong enough incentive to hold energy resources off-market as RERT rather than have them actively participate on-market. The CEC considers market arrangements should do the opposite – they should incentivise energy resources to participate in regular wholesale market operations.

### **What is the purpose of the broader risk assessment framework?**

AEMO suggests that the trigger for procuring reserves and the determination of the volume to be procured should take into account a broader risk assessment. In our view, the purpose of AEMO's proposed changes to have the trigger for the RERT be in the context of a broader risk assessment is not clear. The broader risk assessment framework is poorly defined and is not justified as currently proposed.

The current trigger for the RERT is the Reliability Standard. The CEC considers this remains appropriate as the Reliability Standard embodies a trade-off between the value consumers place on supply reliability and the overall power system costs associated with achieving a certain reliability level. AEMO's proposal that the RERT trigger should be in the context of a broader risk assessment suggests the trigger should consider factors other than the Reliability Standard. This in turn suggests the potential to procure reserves to ensure higher levels of reliability than the Reliability Standard. The CEC cautions against allowing this ambiguity and discretion into the assessment for triggering RERT. If, as AEMO suggests, community and jurisdictional government expectations have changed so that they are unwilling to tolerate load shedding, the Reliability Standard itself should be re-assessed. The CEC does not believe there is sufficient evidence to support this notion of changed community and/or government sentiment towards reliability. Educating the community and governments on the Reliability Standard is probably also appropriate.

### **Is an enhanced RERT appropriate alongside the National Energy Guarantee?**

The reliability requirement of the National Energy Guarantee (NEG) is intended to incentivise retailers and large customers to support the reliability of the power system through their contracting and investment in energy resources. The CEC contends that, in line with the intent of the NEG, the market should be given all reasonable opportunity to achieve this objective prior to AEMO procuring out-of-market reserves. Given this, the CEC questions whether an enhanced RERT is required as it appears to contradict this policy intent. A three-year procurement lead time could even interfere with the incentive

provided by the NEG to deliver investment to address a reliability gap before a reliability obligation is triggered.

**How is the efficient procurement of RERT assured?**

Under the current RERT arrangements, there is a lack of transparency about the type and volume of resources procured and the costs associated with the procurement and activation of RERT. The CEC supports improvements to the transparency, accountability and governance arrangements associated with RERT. These improvements are particularly necessary considering the greater costs that could result from an enhanced RERT but are also appropriate if the RERT framework remains unchanged and current arrangements are maintained.

Thank you for the opportunity to provide our views on these matters. Please contact me on the below details for any queries regarding this submission.

Sincerely,

A handwritten signature in black ink, appearing to read "Lillian Patterson". The signature is written in a cursive style with a large initial 'L'.

Lillian Patterson  
Director Energy Transformation  
03 9929 4142  
[lpatterson@cleanenergycouncil.org.au](mailto:lpatterson@cleanenergycouncil.org.au)