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Australian Energy Market Commission
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Dear Australian Energy Market Commission

Enhancement to the Reliability and Emergency Reserve Trader Rule

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (Meridian) thank the Australian Energy Market Commission (AEMC) for the opportunity to provide comments in relation to the National Electricity Amendment (Enhancement to the Reliability and Emergency Reserve Trader) Rule 2018 (The Rule).

Meridian 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 consumers which recognizes the benefits for consumers of a transition to a more renewable-based and distributed energy system. Meridian has also recently announced a significant investment in the future of the Australian energy market including the acquisition of three hydro plants in New South Wales and underwriting the development of a number of new renewable energy projects in Victoria and New South Wales.

Meridian recognizes the important role that the RERT can play in ensuring that consumers have access to reliable supply of power. We remind the AEMC that customers are best served when the conditions allow efficient investments to be made that will ensure that the market operates to deliver affordable and reliable energy without the need for system operator intervention. To this extent, we see the RERT as being supplement to, and not a substitute for, other important market developments such as the National Energy Guarantee and the Reliability Frameworks Review.

Generally we support the proposal to enhance the RERT but consider that the case for substantial change to its methods and modes of operation (for example by changing the reliability standard) has not been made out. We also believe that given the greater prominence placed on the RERT, and the likelihood of its continued use as a safety net to ensure reliability, more emphasis should be placed on matters which will increase transparency and ensure that customers receive support of appropriate reserves at an efficient cost.

Meridian's response to the AEMCs specific questions are set out below.

1. Chapter 4: Assessment Framework

Paper Ref	AEMC Question	Meridian response
4	<p>Question 1 Assessment Framework:</p> <p>(a) Is the assessment framework appropriate for considering the changes proposed in the rule change request?</p> <p>(b) Are there any other relevant considerations that should be included in the assessment framework?</p>	<p>Meridian considers the assessment framework generally appropriate. However, it is concerned that the assessment is only considering the National Electricity Objective (NEO) in terms of the direct and indirect cost impact of the RERT. While it is true any market distortion may ultimately lead to an increase in costs, the general impact on promoting efficient investment and the resources required to ensure that the market can meet its reliability objectives at all times should be a key consideration.</p>

2. Chapter 5: Issues for Consultation

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5.1	<p>Question 2 Procurement Lead Time:</p> <p>(a) What are stakeholders' views on increasing the procurement lead time from nine months to one year?</p> <p>(b) Is one year an appropriate lead time? What are the pros and cons of a longer lead time?</p>	<p>Meridian considers one year to be an appropriate lead time. This will enable AEMO to utilise interest in the RERT program in any one year to procure next year's participants (enabling them sufficient time to structure their arrangements) without encouraging providers who have the ability to solve the issue through market means from choosing the RERT over the market. This impact can be further accentuated when AEMO seeks to procure RERT reserves from the market at times when AEMO's own forecast indicates such reserves will not be required, as is currently the case.</p>
5.1.1	<p>Question 3 Multi-year contracting:</p> <p>(a) Is multi-year contracting appropriate?</p> <p>(b) If so, is a three-year outlook an appropriate duration?</p>	<p>Meridian is concerned that multi-year contracting may carry significant costs and create significant market distortions which have the potential to outweigh any reduction in costs. If multi-year contracting is contemplated then the RERT guidelines should be modified so that AEMO can only utilise such an approach if the expected savings substantially outweigh the large cost of procuring reserves (which, may not be required) and the potential significant distortionary impact on market investment signals.</p>
5.2.1	<p>Question 4 Operationalisation of the reliability standard:</p> <p>Do stakeholders have views on how the reliability standard is operationalised, including on the approaches described above?</p>	<p>Meridian shares some of the concerns expressed by other parties about the operationalisation of the reliability standard, particularly in light of the addition of forecast uncertainty measure through the LOR2 process. By definition, uncertainty is greater in the longer and medium term and this has the potential for AEMO to determine the need to procure RERT prior to there being any confidence that the reserves are required. We believe in light of this risk, that the Rules or RERT guidelines should provide AEMO with clearer guidance on balancing the costs and risks of any early intervention against any potential cost savings.</p>
	<p>Question 5 Appropriateness of the reliability standard:</p>	<p>Although there has been considerable discussion of such a concept, Meridian is not aware of any evidence</p>

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	<p>(a) Do stakeholders consider that the current reliability standard remains appropriate?</p> <p>(b) If the current reliability standard is considered appropriate, is there evidence that a tighter reliability standard is needed, i.e. one which allows less tolerance for unserved energy?</p>	<p>that the standard is inappropriate or that a tighter standard is required. The standard was a relevant topic in the recent Reliable Standards Settings Review and there were limited submissions (if any) on the topic supporting such views. Clearly adjusting the standards must be balanced against customers' tolerance for increased costs and to this extent, the newly established proposals for AER to conduct reviews of the value of customer reliability may provide such evidence to reconsider this issue. In the absence of such evidence we consider the standard is currently set at a level which appropriately balances cost and reliability.</p>
	<p>Question 6 Alternatives to the reliability standard metric:</p> <p>(a) Should the Commission consider alternative metrics, i.e. metrics other than the current reliability standard metric such as the loss of load probability? If so, which metrics should the Commission be assessing?</p> <p>(b) If a different metric(s) is considered, should this metric(s):</p> <p>(1) replace the reliability standard and therefore apply to the entire reliability framework; or</p> <p>(2) apply in addition to the current metric; or</p> <p>(3) apply only to the RERT trigger, which would in effect, create a second standard, with the existing reliability standard intact?</p>	<p>Meridian is interested in AEMO's proposal of a loss of load probability (LOLP) standard. However, we do not believe there has been sufficient explanation of the need nor the benefit that such a standard would introduce. We also share the concerns expressed by the Reliability Panel 2007 that a tightening of the standard would impose significant costs on consumers which may outweigh any potential benefits.</p> <p>Meridian considers that it is critical for market integrity that the same metric be used for all elements of the market. Applying it only to the RERT would result in some market participants not being encouraged to provide solutions, which AEMO would then be required to solve through a potentially more expensive RERT process. We share the view that its addition to the current standard would result in the more conservative metric being applied and whether this is an appropriate outcome depends entirely on the two individual settings. We do consider that a review of this issue might be appropriate but also recognise there may be a number of alternative metrics. For example, some may consider it desirable that duration of shortfalls may be a relevant metric. We do not consider this consultation to be the appropriate forum for this potentially wide ranging discussion and would suggest that if there is sufficient interest, the AEMC could require the Reliability Panel to undertake a consultation specifically on the form of the reliability standard.</p>
5.2.2	<p>Question 7 Power system security trigger:</p> <p>(a) Does it continue to be appropriate for AEMO to have the discretion to use the RERT for power system security?</p> <p>(b) What effect would changes to the procurement trigger or other changes being considered through this rule change have on this aspect of the framework?</p>	<p>Meridian considers it highly unlikely that AEMO would ever have a need to procure RERT solely for power systems security services when there is not also a corresponding reliability requirement. However, we do consider it appropriate that AEMO retains the right to utilise RERT reserves procured for whatever purpose for system security events. Customers are funding RERT reserves and would be badly served if available reserves were not utilised when necessary. But on the contrary, we do not consider that customers will be well served by procuring somewhat expensive reserves to address system security events that are not credible contingencies and therefore not likely to occur.</p>

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5.2.3	<p>Question 8 Linking the procurement trigger to a reliable operating state:</p> <p>(a) What are stakeholders' views on whether the procurement trigger for the RERT should be linked to a reliable operating state?</p> <p>(b) What are stakeholders' views on whether having linking the procurement trigger for the RERT to the reliability standard creates potential inefficiencies?</p>	<p>Meridian does not consider that it is necessary to link procurement triggers to a reliable operating state. While the AEMO operationalises the RERT it dispatches those reserves ahead of directions. This is not the same as saying that the operationalisation is attempting to meet a standard of reliability that is greater than the Reliability Standard, as the standard must be measured across the entire year and not for each individual event. Under current guidelines AEMO has the potential to procure RERT reserves in as little as three hours. Whilst it is theoretically possible that RERT reserves may be less costly than directions, this excludes the significant costs and risks involved in pre-procurement. In any event, the market design is based on AEMO operating the energy system on a best practice basis including avoiding periods of unexpected lack of reserves. Directions in such cases are merely a backstop measure to utilise readily available capabilities at short notice to avoid unnecessary customer disruption.</p>
5.3	<p>Question 9 Procurement Volume:</p> <p>(a) Should the NER be more prescriptive with respect to procurement volume?</p> <p>(b) Do stakeholders consider that the current procurement volume is sufficiently transparent? If not, how could transparency be achieved?</p> <p>(c) What is the most appropriate link between the procurement trigger and procurement volume?</p>	<p>Meridian considers that the appropriate location for any such linking will be in the RERT guidelines as this would enable appropriate technical input and regular updating for experiences gained from RERT activations.</p> <p>Meridian does have some concerns that the current mechanism of determining procurement volumes is insufficiently transparent and would encourage the AEMC to request the Reliability Panel to update the RERT guidelines to address this issue rather than attempting to resolve it in this rule change process.</p>
	<p>Question 10 Options for determining procurement volume: Do stakeholders have any views on the outlined options?</p>	<p>While Meridian does have some preliminary views, Meridian considers this an inappropriate forum for this discussion and would encourage the AEMC to undertake a consultation specifically on this and other related issues as potential amendments to the RERT guidelines.</p>
5.4	<p>Question 11 Standardisation of Products: Should there be a high-level framework in the NER for standardised products? If so, what should this framework look like?</p>	<p>Meridian understands the potential attractiveness of standardisation, however, we realise there are potential risks and practicality implications. This is a type of issue that would more appropriately rest with AEMO, but AEMO could benefit from having further guidance on when standardised products would be preferred over bespoke and/or innovative options. Again, this a matter best dealt with in the RERT guidelines rather than the Rules.</p>
5.5	<p>Question 12 Governance and transparency of the RERT</p> <p>(a) Is the current governance framework appropriate? Is there a need for independent oversight of the procurement trigger for the RERT?</p> <p>(b) Do stakeholders agree that there should be more transparency around the identified aspects of the RERT framework?</p>	<p>Meridian believes the current framework has proved to be effective but recognise that the RERT has rarely been actively utilised. We do not consider the case for independent oversight of the procurement trigger to be made out, but do consider that AEMO should publish significantly more data on how it makes decisions related to the RERT, the evidence it relies on in relation to those decisions, and regular reporting and reassessment on how appropriately those decisions have supported relevant objectives. Each of these</p>

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		issues could be dealt with by an update to the RERT guidelines.

3. Chapter 6: AEMO’s high-level enhanced RERT design

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6.1.1	<p>Question 13 Notification periods:</p> <p>(a) What are stakeholders' views on the three notification periods proposed by AEMO?</p> <p>(b) Do stakeholders have any views as to whether notification periods should be specified in the NER?</p>	<p>Meridian considers that there is value in standardising some notification periods, but do not consider the Rules to be the appropriate location for such specifications. Again, this is best established by AEMO including such timeframes in their RERT procedures with potential support from an inclusion in the RERT guidelines.</p>
6.1.2	<p>Question 14 Eligible technologies:</p> <p>What are stakeholders' views on which technologies should be eligible to participate in the RERT?</p>	<p>Meridian considers the RERT should be technology neutral, however it is important that in assessing technologies all costs and implications are considered. For example, the use of voltage reduction has the potential to create adverse impacts for consumers and additional costs which may not be considered in determining to activate that solution. There may also need to be a consideration as to how consumers who have funded the network capability through their network tariffs are to receive a fair return for their contribution.</p>
6.1.3	<p>Question 15 Minimising market distortions:</p> <p>(a) Are the out-of-market provisions in the NER, aimed at minimising market distortions, are appropriate?</p> <p>(b) Are the existing out-of-market provisions clear and transparent to stakeholders?</p> <p>(c) What are stakeholders' views on the specific suggestion to increase the out-of-market restriction to a year?</p> <p>(d) What are stakeholder views on interactions, if any, between a wholesale demand response and emergency demand response?</p>	<p>Meridian believes that the out-of-market provisions are appropriate but is concerned that their application be clear and transparent.</p> <p>We are not sure whether the increase of the out-of-market restriction to a year is the appropriate response. Because AEMO has visibility of only the spot wholesale market, and not the substantial financial commercial arrangements that exist to underpin the market, we have seen examples where the AEMO RERT program has resulted in distortions in the wholesale market. We are aware of circumstances where wholesale demand response which was previously available to the market was withdrawn from availability because AEMO was offering a higher price for short periods of activation. This has the perverse effect of increasing cost to consumers and decreasing reliability as the AEMO product was rarely dispatched whereas the wholesale demand response capability was available across a much wider timeframe to meet reliability obligations.</p>
6.1.4	<p>Question 16 Other product specifications:</p> <p>(a) Do stakeholders have views on any of the product specifications listed above?</p> <p>(b) Should any of the product specifications, if not currently in the NER, be in the NER? If</p>	<p>Meridian does not believe that the product specifications should be in the NER, however there could be value in including some of them in the RERT guidelines. In respect of the particular specifications, we are concerned that some of the proposals would</p>

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	so, why?	significantly exclude potential participation with no countervailing benefit. For example, requiring all participants to respond for up to 3 hours would exclude participants offering many valuable resources yet AEMO has rarely required 3 hours of RERT. This would exclude for instance participation by a large number of businesses who could not withstand a 3 hour disruption or those who are choosing to utilise batteries as a response mechanism.
6.2.1	Question 17 Payment structure: (a) Should any parts of the payment structure be prescribed in the NER? (b) What are stakeholders' views on AEMO's proposal?	Meridian considers that a consequence of AEMO's payment structure is that customers may be paying significant costs for unnecessary reserves. While we do not believe the payment structure should be prescribed in the NER we believe AEMO (or the Reliability Panel, if this issue is addressed in the RERT guidelines) must demonstrate how the payment structure was determined and how it effectively balances the requirement to minimise market distortion and reduce consumer costs in the long term.
6.2.2	Question 18 Dispatch Triggers: Are the RERT dispatch triggers and process appropriate?	Meridian considers the order of the RERT dispatch trigger and process to be generally appropriate. However, there may be a need to give consideration to AEMO not dispatching reserves before directions if AEMO does not consider it reasonable in the circumstances. For example, a short duration direction of minimal impact should be reasonably preferred against an alternative that might require an expensive reserve trigger and/or by dispatching the reserve for such a small event if it was not available for subsequent LOR periods. This is consistent with the Reliability Standard Setting permitting some shortfall in reliability compared to the requirement under 3.8.14 for AEMO to use reasonable endeavours to utilise all available resources at times of supply scarcity.
6.2.3	Question 19 Other design features: Do stakeholders have any views on the other design features?	<p data-bbox="815 1375 1417 1821">Yes, Meridian considers that the market will operate best if procurement and activation of the RERT is undertaken in a clear and transparent manner. We encourage the AEMC to consider requiring AEMO to make much more information available around such matters including: ensuring that all the information supporting decisions is subject to regular reporting and review; that AEMO produce detailed reports each time the RERT is activated, detailing not only what occurred but what steps AEMO is taking, and requires the market to take, to avoid such reserve requirements in future; and AEMO in their annual review of RERT activation providing detail of decisions made, lessons learned and future steps to be undertaken.</p> <p data-bbox="815 1861 1417 1955">There may be value in requesting the Reliability Panel to include substantial details about such matters in their Annual Market Performance Review.</p>

If you have any queries or would like to discuss please do not hesitate to contact me.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Lynne Sutton".

Lynne Sutton
General Counsel
Meridian Energy Australia & Powershop Australia