



Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
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Enhancement of reliability and emergency reserve trader - Consultation paper (ERC0237)

Dear Mr Pierce

Thank you for the opportunity to comment on the Australian Energy Market Commission's Consultation paper regarding the enhancement Reliability and Emergency Reserve Trader (RERT) rule change proposed by the Australian Energy Market Operator (AEMO).

The Energy and Technical Regulation Division (the Division) of the Department for Energy and Mining notes the AEMC's final rule that increased the lead time for AEMO to procure reserves under the RERT to nine months, effectively reinstating the long-notice RERT.

The South Australian Government has supported the Finkel Review recommendation of assessing the need for a strategic reserve to act as safety net in exceptional circumstances as an enhancement or replacement to the RERT.

As the design of the reliability requirement of the National Energy Guarantee (NEG) is progressing in its development it is important to note AEMO's role of the 'procurer of last resort' is to be determined in conjunction with this rule change request.

In this context, the Division supports the introduction of a standing reserve mechanism that would replace the RERT and provide an insurance against the requirement that the current market arrangements fail to deliver adequate resources to meet the reliability requirement of the NEG. As the AEMC considers in the Consultation Paper that the RERT is the NEM's strategic reserve, the Division offers consideration below of the need for a permanent standing reserve, rather than a reliance on the current RERT framework.

There has been a fundamental change in the energy sector, with the reliability of the national electricity market more vulnerable to climatic events, such as extended periods of high temperatures, and the loss of, or reduction in output of, major generation units.

The Division notes that AEMO (or equivalent) had only entered into RERT contracts three times and it had never been dispatched prior to 2017. This changed in 2017, when AEMO entered into a number of reserve contracts and dispatched the RERT twice – once in November 2017 and once in January 2018. In June 2018, following a number of lack of reserve (LOR2) notices in New South Wales, AEMO entered into reserve contracts (i.e. it procured the RERT) on 7 June and again on 8 June, however the RERT was not dispatched on either of those events.

The potential for supply interruptions is expected to increase, particularly in NSW and Victoria with the closure of the Liddell Power Station. AEMO's analysis in its March 2018 assessment of AGL's plan to replace the energy and capacity currently delivered by the Liddell Power Station following its retirement in 2022 indicates that an additional 850 megawatts of resource capability would be required to minimise the risk of load shedding in NSW following the closure.

An examination of the historical Lack of Reserve (LOR) conditions by AEMO through its 'Operational and market challenges to reliability and security in the NEM' report (March 2018) highlights that over the past decade (to 2017-18) an increase in the incidence of LOR2 and LOR3 conditions was observed, consistent with the tighter supplies and increased exposure to weather anomalies over this period. Because the unserved energy (USE) reliability standard is an annual statistical forecast, the actual occurrence of load shedding in a given year over a particular combination of weather events could be much higher than the expected level. An increasingly "peaky" system demand will require resources that respond quickly and for relatively short duration.

The Division notes AEMO's views of the inconsistency between the objective of the current RERT (where the trigger to procure reserves is driven by the reliability standard, which by definition allows some load shedding to occur) and directions, where the trigger to use directions is in relation to maintaining a reliable operating state (which means no load shedding).

In this respect, the Division considers that the procurement of reserves should be facilitated through a permanent standing reserve, utilising the standardised product specifications will include notification times, availability times, technology neutral eligibility, response duration, and ability to offer additionality such as network support services. Essentially this would eliminate the need for AEMO to exercise its discretion as to whether or not to contract for further additional reserve via a RERT mechanism.

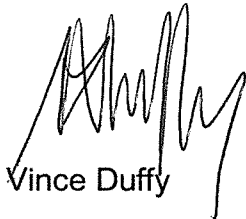
If the procurement trigger is linked to a reliable operating state (as defined in the NER clause 4.2.7) and reserves are procured through a permanent standing reserve arrangement, the methodology for determining the volumes of reserve could be calculated utilising the reliability metrics such as the loss of load probability together with the USE standard. In particular, reserves should be considered as an insurance

product to manage market risk on a routine and ongoing basis over a long-term period. Accordingly, the resources contracted under this process would not otherwise be available in the wholesale or ancillary services market operated by AEMO. It is evident that jurisdictions and their electricity consumers value not having load shedding. The current RERT remains a blunt tool compared to a permanent standing reserve, available as an insurance at times of potential reliability or potentially system security issues.

A standing reserve reduces the need for market interventions as they can allow economically efficient resources to be targeted to provide responses at times of uncertainty. The additional capacity would be kept out of the market, so that potential investors in new generation capacity would be unaffected.

Thank you again for the opportunity to comment on the Consultation paper. Should you have any questions in relation to this submission, please contact me on (08) 8204 1775.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Vince Duffy', with a stylized, cursive script.

Vince Duffy
Executive Director, Energy and Technical Regulation

13 August 2018