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Submitted electronically

### **Enhanced RERT Options Paper – ERC0237**

Alinta Energy (**Alinta**) welcomes the opportunity to provide a submission to the Australian Energy Market Commission's (**AEMC**) *Options Paper on the Enhancement to the Reliability and Emergency Reserve Trader (RERT) rule change consultation paper (the consultation paper)*.

Alinta is an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW, including 1,700MW of gas-fired generation facilities and 1,070MW of thermal generation facilities, and in excess of 1.2 million electricity and gas customers including more than 600,000 in east coast markets.

Alinta is committed to contributing to energy market development across Australia and in all regions of the National Electricity Market (**NEM**) as it pursues its forward growth strategy.

#### **General Comments**

The RERT plays an important role in safeguarding the NEM against the risk of supply shortfalls at an efficient cost during times of emergency. However, the RERT was designed as a short-term emergency measure and not as a permanent alternative or substitute for the normal market operation of the NEM.

As such, Alinta supports changes to the process which provide clearer procurement obligations and structure in the Australian Energy Market Operator's (**AEMO**) application of the RERT. However, the elements of the proponent's original rule change proposal which would act to significantly increase the scale and scope of the RERT in both its structure and application are not supported.

Without a prudent framework and application, the RERT risks becoming a distortionary feature of the NEM which increases the standing of RERT capacity outside of transparent market arrangements. In such a situation, the cost of potentially surplus RERT investments will ultimately be borne by consumers.

The AEMC's consultation paper has raised several constructive improvements to the existing RERT framework which would help provide further structure and consistency in AEMO's

application of the RERT, as well as the broader market's understanding of the RERT process. Alinta appreciates the AEMC's disciplined approach taken in investigating these options thoroughly.

Alinta's additional comments below should be considered within this context.

**Option 1** – Alinta is supportive of explicit restrictions being placed on AEMO to purchase RERT quantities which are required to meet the reliability standard only. In Alinta's view much of the debate regarding the RERT's current application stems from the level of discretion AEMO currently has in the RERT's application and would diminish with a more defined framework which requires AEMO to procure RERT to the reliability standard only.

**Option 2** – Under option 2, AEMO would determine whether or not to enter into reserve contracts, and how much reserves, based on a RERT procurement economic assessment framework. Alinta does not support this option whereby the reliability standard is decoupled from the NEM's broader reliability framework and is not used when determining the quantity of RERT to be procured. This risks permanently embedding the RERT under a separate methodology which could become highly distortionary over time.

**Option 3** – Alinta supports elements of this option which requires the reliability panel to provide expert advice into what set amount of Unserved Energy (**USE**) AEMO should be targeting for different time horizons. The Reliability Panel's recommendations would then act as an upper bound cap on the amount of RERT AEMO can procure. Given the Reliability Panel's existing membership structure, Alinta considers this element of option 3 appealing as a means of providing holistic guidance in AEMO's application of the RERT.

**Reliability Standard** - Alinta considers that the rule proponent's reliability concerns have been overstated, and Alinta remains firmly of the view that the existing reliability standard remains the appropriate measure for assessing the economic impact of reliability in the NEM.

**Maximum contract length** – Alinta is supportive of a limit on the length of reserves contracts AEMO can enter into and considers the existing limit on contract length remains appropriate. Entering into long term RERT contracts on the basis of long term centralised forecasting adds to the risk that a greater procurement of RERT will take place than would have otherwise been required when using forecasts over the short-term. One of the benefits of the NEM's current design is that forecasting errors are decentralised and that multiple participants can have and maintain differing views on market demand, without costs being passed onto to consumers.

**Value of Customer Reliability (VCR)** – The VCR acts within the NEM as a benchmark monetary value customers place on the value of energy reliability. Whilst there is no explicit linkage between the reliability standard and VCR at present, Alinta considers it may be useful to utilise the VCR as an absolute price cap of RERT costs AEMO can employ when procuring RERT (or at least be a reference price) for AEMO when undertaking its procurement decisions.

**Procurement and Cost Transparency** – Alinta supports greater procurement and cost transparency being utilised through the RERT framework. The RERT costs of \$52 million for the summer of 2017/18 significantly impacted retailers and large customers in a manner which was not well communicated to participants until invoices were distributed. Alinta would support reforms which oblige the timely and transparent publication of RERT information to ensure customers can appropriately plan for budgeting purposes.

Alinta would encourage the AEMC to potentially utilise a combination of the positive attributes of each of the above options, rather than progress a singular option exclusively as set out within the consultation paper.

### Conclusion

Alinta looks forward to participating in the Enhanced RERT ongoing consultation process and would encourage consideration of the points raised above.

Please contact me via email: [anders.sangkuhl@alintaenergy.com.au](mailto:anders.sangkuhl@alintaenergy.com.au) or by phone 02 9375 0992 if you have any queries in relation to this submission.

Yours sincerely,



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