



Enhancement to the RERT Technical Working Group Meeting 2 20 November 2018

The second working group meeting was held in Sydney on 20 November 2018. The attendees of the meeting are listed below.

Member	Organisation
Alister Alford	Woolworths
Miyuru Ediriweera	PIAC
Paddy Costigan	AEMO
Joel Gilmore	Infigen (via teleconference)
David Havyatt	Energy Consumers Australia
Franklin Liu	AEMO
Ron Logan	ERM Power
Craig Oakeshott	Australian Energy Regulator (via teleconference)
Claire Richards	Enel X (on behalf of Rob Murray-Leach, Energy Efficiency Council)
Ben Skinner	Australian Energy Council
Jennifer Tarr	Stanwell

The AEMC's project team attended and is listed below.

Name	Position
Suzanne Falvi	Executive General Manager – Security & Reliability
Victoria Mollard	Director
Sarah-Jane Derby	Senior Adviser
Tom Walker	Senior Technical Specialist, Economics
Andre Dauwalder	Senior Lawyer
Thomas Lozanov	Adviser

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The meeting followed the:

- publication of an options paper for this rule change on 18 October 2018
- provision of advice on the appropriateness of the reliability standard from the Reliability Panel
- additional information on the appropriateness of the reliability standard being provided to the Commission from AEMO, and
- a public workshop held on 12 November 2018.

The AEMC has formed the working group to provide advice and input into the progression of the rule change request.

The meeting focussed on:

- 1) Minimising market distortions I: Out-of-market provisions.
- 2) Minimising market distortions II: Payment structure.
- 3) Cost recovery.
- 4) Transparency.

Minimising market distortions I: Out-of-market provisions

- The technical working group discussed potential options to clarify existing out-of-market provisions (clauses 3.20.3(h) and 3.20.3(j) of the NER). These provisions restrict RERT providers from entering into RERT contracts if they are in the market for the trading intervals to which the contracts relate. Specifically, the discussion focussed on:
 - Whether increasing the restriction from “the trading intervals to which the contracts relate” to a longer restriction of 12 months was appropriate
 - If so, whether the restriction should be backward or forward looking or both (i.e. 12 months before signing the contract? After?)
 - The definition of market, i.e. which markets should providers be restricted from participating in if they are participating in the RERT
- There was support for clarifying out of market provisions. Participants considered it broadly appropriate to extend the current restriction in the NER on participating in the market to 12 months. Some commented that this would send a clear signal that leaving the market to participate in the RERT is a major decision. This would help to minimise “double dipping” where a generator or demand response provider seeks revenue from both the market and the RERT.
- It was also broadly considered that it would be appropriate for the restriction to be backward looking (i.e. previous 12 months from the date that the contract is signed) and also forward looking (i.e. from the date that the contract is signed to the end of the contract). There was also broad agreement that a forward looking restriction beyond the end of the contract does not seem appropriate.
- The implications of retiring generators was also discussed – whether upon exit of the market, a recently retired generator should be permitted to participate in the RERT, but should be prevented from re-entering the market for a period of 12 months. Or whether this could be linked with the recent rule made by the Commission for generators’ provide three years’ notice of closure. Participants discussed that this type of restriction may be appropriate for retiring generators, but not other types of resources.
- With respect to the definition of “market” in the out-of-market provisions, it was considered that, as a high level principle, it is appropriate for providers to be able to participate in both the RERT and also provide other services as long as those services are unrelated to energy (e.g. a provider would be able to provide services to the RERT and FCAS).
- There was agreement that the high-level principles were sound but may not work well in all circumstances.
- There was discussion on the impact on NSCAS in particular, e.g. if a RERT provider also provides another service such as NSCAS, it may not be simultaneously available to be called upon to provide RERT. Participants also discussed the other implications of providing the same service in multiple markets, noting that clarification is required, but may require case by case consideration of a particular RERT providers circumstances. This could be guided by some principles such as whether the non-RERT service is provided at peak times (which would likely to conflict with RERT procurement).
- The importance of coordination was also discussed – for example, it would not be appropriate to have a situation where generators or demand response providers are being paid for a service (e.g. NSCAS) that is not required.
- The implications for large energy users/major users were also discussed. For example:
 - That some large users may prefer to provide demand response under the RERT for a portion of their load and demand response via the market for a separate element of their operations.
 - The some large users providing demand response via retail market contracts would not see price signals if AEMO activated the RERT prematurely as prices

would not automatically be set to the MPC if load shedding did not occur. Intervention pricing would apply instead.

Minimising market distortions II: Payment structure

- The technical working group discussed the three different types of RERT contract costs (availability, pre-activation and usage) that currently exist – although are not being prescribed in the RERT NER framework. The group also discussed options for how RERT contract costs could be structured and whether or not there should be a cap on overall RERT payments, on individual payment types or both.
- Given that there is no prescription at present, participants questioned whether prescription with respect to a payment structure and payment cap was necessary given that, ideally the RERT market should determine the breakdown of payment types. Some participants did note that a cap may be helpful in order to limit costs associated with the RERT.
- For example, some participants suggested that a payment cap may be appropriate if there is not enough RERT providers/not enough supply of RERT in order to minimise potential cost inefficiencies.
- AEMO noted that associated modelling might be very complex with participants noting that a second-best approach may be to impose a cap on each individual payment type.

Cost recovery

- The technical working group discussed high-level principles for how RERT costs should be recovered. At present, costs are recovered from market participants in the region where the RERT was used as a share of their consumption over a period of 8am to 8pm on business days in a billing week that is unrelated to the use of the RERT.
- The following high-level principles, relating to economic efficiency arguments, discussed were:
 - If the costs of the RERT relate to the provision of public goods, then it should be smeared as broadly as possible
 - If that is not the case, then costs should be allocated on a causer pay basis.
- Participants agreed with the high level principles that costs relating to the provision of public goods should be smeared as broadly as possible and other costs should be allocated on a causer pay basis.
- However, participants noted that these high level principles may not be pragmatic or possible; therefore, second-best approaches may be needed. Suggestions included:
 - Whether it was better to approach cost recovery from a fairness point of view rather than an efficiency point of view.
 - Whether the best approach may be to smear availability payments over a long period of time, but based on peak usage.
- There were differing views on pre-activation payment recovery, with some suggesting it should be recovered in a similar way to availability payments and others suggesting it should be on the day of the event, over the dispatch intervals of the event (if dispatched), over the day's peak or over the forecast shortfall period.
- There was broad agreement that usage payments should reflect a causer pays approach.

Transparency

- The technical working group discussed potential options to enhance transparency through bolstering existing reporting requirements and introducing new ones. Proposed requirements discussed include:
 - A forward looking cost and assessment report at the completion of the main RERT procurement process.
 - A market notice with preliminary cost and volume information within 48 hours of each activation event.
 - An incident report within 15 business days (building on existing requirement).
 - A final report by 30 April each year (building on existing requirement).
 - A methodology document on volume assessment.
- Participants broadly supported enhancing the transparency of the RERT framework.
- The following suggestions were made:
 - The preliminary incident report could include far more detail and data (e.g. dispatch forecasts and AEMO responses in relation to these forecasts).
 - A tiered approach to reporting with the costs associated with a RERT event proportional to the level of detail required in the reporting of the event.
 - It may be helpful to think through the trade-offs involved with regards to: the accuracy of reported data, the speed with which reports are published and the level of detail that needs to be provided.
 - Regular reporting on the RERT could occur on a quarterly basis, with this quarterly report replacing the incident and final report. This quarterly report could be provided in place of the annual summary report that AEMO currently must publish after each financial year.
 - Requiring AEMO to provide the characteristics (e.g. costs) of individual RERT providers could improve market participants' understanding of the RERT, would be consistent with the "open book" approach used for generators in the NEM and may lead to opportunities to bring RERT providers with costs less than the market price cap into the market.

Next steps

- Submissions on the options presented for the RERT procurement trigger, as well as on AEMO's additional information on the appropriateness of the reliability standard, would close on 29 November 2018.
- The draft determination is scheduled for publication on 31 January 2019.