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Level 15, 357 Collins Street  
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Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Australian Energy Market Commission

**Enhancement to the Reliability and Emergency Reserve Trader – Consultation on Options Paper (ERCo237)**

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 its options paper on the Enhancement to the Reliability and Emergency Reserve Trader.

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 recognises the benefits for consumers of a transition to a more renewable-based and distributed energy system. Meridian has this year, announced significant investments 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. Our commitment to enhancing system reliability can be evidenced by the steps we have recently taken to enhance the operation of our hydro plants to be more responsive to demand triggers and our innovative 'Curb Your Power' program which involves around over 10,000 Powershop customers opting to respond to demand reduction requests.

Meridian recognises the important role that the Reliability and Emergency Reserve Trader (**RERT**) can play in ensuring that consumers have access to a reliable power supply. We remind the AEMC that customers are best served when the conditions allow efficient investments to be made that ensures 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 supplementary to, and not a substitute for, other important market developments such as the continued exploration of the National Energy Guarantee and the Reliability Frameworks Review.

We generally 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 sufficiently made. 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.

We refer the AEMC to our submission on this issue dated 26 July 2018. Many of the answers and comments we made in that submission remain relevant to this rule change and we encourage the AEMC to revisit it.

Please see Meridian's response to the AEMC's questions in Attachment 1.

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

Yours sincerely,

**Ed McManus**  
Chief Executive Officer  
Meridian Energy Australia & Powershop Australia

# Attachment 1

## 1. Appropriateness of the Reliability Standard

Paper Ref	AEMC Question	Meridian response
Question 1	<p><b>Appropriateness of the Reliability Standard:</b></p> <p>Do stakeholders agree with our approach as to how the appropriateness of the reliability standard will be considered?</p>	<p>Meridian reminds the AEMC of our previous submission which encouraged the AEMC to ensure that any assessment takes a holistic view of the impact of any change on the market and investments signals generally.</p> <p>Regarding this particular assessment, we are concerned that the framework appears only open to two outcomes:</p> <ul style="list-style-type: none"> <li>• a decision not to change the Reliability Standard; or</li> <li>• a decision to proceed with a change as suggested by AEMO.</li> </ul> <p>Given the novelty of the AEMO proposal and the significant cross industry implications, it may not be appropriate to proceed to the proposed change even if a good case for some change is developed.</p> <p>A third, more appropriate outcome may be to request the Reliability Panel to conduct a review of how to implement a change to deal with the issues of 'tail risk' (if the AEMC considers that the need for this is made out) and enable all participants to actively participate in this (including suggesting alternatives to those proposed by AEMO).</p> <p>The question of the need to address 'tail risk' and how to address it are two distinct questions which appear to have been merged in AEMO's proposal.</p>

## 2. Issues for Consultation

Paper Ref	AEMC Question	Meridian response
<p><b>Question 2, 3 &amp; 4</b></p>	<p><b>Options for procurement triggers and procurement volumes: Options 1, 2 &amp; 3</b></p> <p>A) What are stakeholder views on this option?</p> <p>B) Do stakeholders consider this option would promote reliability and security outcomes in the NEM?</p> <p>C) Do stakeholders consider that this option would enhance the long-term interests of consumers?</p> <p>D) Are there any other implications that should be taken into account when considering this option?</p>	<p>Meridian reiterates its view that the case to make a change to the Reliability Standard has not been sufficiently made out. However, we now consider it appropriate to more fully assess the issues raised by AEMO to ensure that the Reliability Standard and how it interoperates with the RERT remains fit for purpose.</p> <p>This could be best achieved by the Reliability Panel being requested to review the Reliability Standard again and to seek whole of industry views on these issues.</p> <p>Regarding the use of VCR for an economic assessment, we remind the Commission that the only currently available VCR measure is very outdated and unlikely to be fit for purpose.</p> <p>An assessment of VCR for reliability purposes requires an assessment of the likely costs to be incurred by customers who are actually affected at the time of shedding and not some theoretical whole of year and whole of market average.</p> <p>The current in-progress AER review may shed more light on these issues.</p> <p>The suggestion that VCR should be a cap on the RERT procurement (with the potential market distortion arising from the higher returns being available from the RERT compared to in the market) may more appropriately be answered in the converse. That is, the Market Price Cap (<b>MPC</b>) should cap RERT payments as this price is a well-developed number which takes into account consumer costs, VCR and the need for sufficient investment to ensure the Reliability Standard is met. Accordingly, at least for the long and medium term, the use of the MPC as a cap on RERT costs should be considered.</p>
	<p><b>Other Matters</b></p>	<p>A large proportion of concerns with the operation of the RERT arise, not due to a failure to have in place sufficient tools to meet reliability expectations, but rather a lack of clarity as to whether the right tools are being procured and applied at the right times. These concerns could largely be addressed by imposing greater reporting obligations in relation to the procurement and exercise of reserves.</p> <p>Such an approach would give market participants and consumers greater confidence that their interests and the long term interest of consumers and the market</p>

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		<p>are being protected.</p> <p>To the extent that AEMO occasionally expresses a concern that it is being pushed to meet community expectations that differ from the implied trade-offs in the Reliability Standard, there may be value in tightening and clarifying the RERT Guidelines to make clear that AEMO's objective is to provide security and affordable reliability and not reliability at any cost.</p> <p>While it is superficially attractive, the suggestion that the Reliability Standard be split into shorter timeframes (either monthly or quarterly) raises as many questions as it answers. A more appropriate solution might be for AEMO to explicitly state what assumptions it is making about future periods when it determines that it is appropriate to procure and/or activate the RERT to meet the Reliability Standard. Again, this is something that could be dealt with in the RERT Guidelines.</p> <p>Finally this review might be an appropriate time to consider how the RERT, and its activation, is treated for market purposes. Given the RERT is only intended to be activated at times when the market has failed to deliver sufficient capacity to meet the Reliability Standard, there is a strong basis for the argument that the market price should be set to the MPC whenever the RERT is activated. While this may appear counter intuitive for those seeking lower prices and more reliability, such a step would ensure that the greater incentive to meet the Reliability Standard is always available to the market and this is likely to have long-term cost saving effects for the market and consumers.</p>