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21st March 2019

Australian Energy Market Commission

Lodged Electronically

ERC0237 Draft Rule Determination – Enhancement to the Reliability and Emergency Reserve Trader (Draft Determination) and Draft National Electricity Amendment (Enhancement of Reliability and Emergency Reserve Trader) Rule 2019 (Draft Rule)

Thank you for the opportunity to allow Alcoa to comment on the Draft Determination and Draft Rule.

SUBMISSION

Background

The Portland Aluminium Smelter is a joint venture between Alcoa of Australia Limited, Citic and Marubeni. Alcoa Portland Aluminium (APA) is the manager of the smelter and is the Market Customer (for the purpose of the National Electricity Law - NEL).

Alcoa's submission is that the Draft Rule as currently proposed does not contribute to the achievement of the National Electricity Objective as it will lead to a reduction in the size and depth of the pool of potential RERT providers, leading to a reduction in reliability and security of the national electricity system. This is explained further below.

Assessment framework

Alcoa does not agree that the requirements of ss.88 or 91A of the NEL have been met for the Draft Rule as currently proposed. Alcoa believes that the changes to the out of market provisions, particularly those imposing a 12 month out of market requirement on medium and short term RERT, will lead to higher costs of RERT and/or an increased risk of load shedding due to a reduced pool of RERT providers – neither of which contributes positively to the achievement of the National Electricity Objective.

Specific comments

1. Clauses 3.20.2(g)(2) and (h)(1) of the Draft Rule are intended to impose a requirement that the reserve to be provided under unscheduled reserve contracts must not have been the subject of a demand response arrangement (as defined) for 12 months before

their execution. This is a significant change from the current out of market requirement which applies only for the trading intervals to which the contract relates.

2. The justification for this change in relation to medium and short term RERT is perceived risk of market distortions supported by anecdotal reports of RERT providers 'moving in and out of the market'. There is no quantitative analysis provided of the materiality of this risk although AEMO's submission is that to the extent it can exist within the RERT procurement framework (which is minimal) it is manageable.
3. The Draft Determination acknowledges that the potential for market distortions is lower the shorter the lead time for RERT procurement, and that as information changes and more becomes available closer to real time, procurement decisions regarding emergency reserves are made more efficiently, which lowers direct cost. In that context, the proposed 12 month out of market requirement appears to be counterproductive, arbitrary and blunt instrument at least for medium and short term RERT.
4. There is no analysis in the Draft Determination of the size and materiality of these feared market distortions nor is there any quantitative investigation of the likely impact of the change on the RERT provider pool.
5. Alcoa does not consider that it is possible for the Commission to be satisfied that the Draft Rule will promote the achievement of the NEO unless the Commission can be reasonably certain that the availability and cost of RERT will not be materially adversely affected as a result of the change.
6. The Draft Determination does not provide a sufficient explanation of why the current rule 3.20.2(j), when combined with the RERT Principles and RERT Guidelines, do not provide adequate protection against the theoretical market distortions. Alcoa considers no change to that provision is necessary. However, if it is accepted that the out of market provisions need to be strengthened, then the proposed addition of a direct obligation and civil penalty on RERT providers for non-compliance with the current form of the rule would be sufficient.
7. As an alternative, it would give the market more time to adjust and mitigate against the unpredictable consequences of a sudden reduction in the pool of RERT providers, if the definition of demand response arrangement excluded arrangements in place prior to commencement of the amendment Rule. This could be done by amending the proposed definition of 'demand response arrangement' or possibly through the transitional provisions in schedule 2 of the Draft Rule.
8. In addition, the restrictions in clause 3.20.3(h)(2) and (j) of the Draft Rule should apply only from the time that the operative provisions of the reserve contract come into effect rather than from when it is executed – this is to cater for the possibility of conditions precedent in the contract.
9. Alcoa also disagrees with assertions made in submissions by the Australian Energy Council (and to an extent adopted in the Draft Determination) that involuntary load shedding is not a significant issue for smelters. Smelters cannot put in place back up generation of sufficient size to prevent the catastrophic loss of plant arising from extended outages. The Brattle report and the Draft Determination both acknowledge that reliability events can give rise to an increased risk of security events that could extend an outage originally imposed for reliability reasons. Reductions in load are much safer to manage when the smelter has some notice to prepare the facility and when they are limited in terms of duration and frequency. Any increase in the risk of its facility being subject to involuntary load shedding is a major concern for Alcoa.

Alcoa is available to discuss its submission further if the Commission would find that useful.

Yours sincerely

A handwritten signature in blue ink, consisting of a stylized 'M' followed by a horizontal line.

Mike Shaw
Energy Development Manager
Alcoa of Australia Limited