



Mr John Pierce
Chairman
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000

20 March 2019

Dear Mr Pierce,

RE: Enhanced Reliability and Emergency Reserve Trader Draft Rule ERC0237

ENGIE appreciates the opportunity to provide feedback on the Enhanced Reliability and Emergency Reserve Trader Draft Rule (“the Draft Rule”).

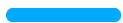
ENGIE is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to more than 670,000 retail customer accounts across Victoria, South Australia, New South Wales and Queensland.

The Draft Rule should improve the operation of the Reliability and Emergency Reserve Trader

ENGIE supports the Commission’s decision to make a more preferable rule in this instance. ENGIE has been concerned that in recent years, the Australian Energy Market Operator (AEMO) used the reliability and emergency reserve trader (RERT) in a less than transparent matter. Both demand and supply side responses were acquired in advance of the summer period. The total cost to consumers of the RERT for summer 2017/18 was understood to be \$51m, an order of magnitude greater than all previous years’ RERT costs since market start in 1998. This cost highlighted the importance of ensuring the RERT settings are appropriate and represent value for money for customers.

The reforms contained in the Draft Rule will improve the operation of the RERT by:

- linking the activation of the RERT more explicitly to the maintenance of the agreed Reliability Standard;
- ensuring consumers in general do not pay more for reliability than the best indications of how much they value it by measuring the cost of RERT resources against the Value of Customer Reliability (VCR);





- increasing transparency by requiring AEMO to provide information to the market on how the RERT is procured and used, and the cost of procuring and activating these reserves; and
- reducing the risk that RERT procurement acts to remove resources from the market by only allowing potential RERT providers to participate in the RERT if they have been out of the market for at least 12 months and do not participate in the market during their RERT contract period.

Further ENGIE supports the Commission's decision not to permit three-year procurement of RERT resources. While we accept AEMO's logic that this could allow for cheaper reserve procurement on a \$/MW/year basis, we consider this is outweighed by the risk of contracting for availability payments for a future year for which such reserves may not be required, especially if the proposed Retailer Reliability Obligation (RRO) goes ahead as planned. Providing the Commission can be satisfied that the extension to 12 months for the notice period for procurement will not interfere with retailers' ability to secure qualifying contracts in the run-up to the Contract Position Day under the RRO, then Engie has no objection to this change.

A consistent approach to reliability in the NEM

ENGIE notes the various concerns AEMO have raised during the rule change process in regard to how the reliability settings are currently determined and how they are derived from an estimate of VCR. The forum for the merit of these concerns to be evaluated is in the context of the Reliability Panel's work, including the periodic review of reliability frameworks in the NEM. In the most recent review of reliability standards, the Panel determined that it was not appropriate to review the Market Price Cap and Cumulative Price Threshold even though the modelling it commissioned provided some evidence that materially higher thresholds would be appropriate. The Panel's decision not to increase the thresholds was on the basis that the scenarios that would necessitate higher thresholds are unlikely and would serve to increase cost to consumers.

While ENGIE has material concerns about the Panel's decision, these concerns would not be mitigated by having AEMO unilaterally apply its own reliability criteria, especially in the context of the procurement of emergency reserves. This would create a situation where emergency reserves were being procured to a higher standard than the market settings were targeted at. This would not result in efficient costs to consumers, given that it should be cheaper to procure a given level of reliability from the market with a much wider range of participants on both the demand and supply side than from a limited range of emergency resources. Accordingly, the market should always be the first port of call for reliability with emergency reserves being just that – only required if there is a clear sign that something (other than the reliability settings themselves) has prevented the market from delivering sufficient resources to ensure the reliability standard is met.

Consistency of approach could also have been improved by adopting the suggestion contained in Option 3 of the Options paper for the Reliability Panel to provide guidance to AEMO as to how to operationalise the Reliability Standard. This would have given the Reliability Panel a more holistic oversight over reliability settings, given that the RERT should be considered as a part of the overall reliability framework. ENGIE notes concerns by AEMO and other stakeholders about how this would work in practice and consider these concerns could have been addressed given time. The Commission's view that this suggestion would have increased costs and complexity should be balanced against the overall cost of the RERT to consumers. This may be an issue worth returning to in



due course, especially once stakeholders have a clearer view of the way AEMO translates the reliability settings into RERT procurement requirements via the transparency provisions contained in the draft rule.

ENGIE notes the international examples cited in the Brattle report commissioned by the Commission as an input to this process. The fact that the markets reviewed typically have market settings and/or reserve procurement designed to deliver higher reliability than the optimal reliability level implied by VCR estimates for those markets' customers does not inherently mean that they deliver better outcomes for customers. There is a trade-off of greater cost for greater reliability and there is no evidence for the chosen trade-off in each jurisdiction being at an efficient level. In most cases the additional reliability over and above that implied by VCR levels is at least procured from the market, via either capacity or energy market settings.

Should you have any queries in relation to the attached proposal please do not hesitate to contact me on, telephone, (03) 9617 8415.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "J. Lowe".

Jamie Lowe

Head of Regulation