



Enel X Australia Pty Ltd
Level 18, 535 Bourke Street
Melbourne, Victoria 3000
Australia
T +61-3-8643-5900
www.enelx.com

Sarah-Jane Derby
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

24 March 2019

Dear Ms. Derby

RE: Enhancement to the reliability and emergency reserve trader, draft determination

Thank you for the opportunity to provide feedback on the draft determination for the *Enhancement to the reliability and emergency reserve trader* rule change request.

Enel X works with commercial and industrial energy users to develop demand-side flexibility and offer it into wholesale capacity, energy and ancillary services markets worldwide, as well as to network businesses. We have over 50 demand response programs in 12 countries, which involve altering customers' consumption patterns and controlling onsite generation. In the NEM, Enel X participates in the energy and FCAS markets, and has developed reserves for AEMO under the RERT framework, including through the ARENA/AEMO demand response trial.

Enel X is generally supportive of the draft rule determination. The recommended changes are likely to improve the clarity and transparency of the RERT framework, to the benefit of RERT providers and the energy sector more broadly. Some more detailed comments on key aspects of the draft determination are set out in the remainder of this submission.

Enel X looks forward to continued engagement with the AEMC on improvements to the RERT framework. If you have any questions relating to this submission, please feel free to get in contact with me.

Regards

Claire Richards
Manager, Industry Engagement and Regulatory Affairs
claire.richards@enel.com

1. Procurement trigger and quantity

The draft rule makes it clear that AEMO is only allowed to procure RERT when there is a forecast breach of the reliability standard, and that it may only procure the quantity required to “fill the gap”.

Enel X notes that the reliability standard has to date been met, but that AEMO is anticipating an increased risk that this may not continue to be the case in all NEM regions in future. The success of the RERT framework under a static measure of reliability relies on robust forecasting. However, a number of factors are challenging AEMO’s ability to accurately forecast demand and supply, including the changing generation mix, the rapid uptake of solar PV and the increased likelihood of extreme weather events. These factors challenge AEMO’s ability to procure the ‘right’ amount of emergency reserves to ensure the reliability standard is met. All of these challenges were evident in South Australia and Victoria on 24 and 25 January 2019, where a series of un-forecast events resulted in the dispatch of RERT resources and involuntary load shedding.

The existence of reserve mechanisms in energy-only markets is an acknowledgement that energy price signals alone cannot ensure that the reliability standard will be met, and/or that markets are not guaranteed to deliver politically acceptable combinations of reliability and cost. Despite many hours of sustained high prices on 24 Jan 2019, there was insufficient generation and wholesale demand response to meet demand. The length and extent of load shedding would likely have been far greater were it not for the dispatch of resources participating in the AEMO/ARENA demand response trial.

It is for these reasons that most other energy-only markets worldwide, including Texas, Germany, Finland, Sweden and Norway, operate with some form of standing strategic reserve. As noted in previous submissions, Enel X is supportive of reserves being available in a standing minimum quantity at all times, with AEMO having discretion to procure more if needed. Under a standing reserve model, reserves are dispatched only when a defined trigger condition is met, indicating that the likelihood of involuntary load shedding is intolerably high. Under such a model, the minimum procurement volume and dispatch trigger is known, which provides certainty to AEMO, reserve providers, energy users and the broader market. Standing reserve frameworks offer the system operator greater confidence that the reliability standard will be met and involuntary load shedding can be avoided when the supply/demand gap exceeds its forecast.

If the AEMC intends for the RERT to be only a last-resort emergency mechanism, and there are no standing reserves, it becomes increasingly important to have high confidence in the market’s ability to deliver reliability. This underscores the importance of introducing an effective mechanism for wholesale demand response. Allowing scheduled demand response to participate in central dispatch can give greater assurance that reliability outcomes will be met at lowest cost.

Despite the fact that the draft determination does not introduce a standing reserve, as proposed by AEMO, Enel X is supportive of any changes that increase clarity for reserve providers regarding the procurement trigger and quantity of reserves required.

2. Interaction with the retailer reliability obligation

The AEMC expects that the need for RERT will be materially reduced as a result of the introduction of the retailer reliability obligation (RRO), which will require retailers to hold contracts or invest in dispatchable generation / demand response to meet peak demand.

While this may be the case, Enel X would again argue that the success of the obligation relies on AEMO being able to accurately forecast expected breaches of the reliability standard. As noted above, a number of factors are challenging AEMO's ability to do this. Enel X questions whether the RERT framework, as proposed in the draft determination, will be sufficient in itself if the RRO framework fails to forecast reliability shortfalls. Enel X also questions whether the proposed RERT framework will be robust to any changes to the RRO framework in future.

3. Procurement lead time

The draft rule gives AEMO discretion to procure RERT products 12 months ahead of a projected shortfall, instead of the current nine months.

Enel X supports this aspect of the draft rule. In Enel X's experience, at least six months is needed to build a portfolio of demand-side resources capable of providing a RERT product. Longer lead times allow for broader participation in the RERT framework and may put downward pressure on its direct costs.

4. Product standardisation

The draft rule gives AEMO discretion to standardise RERT products.

Enel X supports this aspect of the draft rule. Product standardisation is likely to reduce complexity and yield efficiencies for both AEMO and for reserve providers during the procurement and dispatch of reserves. However, it is important that AEMO consult with relevant stakeholders in determining what standardised products should exist. AEMO should also make sure that the products are standardised in a technology-neutral way, or in a way that recognises the capabilities and characteristics of different reserves.

5. Cap on RERT payments

The draft rule requires that AEMO use reasonable endeavours to make sure that the average amount payable under reserve contracts does not exceed the estimated cost of load shedding. The estimated cost of load shedding is to be based on the AER's determination of values of customer reliability.

Despite not knowing what the AER's final values of customer reliability are (the AER is not due to publish them until 31 December 2019), Enel X is generally supportive of this aspect of the draft rule. Greater transparency on RERT prices is good in principle and will help guide RERT providers in the contracting process. Enel X recommends that AEMO be required to consult with relevant stakeholders in its determination of the estimated cost of load shedding, if this differs from the AER's values.

6. Out-of-market provisions

The draft rule states that AEMO cannot contract with a provider who has offered the relevant capacity in the energy market (either itself or via a market participant) at any time in the previous 12 months. It also requires AEMO to make sure that RERT providers do not participate in the energy market during the term of a RERT contract.

As has been noted by Enel X in previous submissions, the current out-of-market provisions are not clear and are potentially not applied consistently. Enel X therefore supports the increased clarity that the draft rule provides on this issue, and recommends that a robust framework be put in place to monitor and enforce compliance with it. We also agree with the AEMC's assessment that RERT and FCAS are two

distinct services, and thus a provider would be able to offer services to the RERT and to the FCAS market.

7. Procurement and dispatch transparency

The draft rule requires AEMO to be more transparent in how it procures the RERT and when it dispatches it, including through the publication of quarterly reports on costs and forecasting, and reports following a dispatch event.

Enel X is strongly supportive of this aspect of the draft rule. We agree with the AEMC's conclusion that greater transparency will inform relevant stakeholders about the costs of the RERT and what is driving the use of the RERT.

8. Cost recovery

The draft rule requires RERT dispatch (activation) costs to be recovered from those who contributed to the need for the RERT, i.e. those who were consuming electricity at the time the RERT was activated. The AEMC states that this is intended to incentivise retailers to do more to encourage demand response by their customers. Availability and pre-activation costs are to be smeared across all customers, on the basis that it is harder to determine who benefits from / who caused these costs to be incurred.

In principle, Enel X agrees with the proposed allocation of the various RERT costs. However, we do have two concerns with the allocation of dispatch costs, specifically in relation to customers who provide RERT.

- As currently drafted, the draft rule would allow RERT dispatch costs to be recovered from those customers who provided RERT services by reducing their electricity consumption. Enel X questions whether this is fair (generators who provide RERT services would not be liable for dispatch costs under the proposed framework) and whether it will erode that customer's benefit in offering RERT services in the first place. While the additional transparency requirements are intended to enable greater scrutiny of RERT dispatch costs, it will be up to retailers to determine whether and how RERT costs are recovered across their customer base. Customers who provide RERT will have little upfront knowledge about what costs they might be liable for.
- Any actions carried out by RERT-providing customers to reduce their exposure to RERT activation costs (i.e. demand response) would affect their baseline calculation if done within 4-1 hours of the event. Enel X questions which is more valuable to the system: RERT customers carrying on business as usual so that they are ready to deliver the MW reduction they committed to in their contract, or reducing their demand to reduce their exposure to RERT activation costs. If the former, it may be appropriate to remove the conflicting incentive for RERT-providing customers to "pre-demand respond", by not permitting retailers to recover RERT activation costs from them.