



**EnergyAustralia**

LIGHT THE WAY

21 March 2019

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Dear Commissioners,

### **AEMC 2019, Enhancement to the Reliability and Emergency Reserve Trader, Draft determination**

We welcome the opportunity to comment on the AEMC's Draft determination (the determination) on AEMO's rule change request, Enhancement to the Reliability and Emergency Reserve Trader (RERT).

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, solar and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

We are overall generally supportive of the AEMC's determination and thank them for conducting a thorough and comprehensive consultation process. This quality of consultation gives confidence to industry and stakeholders that proposed changes to the national electricity rules (NER) are made in the best interests of the market and customers.

The draft rules are a significant improvement to the previous RERT process. AEMO's rule change proposal of delinking the RERT trigger from the Reliability Standard and allowing multi years contracting (among other things) had the potential to significantly distort the energy market and increase costs to customers.

#### **Procurement trigger**

We support the AEMC explicitly linking the procurement trigger to the Reliability Standard through the declaration of Low Reserve Conditions (LRC) and Lack of Reserves (LOR). As highlighted in our submission to the Enhanced RERT Options paper this will provide clarity to stakeholders as to when AEMO can procure reserves, and certainty to AEMO that resources will be available<sup>1</sup>. Further, we are supportive of the rules clarifying

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<sup>1</sup> EnergyAustralia Submission to the Enhanced RERT Options Paper, <https://www.aemc.gov.au/sites/default/files/2018-11/EnergyAustralia.PDF>

that AEMO must only procure an amount of reserves that it considers reasonably necessary to meet the reliability standard.

### **Appropriateness of the Reliability Standard**

EnergyAustralia strongly supports the current Reliability Standard and the oversight that the Reliability Panel has. We agree with the AEMC that a more conservative reliability standard would be costly for customers who have continued to indicate that they are not willing to pay more for a higher level of reliability and appear willing to accept some risk of Unserved Energy (USE). Customers are not often directly involved in these decisions and have limited awareness of the trade-off they are being asked to make; however, they ultimately bear any added costs.

### **Transparency and Reporting**

As highlighted in our submission<sup>2</sup> to the consultation paper a key concern of our customers was the lack of transparency in the RERT process. The proposed changes to AEMO's reporting requirements under the RERT are a positive step forward in improving this transparency. These changes should assist both customers and retailers in understanding the likelihood and the size of RERT costs. In our previous submission<sup>3</sup> to the consultation paper we also suggested that there could be benefit for the Australian Energy Regulator (AER) to complete a customer survey on the operation and costs of the RERT and publish an independent report on the process. This could build on AEMO's new requirements under the draft rules. Alternatively, this could supplement the AER's requirements under the VCR. While we agree with the AEMC that the draft rule provides further clarity on the RERT process, the AER completing a customer survey would provide additional opportunities for the operation of the RERT to be further improved.

### **Out of Market Provisions**

EnergyAustralia is supportive of additional out of market provisions to ensure that generation and demand response, where possible, are participating in the energy market<sup>4</sup>. Generation and demand response should be encouraged to participate in the energy market in the first instance, and not incentivised to remove themselves from the market due to more lucrative RERT contracts. This would have the effect of AEMO having to rely on reserves more often as demand response (for example) that would normally have been commercially used in periods of tight supply and demand (reducing demand) is left out of market.

The draft determination seeks to improve the out of market provisions under the RERT framework by preventing AEMO and RERT providers from entering into reserve contracts for capacity that have been subject to a demand response arrangement at any time during the previous 12 months<sup>5</sup>.

We are concerned about the 'catch all' nature of the draft determination out of market provisions which may limit participation of some demand response in the market. For

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<sup>2</sup> EnergyAustralia submission to the Enhanced RERT Consultation paper, [https://www.aemc.gov.au/sites/default/files/2018-07/EnergyAustralia\\_1.PDF](https://www.aemc.gov.au/sites/default/files/2018-07/EnergyAustralia_1.PDF)

<sup>3</sup> Ibid. Page 5.

<sup>4</sup> Ibid. Page 5.

<sup>5</sup> Draft determination clause 3.20.3(g)(h)

example, consider a load of 10MW which may sporadically and when it absolutely suits them, participate in a market demand response arrangement to reduce load up to 5MW by shutting down some of their industrial processes. It is not commercially viable for the remaining 5MW to participate in the energy market under a demand response arrangement, but if provided sufficient compensation (for example, through a RERT contract) the additional 5MW could be facilitated. Under the draft determination, the above load is unable to utilise the 5MW under a demand response arrangement in market, with the additional 5MW that is not normally used in any market demand response arrangements reserved for a RERT contract (note 5MW only would be reimbursed under the RERT mechanism, not the full 10MW). Their full load is only allowed to participate in either the market or the RERT.

While EnergyAustralia supports the intent of the out of market provisions under the AEMC draft determination we remain concerned about the operation of the provisions in practice. If the out of market restrictions are too loose, then AEMO and customers are paying a premium for demand response that would have happened anyway, the shortfall will be the same. On the other hand, if restrictions are too tight it may have the effect of reducing the supply of demand response to both the market and RERT. The AEMC needs to be conscious of these trade-offs. We encourage the AEMC to further consider real life examples of the out of market provisions in operation to understand some of the potential market impacts, EnergyAustralia welcomes being further engaged on this.

### **RERT interaction with administered pricing provisions**

While not previously raised in the consultation the AEMC should give consideration to the interaction of demand response, RERT and an administered pricing event in a region(s). In the event of administered pricing provisions (APP) being invoked due to the cumulative price threshold (CPT) being breached, in market demand response may cease reducing load as the APP price is capped at \$300/MWh<sup>6</sup>. This would have the effect of potentially triggering more RERT activation, as demand would increase. While both these events are relatively rare (RERT and APP events) they are likely correlated as both are targeted at similar events. We encourage the AEMC to consider this in the RERT final determination.

### **Interaction of RERT with the Retailer Reliability Obligation**

While we did not previously oppose an extension of the procurement lead time from 9 to 12 months we have concerns around RERT interaction with the Retailer Reliability Obligation (RRO). Under the RRO liable entities are required to hold sufficient qualifying contracts to meet their RRO obligation 1 year before the identified reliability gap period. At the same time as retailers are finalising their contract positions under the RRO AEMO will also likely be in the market tendering for RERT contracts, potentially creating a supply squeeze. The draft rules do not prevent AEMO from negotiating with potential tenders in relation to RERT contracts at any time, the rules only stipulate that AEMO cannot enter into these contracts more than 12 months prior to the period<sup>7</sup>.

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<sup>6</sup> [https://www.aemo.com.au/-/media/Files/Electricity/NEM/Security\\_and\\_Reliability/Dispatch/Policy\\_and\\_Process/2018/Operation-of-the-administered-price-provisions-in-the-national-electricity-market.pdf](https://www.aemo.com.au/-/media/Files/Electricity/NEM/Security_and_Reliability/Dispatch/Policy_and_Process/2018/Operation-of-the-administered-price-provisions-in-the-national-electricity-market.pdf)

<sup>7</sup> Draft Rule 3.20.3 (f)

## **Conclusion**

EnergyAustralia is generally supportive of most aspects of the draft determination and thanks the AEMC for running a comprehensive and transparent consultation process.

While we support the intent of the out of market provisions under the AEMC draft determination, we remain concerned about the operation of the provisions in practice. We encourage the AEMC to consider real life examples of the out of market provisions in operation to understand some of the potential impacts/outcomes of the changes.

Finally, the AEMC should give consideration to the interaction of the RERT mechanism with the RRO and whether changes to either mechanism should be considered.

If you would like to discuss this submission, please contact Andrew Godfrey on 03 8628 1630 or [Andrew.Godfrey@energyaustralia.com.au](mailto:Andrew.Godfrey@energyaustralia.com.au).

Regards

**Sarah Ogilvie**

Industry Regulation Leader