

20 March 2019

Australian Energy Market Commission
PO Box A2449
Sydney South
NSW 1235

By direct lodgment

**Enhancement to the RERT
Draft Rule
ERC0237**

The Major Energy Users Inc (MEU) welcomes the opportunity to provide its views to the AEMC on its draft decision regarding the rule change proposed by AEMO to enhance the Reliability and Emergency Reserve Trader (RERT) process. The comments the MEU makes in this submission are informed from the experiences of some MEU members that provided offers to AEMO for the RERT needs in recent years, as well as the responses the MEU has previously provided over the years to the AEMC on the issue of RERT.

As with all MEU responses to proposed rule changes, this submission is predicated on two basic aspects – the end user perspective and the need to increase competition in the wholesale market to drive lower prices.

About the MEU

The MEU specialises in addressing issues that impact on the **cost, reliability, quality** and the long term **sustainability** of gas and electricity supplies across Australia; membership of the MEU comprises some 20 major energy using companies in NSW, Victoria, SA, WA, NT, Tasmania and Queensland and many have multiple sites. The electricity used by MEU members is significant proportion of electricity used in the NEM.

The Draft Decision

The MEU congratulates the AEMC in providing a very concise and clearly explained more preferable rule in response to the rule proposed by AEMO.

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The MEU supports the more preferable draft rule developed by the AEMC. The MEU makes the following observations about specific aspects of the draft rule.

The Reliability Standard

The MEU agrees with the AEMC that the Reliability Standard should be the driver for the operation of the RERT in terms of the framework, the volumes to be procured and the trigger for applying the RERT. To use any other tool for these applications has the potential to create distortions, with increased risks for consumers

Procurement lead time and contracting duration

The MEU considers that there is the potential for lower costs if providers of RERT are able to amortise establishment costs over a number of years for the equipment needed to provide a RERT service. However the MEU also notes that the introduction of the Retailer Reliability Obligation (RRO) provides an incentive for initiating longer term solutions by retailers to ensure there is sufficient reliability in the supply of electricity over longer periods than one year.

This means that implementing a 12 month window for the development of the RERT supply options is consistent with the way the RRO will operate. If the procurement lead time for contracting RERT services is 12 months so too should any contract duration match this period

On this basis, the MEU agrees that the RERT should have its procurement lead time and contract duration limited to 12 months

Out of market provisions

As the MEU pointed out in its response to the options paper, there is the potential for the providers for demand side responses and RERT provision to be common. The MEU supports the draft rule in its aim to limit the potential for a provider selling the same product twice – once as a DSR product and then again as a RERT product

Use of VCR as a cap for RERT services

Generally, the MEU does not consider that the Value of Customer Reliability (VCR) should be used for any purpose other than in assessing the benefit provided by a network investment. However, the MEU supports the concept that AEMO should not acquire any RERT service which costs more than the value consumers place on reliability.

Noting that most of the outages seen by consumers are caused within distribution networks, it would be inconsistent for AEMO to acquire RERT

services which cost more than what consumers are prepared to pay for the provision of network service reliability. The MEU supports the imposition of a cap based on VCR to be applied to the cost of RERT services.

Reporting

The MEU supports the increases in reporting requirements

Cost recovery

The MEU considers that the principle of “causer pays” is a sound approach. What concerns the MEU is that the cost of the RERT and the RRO are intertwined, in that the RRO also has a cost recovery mechanism embedded in it.

As the RRO will potentially recover some of the RERT costs incurred in any year, the MEU considers that the cost recovery approach needs to be more explicit in managing the recovery of costs. Specifically, the MEU considers that out of the total RERT cost in a year, the cost of the RRO liability should be the first element allocated out of the RERT and then the draft rule proposed approach for cost recovery should apply to any amount remaining in the RERT account after the RRO liability has been paid by those that are liable for RRO payments.

Should the AEMC require additional explanation as to the concerns expressed herein, please contact the undersigned.

Yours sincerely

A handwritten signature in black ink, appearing to read "D. Headberry". The signature is written in a cursive style with a large, sweeping flourish at the end.

David Headberry
Public Officer