



22 March 2019

John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted online: www.aemc.gov.au

Dear Mr Pierce

Enhancement to the Reliability and Emergency Reserve Trader – Draft Determination

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) Enhancement to the Reliability and Emergency Reserve Trader (RERT) Draft Determination.

Origin broadly supports the AEMC's Draft Determination. The objective of the RERT mechanism is to safeguard against supply shortfalls in support of the broader National Electricity Market (NEM) reliability framework. The proposed changes will better align RERT procurement/usage with this objective. This will ensure reliability risks continue to be managed by those best placed to do so through the primary wholesale market and reduce overall costs for consumers over the long term.

Specific comments on core elements of the AEMC's Draft Determination are provided below.

- **Reliability standard and framework:** Origin agrees there is no clear evidence that either the form or level of the current reliability standard is no longer appropriate. The AEMC's analysis, which incorporates independent advice from the Reliability Panel and Brattle Group, demonstrates that the expected USE metric remains fit for purpose in the NEM's energy only market framework. Further, the level of the standard adequately reflects the trade-off between maintaining reliability and minimising costs to consumers based on current estimates of the Value of Customer Reliability (VCR). Noting the Australian Energy Regulator (AER) is currently updating the VCR, a significant change should be demonstrated before further review of the reliability standard occurs.

To the extent AEMO remains concerned about changes in the underlying distribution of USE outcomes when modelling expected USE, this issue may be best addressed by reviewing the weighting applied to its modelling assumptions in consultation with industry. However, it is important to note there is already a degree of conservatism built into the existing framework. The medium-term Projected Assessment of System Adequacy (PASA) already gives a higher weighting to lower probability events by excluding 90 per cent probability of exceedance (POE) forecasts from the simulation process. Further, the lack of reserve (LOR) declaration framework used to inform RERT procurement in operational timeframes is not explicitly linked to the expected USE metric, but rather the level of reserves that are necessary to avoid any load-shedding.

- **Procurement trigger and volumes:** Origin strongly supports the AEMC's proposal to explicitly link the procurement trigger and volumes to the reliability standard. This approach will maintain the integrity of the energy-only market framework and ensure reliability risks continue to be cost-

effectively managed through participation in the primary wholesale market. The draft rule also provides AEMO with flexibility to account for the firmness of different RERT contracts by only limiting procurement volumes to the level considered 'reasonably necessary' to meet an identified breach of the standard.

- **Procurement lead time and contracting duration:** Origin agrees the contracting duration should be limited by the procurement lead time, given the risks associated with multi-year contracting. However, it is still not clear that extending the procurement lead time from nine months to one year would have a meaningful impact on the overall efficacy of the RERT mechanism. Existing RERT arrangements are also largely workable with the proposed design of the Retailer Reliability Obligation (RRO) (i.e. a reliability gap could be triggered 12 months ahead of a forecast shortfall, with long-notice RERT procured at nine months). A benefit of this approach is that it would remove any overlap between the contracting activities of market participants and AEMO in the event the RRO is triggered at T-1.
- **Out-of-market provisions:** The strengthened out-of-market provisions will ensure incentives are retained for generators and demand response providers to participate in the primary wholesale market.
- **Payment structure:** Origin agrees it would be beneficial to introduce additional guidance on payment structures associated with RERT contracts. Ideally the combination of usage and availability payments would not exceed the market price cap (MPC), as this would better preserve incentives to participate in the primary wholesale market. However, to the extent the MPC is insufficient to attract the optimal level of reserves needed, requiring AEMO to at least limit average payments to the estimate load shedding VCR is appropriate. It will also allow for a more thorough assessment of procurement costs when coupled with new ex-ante and an ex-post reporting requirements.
- **Cost recovery:** The proposed approach will allow for more equitable cost recovery, since activation/dispatch costs would only be recovered from consumers in proportion to their level of consumption over each of the relevant trading intervals. Given other RERT costs (e.g. availability and pre-activation costs) are sunk at the time emergency reserves are being used, it is appropriate these costs are recovered from market customer's in proportion to their consumption levels over the relevant billing periods.
- **Reporting requirements:** Origin supports the proposed reporting requirements. As reflected strongly in stakeholder feedback to the AEMC, there is significant value in improving the level of transparency around AEMO's processes for assessing, procuring and dispatching RERT, including indicative costs. Collectively, this information will enable market participants and consumers to better understand and manage the costs associated with RERT procurement.
- **Standardisation of products:** Origin agrees it is not necessary to prescribe any requirements for contract standardisation in the National Electricity Rules (NER), noting AEMO is not prohibited from developing standardised contracts. However, where standardised contracts are developed, it is important that information relating to the terms/conditions and product design features are publicly reported.

If you wish to discuss any aspect of this submission further, please contact Shaun Cole at shaun.cole@originenergy.com.au or on 03 8665 7366.

Yours Sincerely,

A handwritten signature in blue ink, consisting of a series of connected loops and a vertical line at the end, resembling a stylized 'S' or 'R'.

Steve Reid
Group Manager, Regulatory Policy