



Ms Kate Degen
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000

21 November 2019

Dear Ms Degen,

**ERC0283 National Electricity Amendment (Victorian Jurisdictional Derogation – RERT Contracting)
Rule 2019**

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Commission’s consultation paper on the National Electricity Amendment (Victorian Jurisdictional Derogation – RERT Contracting) Rule (“the Consultation”).

The ENGIE Group 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 730,000 retail customer accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

The rule change proposal is unjustified given the issue has recently been reviewed

ENGIE is not supportive of the rule change proposal. The pros and cons of multi-year contracting for (Reliability and Emergency Reserve Trader) RERT reserves were well canvassed during the rule change process for the *Enhanced Reliability and Emergency Reserve Trader Rule (ERC0237)* and the Commission determined that the case had not been made in its decision on that rule in May this year.

Our submission to that process noted that: “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”. The Commission’s final decision and its reasoning was consistent with this point, and also noted that “allowing standing reserves would likely disincentivise investment in all forms of generation (and demand response) in the market which would lead to higher wholesale market process – further increasing costs to consumers”.





ENGIE notes that the Victorian Government's rule change proposal references the Electricity Statement of Opportunities (ESOO) which forecasts the reliability standard to be breached in Victoria this summer, thus requiring the procurement of significant volume of capacity through the RERT. This is due to the risk of two power station units currently undergoing repairs (at Mortlake and Loy Yang A) not being available to meet summer peak demand.

This risk is not expected to manifest in subsequent years and so Victoria is not forecast to breach the reliability standard in the following two years, meaning it is not expected to require such high level of RERT capacity to be procured. Even if this changed in future ESOOs, there are other potential tools that could be utilised such as the triggering of the Retailer Reliability Obligation (RRO) obligation, or the building of capacity supported by the Underwriting New Generation Investment (UNGI) program, if the market did not respond.

Accordingly, it is likely that if this rule were to proceed and AEMO did contract some RERT capacity on a three-year contract, it would be paying three years' availability fees for one year's use. It's not clear why this is a better outcome for consumers than paying a higher availability fee for one year – logically the same availability fee should be sufficient to attract capacity whether spread over one year or three.

AEMO tendered for the RERT and elected not to select all available options. Given these options reflect the costs in the market it is speculative to believe that AEMO could achieve a better outcome by tendering for multi-year contracts. If the one-year availability fee required by some tenderers is deemed too expensive – given that the Rules recognise that consumers do not value reliability at all costs – then it is probably too expensive spread over three years as well.

To the extent that the Victorian Government considers that there is a risk that the supply-demand balance will be tight enough in subsequent years to warrant the ongoing procurement of large volumes of RERT capacity, it follows that there should be a high chance of price cap events. These in turn should provide sufficient incentive for any cost-effective capacity to be built as a market-facing asset, which is a more appropriate outcome. If they consider this incentive is not there, then this presents a more fundamental risk in the market. All governments may wish to reflect on their own propensity for multiple and ongoing interventions in the market and the impact that may be having on investor confidence to commit to new capacity. The Victorian Governments could also consider the option of purchasing reserves directly, which would be cleaner from a regulatory perspective than proceeding with this rule change.

On top of the costs to consumers of procuring RERT for future years where there is not yet evidence that it will be called on there is the consequent risk that the ability for retailers to attract in-market capacity (either to meet RRO obligations or simply to manage their own risk) is diminished by making RERT contracts even more attractive an option for capacity providers. This would not be in consumers' long-term interests. Further, it would set a worrying precedent given so little time has passed since the Commission made a clear decision not to allow multi-year contracting across the NEM as a whole if Victoria was allowed a derogation in this instance. It would send a signal to stakeholders that if a rule change process does not give them what they want, then they simply have to find one sympathetic jurisdiction to sponsor a derogation rule change, undermining the concept of a *National* Electricity Market.



Given that reliability for Victoria is often assessed in conjunction with reliability in SA, there may be implications for the level of RERT required in South Australia if this derogation was allowed and AEMO went ahead with a multi-year contract. It could thus lead to Victorian consumers effectively subsidising reserves costs for South Australian consumers. Such inter-regional impacts should be worked through as part of any analysis of this derogation.

Notwithstanding the above, should the Commission decide to allow the derogation, then it should be seen as a one-off relaxation of the national Rules. It should be strictly time limited to meet the potential need to procure large volumes of RERT capacity for this summer, and so should sunset on 26 March 2020 (i.e. AEMO should not enter into any new multi-year contracts after this date).

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

Yours sincerely,

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

Jamie Lowe

Head of Regulation