26/11/2019

Kate Degen
Australian Energy Market Commission (AEMC)
Level 6, 201 Elizabeth Street
NSW 2000

Via electronic lodgement

Dear Kate,

Re – Victorian jurisdictional derogation – RERT contracting: ERC0283

Mondo appreciates the opportunity to comment on the AEMC's Victorian jurisdictional derogation – RERT Contracting Consultation Paper.

Mondo provides a variety of contracted transmission and distribution services, including grid connections for new generators, battery energy storage systems and aggregation of distributed energy resources.

The Victorian government are seeking a derogation to extend the Reliability and Emergency Reserve Trading (RERT) contracting period out to three years. This request is being made in response to the potential reserve shortfalls in Victoria outlined in AEMO's latest Electricity Statement of Opportunities (ESOO), as well as the view, previously expressed by both the Victorian government as well as AEMO[1], that multi-year reserve contracting will allow a greater number of reserve providers to come forward.

[1] For example, see AEMC, Enhancement to the Reliability and Emergency Reserve Trader, Rule determination, 2 May 2019, page 135.

The question of multi-year contracting has been considered previously by the AEMC in the Enhancement to the Reliability and Emergency Reserve Trader Rule determination. In the final determination of that Rule change, the AEMC concluded that:

> *.. multi-year contracting would likely create significant distortions to market participants' incentives to invest and may lead to higher costs to consumers. It considers that the benefits in terms of lower direct costs that could accrue through multi-year contracts would likely be outweighed by pre-empting market responses over a time period that is well within investment timeframes.*[2]

Under stable conditions, Mondo is inclined to agree with the previous conclusions reached by the AEMC, and broadly supports the operation of the market as the default means for encouraging new generation. However, we are also very mindful of the concerns about supply reliability for the coming summer in Victoria given the improving[3], but not yet complete, return to service of the Loy Yang A and Mortlake units. We also note that the ongoing transition to new generation technologies, unpredictability of operational demand growth, and uncertain policy environment is likely to create medium term risks that may mute efficient market-based investment in new supply. Ultimately, it will be Victorian electricity consumers who are exposed to the risk of non-supply.

Given these uncertainties, AEMO and the Victorian government are understandably concerned and have proposed to extend RERT contracting periods as a prudent mechanism to provide investor certainty and ensure supply. This arrangement is proposed to cease in June 2025, covering the period leading up to the implementation of the Energy Security Board's Post-2025 Market Design. RERT may play a role in ensuring adequate supply until new rules can take practical effect.

Other recent changes include enhancements to the RERT mechanism, as well as the introduction of the new Retailer Reliability Obligation (RRO). All of these changes should, in the longer term, provide a sufficient safety net to the main market mechanisms of the NEM for dealing with ongoing supply reliability. However, it is unlikely that they will be able to materially influence conditions for next summer, and possibly the one after that (20/21).

A further consideration should be the ability of RERT to effectively encourage demand response. While the AEMC is currently in the process of finalising a Wholesale Demand Response (WDR) rule change, the proposed rule is not expected to take effect until 2022. Multi-year RERT contracts may offer an appropriate incentive for demand response until a WDR rule takes effect.

These are difficult issues to weigh up. Most market participants would prefer to allow the wholesale market mechanisms to operate unimpeded as any interventions may undermine market-based investment in the long term. Additionally, multi-year RERT contracts may create a further cost to consumers whether or not

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[2] AEMC, Enhancement to the Reliability and Emergency Reserve Trader, Rule determination, 2 May 2019, page 135.

[3] Australian Financial Review – Summer energy readiness, 18 Nov 2019: https://www.afr.com/companies/energy/energy-minister-to-cut-deals-with-collaborative-states-20191115-p53av6

AGL investor day presentation 30 October 2019: https://www.agl.com.au/-/media/aglmedia/documents/about-agl/investors/webcasts-and-presentations/2019/2019investordaypresentation.pdf?la=en&hash=B9D0757D530146268A77117AD4459050

Origin investor presentation 20 November 2019: https://www.originenergy.com.au/content/dam/origin/about/investors-media/origin_2019_ibd_final_asx.pdf they are needed. On the other hand, no one wants to see significant supply disruption to Victorian consumers during the summer months.

On balance, Mondo is inclined to agree with prudent steps to provide greater incentives for additional reserve providers to come forward for the upcoming summer period in Victoria.

Looking out to the summer of 2020/21, the AEMO forecasts are currently indicating that the reserve margins for Victoria (as well as other regions) will be adequate. However, if the Victorian Government's proposed derogation to extend RERT contracts out to three years is accepted, then any contract agreed in late 2019 will still be in place through until December 2022.

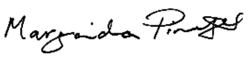
There is a practical question regarding contracts that may be struck in December 2019 to address a key issue for the 2019 summer (high temperatures driving high peak demand and increasing the risk of asset constraints or failures) being applied for a three year term, which falls just short of the 2022/23 summer. From an efficiency perspective, it may be worth considering whether these contracts should either be shortened to fall away after the 2021/22 summer (say, April 2022) or extended to cover the 2022/23 summer (say, April 2023).

We also note that, within the term of five and a half years (December 2019 to June 2025) over which this derogation is proposed to apply, AEMO will be able to procure additional reserves under this derogation for subsequent summers, which will also have up to a three year contract period. It may be prudent to include a review of the need for this derogation at the midpoint of this five and a half year term, based on the demonstrated effectiveness (or not) of the various changes being implemented by the AEMC and the introduction of the RRO. This would not be expected to impact any contracts that have already been executed under this derogation, it would merely review the need for this derogation in providing an acceptable level of reliability of supply to customers in future summers.

This could be paired with an assessment of the expenditure activated under this derogation, as well as the level of unserved energy avoided, compared to the counterfactual status quo arrangements. This would provide an understanding of the value and costs associated with this derogation, which may provide a valuable input into decision making for longer term market design and planning processes.

Mondo hopes that the comments contained in this submission are of assistance to the AEMC in its deliberations on this consultation. Please do not hesitate to contact Chris Deague either by email at chris.deague@mondo.com.au, or by phone 0417 549 583 if you have any further inquiries.

Yours sincerely



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