



PO Box 4136  
East Richmond VIC 3121  
T 131 806  
F 1300 661 086  
W redenergy.com.au

PO Box 4136  
East Richmond VIC 3121  
T 1300 115 866  
F 1300 136 891  
W lumoenergy.com.au



14 September 2023

Mr Ben Davis  
Director  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Submitted electronically

Dear Mr Davis,

**Re: Integrating price-responsive resources into the NEM - ERC0352**

Red Energy and Lumo Energy (Red and Lumo) welcome the opportunity to make a submission to the Australian Energy Market Commission's (the Commission's) consultation paper on a rule change request by the Australian Energy Market Operator (AEMO) that aims to improve the integration of non-scheduled price-responsive resources into the National Electricity Market (NEM).

AEMO has submitted the rule change to introduce a 'scheduled lite' mechanism into the NEM to integrate non-scheduled price-responsive resources into the market scheduling process. The mechanism seeks to provide greater visibility of these resources by integrating them into the planning and operation functions of the NEM. Greater visibility of distributed resources that are of sufficient scale and firmness to consider direct participation in wholesale and FCAS markets is the most important element of the proposal.

Improved visibility will allow AEMO to produce more accurate demand forecasts and as a consequence, more efficient price forecasting in the NEM, while also enhancing AEMO's planning functions. In addition, the mechanism could also allow more lower-cost lower-emission generation to be dispatched centrally to provide greater reliability to the system, thereby reducing the need for and cost of centralised interventions to maintain system security.

We note, however, that many owners of these resources are optimising their value through indirect participation, generally through an arrangement with their retailer. This is a common and cost effective mechanism across all consumer segments and will continue to be the preferred option for many. The Commission is exploring this in its consultation on *Unlocking CER benefits through flexible trading* (ERC0346).

In the long run, we acknowledge this reform has the potential to maximise the system and consumer benefits that these resources can offer, while supporting the energy transition. This is becoming a more pressing issue as the volume of these resources across the system is growing at a substantial rate. However, these benefits are dependent on the form in which AEMO's proposal is implemented.

We have significant concerns with the precise form of AEMO's proposal. We strongly recommend the Commission consider alternatives to AEMO's 'scheduled lite' mechanism to ensure it will better achieve its policy objectives. In its current form, AEMO's proposal creates a two-tiered framework that benefits some market participants at the expense of others. More specifically, there is an asymmetry of regulatory obligations on scheduled generators compared to non-scheduled price responsive resources. This will have a detrimental impact on investment decisions and market outcomes over the longer term. We strongly encourage the Commission to adhere to the principle of competitive neutrality as it considers the appropriate form of the AEMO proposal. Non-scheduled price resources and scheduled generators must compete in a fair and equitable manner.

As it currently stands, the voluntary nature of the mechanism will simply allow non-scheduled price resources to bypass the mechanism. For example, existing mechanisms like the Small Generation Aggregator framework allow these resources to monetise their energy through direct participation in a market, rather than through an incentive or capacity payment. Similarly, owners of price responsive resources can optimise their value through arrangements with their retailer.

Price responsive resources should not be entitled to an availability payment as scheduled generators do not qualify for this. Moreover, there is no incentive for owners of these resources to provide a reliable service or incentive to improve reliability and therefore, a limited basis for AEMO to rely on these resources as it performs its market operation and planning functions. This is contrary to the fundamental design principles of these markets. Furthermore, AEMO might compensate for any uncertainty about the firmness of these resources by procuring additional resources at further cost to consumers.

In addition, these resources should also be liable for breaches of the National Electricity Rules in the same way that scheduled generators are for any non-compliance with dispatch and scheduling obligations. They have been designed as a core component of participation in wholesale and FCAS markets, allowing AEMO to fulfil its obligations as the market operator. As such, it is appropriate that there are consequences for participants who do not respond to instructions and / or provide accurate information.



The Commission could undertake a broader review of these obligations to determine whether they strike an appropriate balance or whether they discourage market participation to a significant and detrimental degree, rather than adopting a solution that disproportionately favours some market participants and business models.

### **About Red and Lumo**

We are 100% Australian owned subsidiaries of Snowy Hydro Limited. Collectively, we retail gas and electricity in Victoria, New South Wales, Queensland and South Australia and the ACT to over 1.3 million customers. Should you wish to discuss aspects or have any further enquiries regarding this submission, please call Con Noutso, Regulatory Manager on 0481 013 988.

Yours sincerely

A handwritten signature in black ink, appearing to read "G Hargreaves".

**Geoff Hargreaves**  
Manager - Regulatory Affairs  
**Red Energy Pty Ltd**  
**Lumo Energy (Australia) Pty Ltd**