

30 January 2020

Mr John Pierce
Chairman
Australian Energy Market Commission
Sydney South NSW 1235

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By online submission

Dear Mr Pierce

Draft Rule Determination - Victorian Jurisdictional Derogation – RERT Contracting (ERC0283)

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) draft determination and rule.

AEMO welcomes the flexibility that this rule change provides. AEMO is well placed to enter into multi-year contracts where they would be a more cost-effective option to mitigate the risks of load shedding over the next few years. We note our comments in relation to the AEMC's consultation paper in this matter, and support the draft determination and rule.

Our specific comments in respect of the draft rule are set out in Attachment 1.

In addition, we would like to clarify our processes for determining whether to declare a low reserve condition under clause 4.8.4 of the National Electricity Rules (NER). In this draft determination, the AEMC referred to the Reliability Standard Implementation Guidelines (RSIG), which currently indicate that the medium-term projected assessment of system adequacy (MT PASA) is the primary tool for determining reliability shortfalls. On this point, the RSIG is inaccurate and we intend to amend the Guidelines to correct this at the next opportunity. This matter is discussed in more detail in Attachment 1.

We welcome the opportunity to discuss the matters raised in this submission further. Should you have any questions, please contact Kevin Ly, Group Manager Regulation on kevin.ly@aemo.com.au.

Yours sincerely



Peter Geers
Chief Strategy and Markets Officer

ERC0283_VICTORIAN RERT CONTRACTING DRAFT RULE_AEMO SUBMISSION

ATTACHMENT 1:

AEMO SUBMISSION ON DRAFT RULE DETERMINATION - VICTORIAN JURISDICTIONAL DEROGATION – RERT CONTRACTING (ERC0283)

Introduction

As stated in our submission to the AEMC’s consultation paper, AEMO supports the Victorian Government’s jurisdictional derogation proposal, as an interim measure, to seek amendments to the NER, which will allow AEMO to contract emergency reserves under the Reliability and Emergency Reserve Trader (RERT) on a multi-year basis for up to three years in Victoria.

AEMO welcomes the flexibility that this rule change provides. AEMO is supportive of the Commission’s view that given acquiring emergency reserves under a multi-year contract can lead to lower direct costs for consumers, and as there is a likelihood that the RERT may be needed for the coming few years in Victoria, multi-year contracting could be a useful tool for AEMO to have at its disposal for a limited time to procure the volumes of RERT it needs to minimise load-shedding at a minimal cost to Victorian consumers¹.

The ability for AEMO to enter into multi-year contracts also provides a stronger signal for investment in long-notice emergency reserves supply or demand response in Victoria, which may help to address ongoing reliability challenges in Victoria.

We note our submission in relation to the AEMC’s consultation paper in this matter.

Our additional specific comments in respect of the draft rule and determination are provided below.

Draft Rule 9.5.2

This draft rule states that rule 9.5 expires on 30 June 2023. We suggest that the rules clarify that multi-year Victorian contracts that are formed before 30 June 2023 but with terms that extend past that date are not affected by the expiry of rule 9.5, as noted in section 1.3 of the draft determination.

Draft rule 9.5.3(b)(2)

The Commission considers that the trigger for procuring emergency reserves under the current framework should apply to the first year before AEMO were to enter into a multi-year contract; this is, an expected breach of the reliability standard. However, the trigger would not be required to be met in years two and three. Instead, under the draft rule, prior to entering into a multi-year contract, AEMO would need to consider what the appropriate term and structure of a Victorian reserve contract would be, including the appropriate volume of emergency reserves procured².

¹ AEMC, Draft rule determination (Victorian Jurisdictional Derogation – RERT Contracting) at p iv

² As above

Rule 3.20.3(a) (as amended by the 'Enhancement to the RERT' rule change) provides the head of power under which AEMO can enter into reserve contracts, and is limited to entering into contracts "in order to ensure that the reliability of supply in a region meets the reliability standard for the region".

Although draft rule 9.5.3(b)(2) makes it clear that the amounts procured for the second and third years of a multi-year Victorian contract are not limited to meeting the reliability standard (i.e. no more than AEMO considers is reasonably necessary to ensure reliability of supply in the Victorian region), there is potential inconsistency with rule 3.20.3(a). For clarity, we suggest that rule 3.20.3(a) be made subject to draft rule 9.5.3.

Draft determination

In addition to the above, we would like to clarify our processes for determining whether to declare a low reserve condition under clause 4.8.4 of the NER. In this draft determination, the AEMC referred to the Reliability Standard Implementation Guidelines (RSIG) which currently indicate that the MT PASA is the primary tool for determining reliability shortfalls. On this point, the RSIG is inaccurate and we intend to amend the RSIG to correct this at the next opportunity.

The AEMC noted in their determination on the RERT Enhancement Rule that the NER appropriately allows AEMO significant discretion and flexibility as to how to operationalise the reliability standard. This framework allows AEMO to consider the full spectrum of uncertainties and risks that could influence reliability. For this reason, rather than giving primacy to any specific instrument as the basis for determining RERT targets, AEMO considers the most up-to-date and relevant information available across a number of sources not limited to the MT PASA.

This matter is discussed in more detail in section 4.1.2 of [AEMO's draft decision](#) on changes to our procedures for the 'Enhancement to Reliability and Emergency Reserve Trader' rule change.

Conclusion

Subject to the comments outlined above, AEMO is supportive of the draft rule, and notes the additional obligations on AEMO relating to quarterly RERT reporting for any multi-year Victorian contracts entered into; and the requirement to update the RERT Procedures to accommodate the rule change.

AEMO considers that the jurisdictional derogation for RERT contracting in Victoria is needed as an interim measure while the Retailer Reliability Obligation is embedded, and the reliability standard metric is reviewed by the Energy Security Board, due to report back to the COAG Energy Council in March 2020.