

Mr John Pierce
Chair, Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000

31 May 2018

Re: ERC0238 - Reinstatement of long notice Reliability and Emergency Reserve Trader - Consultation Paper

Dear Mr Pierce

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) *Reinstatement of long notice Reliability and Emergency Reserve Trader Consultation Paper* (hereafter referred to as the 'Consultation Paper').

It is standard practice for electricity markets to have emergency system available to system operators to minimise the negative effects of low-probability but high-impact circumstances, such as storm damage to transmission infrastructure or multiple generators failing simultaneously. These systems often don't aim to provide full functionality, but instead are low-cost mechanisms that provide partial services and avoid load-shedding and system blacks. Most energy-only markets, including Texas, Germany and Nordic countries, have some form of 'Strategic Reserve' provided by a mechanism similar to the National Electricity Market's (NEM) Reserve and Emergency Reliability Trader (RERT).

While it's essential to have a mechanism like the RERT, some of the current features of the RERT impede its effectiveness, including the requirement that capacity can only be procured ten weeks or less before a potential shortfall in capacity.

The Energy Efficiency Council considers the ten-week timeframe manifestly inadequate for a competitive tender process for emergency capacity. As such we strongly support the proposal to reinstate the long notice RERT, which would enable Australian Energy Market Operator (AEMO) to seek capacity up to nine months before a potential shortfall.

Reinstating the long notice RERT will:

- Reduce the cost of the RERT by:
 - o Providing more lead-time for the development of demand response resources. For example, some manufacturing can only have demand response capabilities added (or added at a lower cost) during scheduled maintenance that might only happen once per year.
 - o Providing AEMO with sufficient time to conduct an effective and competitive auction / tender for capacity. More time will not only give AEMO more time to run an effective process, but will also enable more market participants to develop bids, which will increase competition, enable streamlined contracting and place downward pressure on prices.
- Give energy users and the energy industry more certainty about the likely future use of RERT resources, and therefore increase certainty for investors and asset owners.
- Provide governments with more confidence that supply shortfalls will not occur, and therefore avoid far more expensive interventions that would have a negative impact on taxpayers and/or energy consumers.

The current ten-week timeframe for AEMO to secure emergency capacity is far too short for competitive tender processes, and would likely inflate the cost of the RERT. In addition, the current ten-week timeframe fails to provide governments with confidence that there will be sufficient capacity in case of an emergency.

While the Consultation Paper asked whether reinstating long notice RERT might distort the wholesale electricity market, in fact the absence of long notice RERT is causing far greater distortions to the wholesale electricity market. The lack of long notice RERT contributed to several governments perceiving that there were risks of capacity shortfalls, which led them to take actions to improve energy security that have been more expensive and distortionary than a long notice RERT.

For example, the former South Australian Government recently spent over \$339 million on diesel/gas generators that will still idle for the vast majority of the year, won't operate within the wholesale electricity market and will distort investment in the energy sector. If an effective RERT system had been in place it could have provided emergency capacity at much lower cost, with AEMO recently finding that their 2018-18 demand response trial provided capacity at around 20 per cent of the cost of emergency diesel generators.

There are also some concerns raised in the Consultation Paper that extending the notice period for RERT could cause some resources to withdraw from the wholesale market because participating in the RERT would be more attractive. However, if other features of the RERT are designed and operated appropriately, the length of notice should have minimal impact on the wholesale market.

RERT resources should be primarily composed of resources that do not want to be regularly deployed, but are willing to be deployed in an emergency (e.g. demand response by aluminium smelters). If there is a genuinely competitive tender for RERT and an expectation that there is a low probability that RERT will be deployed, there should be very little incentive for resources that can benefit from payments for regular deployment (e.g. peaking generators) to shift from the wholesale electricity market to the RERT.

The potential concerns that have been raised about reinstating long notice RERT are actually concerns about a system operator hypothetically procuring and dispatching RERT capacity in an inappropriate fashion. These concerns are unrelated to the length of notice, and are better dealt with by ensuring that AEMO's processes are sensible and transparent, in particular ensuring that the size of payments for RERT are appropriate and the balance of payment for availability and dispatch are correct.

In summary, the EEC supports the reinstatement of long notice RERT. We look forward to continuing to work with the AEMC on this matter, and ensuring that the RERT and the National Energy Guarantee's are designed to complement each other. For further information please contact me on rob.murray-leach@eec.org.au or 0414 065 556.

Yours sincerely



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