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Ms Suzanne Falvi

Executive General Manager

Security and Reliability

Australian Energy Market Commission

PO Box A2449

Sydney South NSW 1235

Electronic Lodgement: ERC 0237

Consultation Paper – Enhancement to the Reliability and Emergency Reserve Trader

Dear Suzanne,

Energy Networks Australia welcomes the opportunity to provide a submission to the Australian Energy Market Commission on the Consultation Paper – Enhancement to the Reliability and Emergency Reserve Trader (RERT).

Energy Networks Australia is the national industry body representing businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

The RERT framework is an existing intervention mechanism in the National Electricity Market (NEM) and any amendments should ensure its use is clearly confined to call for emergency or strategic reserves as a procurer of last resort where failure to meet the NEM reliability standard is projected. It is an emergency mechanism, which ideally should be used infrequently, procuring resources that cannot be made commercially available to the wholesale market.

Intervention should be kept to a minimum both in terms of volume procured and price and must not impede the NEM from delivering efficient market-based responses or result in inefficiencies being passed on as costs to consumers.

Energy Networks Australia does not support a variation to the reliability standard for the purposes of the RERT. The Reliability Panel has only recently reviewed the

reliability standard and recommended that the standard remain unchanged. The standard as formulated appears appropriate for general application including for the purposes of the RERT.

Energy Networks Australia provide further detail in the Attachment and have selectively responded to sections of the Consultation Paper.

Energy Networks Australia looks forward to the next round of consultation on the enhanced RERT which would provide clarity of the approach with accompanying amending Rules.

Should you have any queries on this response please feel free to contact Verity Watson, vwatson@energynetworks.com.au.

Yours sincerely,

Andrew Dillon

Chief Executive Officer

Attachment

Procurement lead time

Energy Networks Australia supports the increase of the lead time from 9 months to 1 year consistent with the approach to the procurer of last resort function in the proposed National Energy Guarantee (NEG) design.

A procurement timeframe longer than 1 year would not be efficient. Further, in principle, Energy Networks Australia considers that the resources procured under the RERT should be contained to the nearest year projection of any shortfall against the reliability standard.

Contracting period

Energy Networks Australia recognises that multi-year contracts would provide certainty to reserve providers however, this approach will reduce the incentives for the market to respond with in-market capacity and may provide incentives for lengthy intervention. The accountability should remain with market participants to address the gap using market mechanisms before intervention procurement commences.

There may be merit in the RERT framework requiring the Australian Energy Market Operator (AEMO) to publish details of the services and providers participating in the RERT in a year, which may facilitate these resources being encouraged into the wholesale market.

Appropriateness of the Reliability Standard

The Consultation Paper discusses the lack of acceptance of unserved energy events, and whether an alternative reliability standard would be appropriate for the RERT. Such an approach would create inconsistencies and distortion in relation to the wholesale market, when the objective should be to minimise such distortions. Energy Networks Australia does not support any amendment of the reliability standard for the purposes of the RERT.

The Reliability Panel is responsible for setting the reliability standards and any changes in the reliability metrics need to be undertaken through the Reliability Panel and not via the RERT framework. The Reliability Panel has only recently completed a review of the reliability standard and determined that it remains appropriate. The Reliability Panel has noted that its decision has considered the critical factors of Value of Customer Reliability, changes in the way customers use electricity, predictability and stability, the costs that may be incurred if the reliability standard was tightened, and potential changes in the costs of essential new generation.

Power system security trigger

Energy Networks Australia does not consider that power system security is the appropriate driver to procure reserve contracts. However, Energy Networks Australia acknowledges that the resources may then be available to deploy in response to system security concerns. Other cost effective operational avenues should be exhausted before reserves are used for this purpose. Power system security issues must be addressed through system planning and operations approaches that look further into the future, and do not have a dependency on RERT (which resources may not even be available in any year).

Linking the procurement trigger to a reliable operating state

Linking the procurement trigger to 'reliable operating state' may lead to a zero tolerance for unserved energy. The reliability standards and settings establish the level of reliability sought and the acceptable amount of unserved energy. As noted above, the Reliability Panel has recently completed a review of the reliability standard and determined that it remains appropriate. Energy Networks Australia is concerned that any reduction in unserved energy may not be without additional costs, ultimately borne by customers.

Procurement volume

The Consultation Paper states:

> *"the NER do not prescribe the amount that should be procured but rather implies that AEMO can only procure so much as would be reasonably necessary to ensure that the reliability standard is met (and where practicable, to maintain power system security). The link is not explicit or prescriptive."*

To the extent that the Rules are unclear as to the objective of procurement of reserves, and the cost that consumers should bear, Energy Networks Australia supports clarification. The procurement volume and the usage or dispatch costs is complex to calculate, and will become even more complex as the penetration of active distributed energy resources increases at lower levels on the network. The Rules should establish the principles for how the volumes are determined and how the determined volumes are shared with stakeholders, for example in the Electricity Statement of Opportunity (ESOO).

Energy Networks Australia recommends that the Rules require AEMO to publish with and without RERT quantities to demonstrate that they have procured no more than necessary to meet the reliability standard.

If the publication of volumes prior to contracting is considered to have potential to compromise AEMO's commercial negotiations then the Rules should require AEMO to consult with the subject jurisdiction on the determined volumes, contracting and deployment strategy in advance of contracting. The Rules should also provide for a cap on the overall cost of reserves, either directly in the Rules or by jurisdictional determination, but in any case independent of AEMO. Without such mechanism the obligation to meet the reliability standard would prevail over cost.

Energy Networks Australia supports AEMO's proposal to amend and consult on changes to the Reliability Standard Implementation Guidelines (RSIG) which would provide more clarity on the conditions under which AEMO would procure reserves, the volumes to be procured consistent with the Reliability Standard.

Options for determining the procurement volume

Contracting reserves to meet a reliability standard at all costs is not warranted. There needs to be a cost benefit analysis of some support with a possible market cap. While AEMO could have the discretion of the procurement volume and price, an alternative could be for a jurisdiction to establish the market cap in advance.

Energy Networks Australia supports all three approaches in order to provide flexibility. The cost minimisation approach may not capture the complete value to customers.

Governance

Energy Networks Australia supports increased transparency that clarify costs of the market intervention however does not consider additional independent oversight of the procurement trigger necessary given the Australian Energy Regulator's proposed role to review the reliability gap under the NEG. There may be benefit if the services approach could become an in market product.

RERT framework

Energy Networks Australia does not support adding a high level framework in the Rules beyond the RERT principles to underpin the design or further prescription in the Rules in the following areas:

- **Standardisation of products** - Whilst standardisation or semi-standardisation may occur through normal contracting processes it is important that this does not limit more innovative arrangements. Where contracts are able to be standardised this suggests that there is potential that they could be used frequently and should be in the market.
- **Notification periods** - AEMO and reserve service providers should decide on the notification periods.
- **Other product specifications** - Product specifications should be contained in a guideline rather than prescribed in the Rules to allow innovative offers that might provide a competitive offer and, for example, be available for contracting for a shorter period than a year.

Eligible technologies and out of market requirements

The RERT should remain technology neutral and include demand response, generation and network response. The RERT should not be restricted to certain technologies, particularly given the out of market requirement for the service offering. It is important that demand response resources which do not otherwise respond to wholesale market price signals but can participate in RERT are able to participate if

this is the practical least cost service offer to meet the reliability standard. The AEMO practice of precluding shared network support and RERT use of the same resources is not supported by Energy Networks Australia.

Networks could use critical peak pricing or demand response to help defer network augmentation, there needs to be proper coordination of these arrangements, clarity in the ESOO of these arrangements where material and opportunities to use for RERT. The Victorian smart meters offer an opportunity to facilitate improvement demand response or supply limiting and should not be precluded from providing RERT services in preference to forced load shedding.

The eligibility of the RERT technology and its use for a coordinated and material demand response in a localised network area could have practical implications on network operations. Energy Networks Australia is actively engaged in the debate on coordinated demand response and open energy networks and looks forward to the further debate in this area on emergency demand response, wholesale demand response and network demand response implications on the operational complexity of the networks.