

Sarah-Jane Derby
Australian Energy Market Commission
sarah.derby@aemc.gov.au

Lodged via www.aemc.gov.au

Project reference code ERC0237

Introduction

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and are desperate to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

Our members are highly exposed to movements in both gas and electricity prices and have been under increasing economic stress due to rapidly escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment and reasonable returns to shareholders or passed through to consumers in the form of increases in the prices paid for many everyday items further adding to the cost of living pressure for the average consumer.

We have taken a close interest in the recent debate around the Reliability and Emergency Reserve Trader (RERT). This came to prominence when some of our members received large, unexpected invoices in the first half of 2018 to cover over \$52m in RERT costs in 2017/18.

Unfortunately, there was no transparency around how the particular costs were calculated and requests to AEMO for greater clarity were not answered. Some of our members are about to receive large RERT invoices for their share of the \$34.2m in 2018/19 RERT costs. Again, requests to AEMO for more transparency around how the costs are calculated have been unsuccessful. This is one of many reasons why the EUAA very much welcomes the very comprehensive overall package presented by the AEMC in the Draft Rule Determination.

In particular we welcome the Draft Rules that show the AEMC has listened to the concerns of all consumer advocates, particularly around affordability, that were expressed over the course of this review. Fundamentally we support the central role of the existing reliability standard in electricity market governance. This recognises there is a trade-off between reliability and cost and that consumers are not prepared to pay for a higher reliability standard.

We were certainly not prepared to pay for AEMO's proposal that was short on detail on how it would work and the benefits and governance framework, but high on likely increased costs.

The EUAA's view is that:

- Changes in the electricity supply system with a growing proportion of intermittent renewable generation, aging fleet of thermal generators, tightening demand/supply balance, peakier demand and higher temperature peaks, require regular review of the RERT mechanism to ensure it continues to be fit for purpose.
- RERT is an important part of the reliability framework in this changing market, but it was only ever intended to be "emergency" i.e. when all other options were unable to meet the reliability standard. This "emergency" role does not change with these changes in the market dynamics. RERT as a direct intervention has to work with other measures designed to make the market run as efficiently as it can. When the market cannot meet the

reliability standard there is a role for market intervention like RERT – but only as part of an overall market that efficiently meets the reliability standard at the lowest cost

- The reliability standard goes through a very comprehensive review process every four years, with the latest completed less than 12 months ago. The EUAA was involved in this review process and accepts the outcome as an appropriate trade-off between cost and reliability.
- Given the NEO, consumers need to have confidence that the NEM is operating in their long-term interests. A necessary condition for this is total transparency around costs. This is not currently the case with RERT and this led our members to wonder if the market is being operated in their long-term interests.

Comments on the Draft Rule Determination

What we agree with

The EUAA strongly supports the overall thrust of the draft. We think that it well recognises our concerns reflected in our previous submissions and provides a very sound basis for consumers having increased confidence around the NEM operating in their long-term interests. In particular we support:

- The explicit linkage of the RERT procurement trigger to the reliability standard
- The extension of the maximum procurement lead time to 12 months – which provides consistency with the proposed Procurer of Last Resort process under the Retailer Reliability Obligation currently under development
- The concept of a \$/MWh cap on the cost of procuring emergency reserves that is based on VCR as determined in the current AER review process
- Improved cost recovery process whereby:
 - the activation costs of RERT are recovered from those consumers that actually contributed to the need for RERT in the region where the emergency reserves were used; this will provide our members with flexibility to reduce their consumption and hence RERT costs, if they are able to
 - the availability costs are recovered in proportion to consumers consumption during the billing periods the payments were made over the length of the contract
- Significantly greater transparency around \$/MWh RERT costs - AEMO quarterly reports covering both forward looking and backward-looking data (within 30 business days after the end of the calendar quarter), reports within 5 business days of dispatch/activation and a transparent methodology report on how AEMO determined the amount of RERT to procure
- The AEMC fast track timetable that enables the new rule to be in place prior to summer 2019/20.

Some further thoughts

(i) Reporting requirements

In presenting data on actual RERT costs in the 5 business day and Quarterly Reports it is recognised that the \$/MWh numbers may be preliminary and subject to change. AEMO should provide confidence limits on the data e.g. “we expect the final costs will be \pm , say, 10% of the costs indicated in this report”. This will help in business budgeting decisions.

We also think that there should be improved communication of these reports. Many users do not have the time to monitor the AEMO website nor know where to find the Reliability Panel’s AMPR let alone read and understand it. We would support some additional communication method, perhaps SMS updates when AEMO RERT reports are published. We also recognise the role of the EUAA in keeping its members informed of developments. Another option is for AEMO to include in new Market Notice where large users are given an option to specifically receive that notice only – i.e. similar to what they have done for LOR notices.

(ii) Out of market provisions

We agree with the Commission’s concerns around market distortions created by reserves (both generation and demand response) being withdrawn from the market, or not available to the market in the first place, to enable participation in RERT. We support the general approach in the Draft Rule to ensure that, as much as possible of these available reserves (generation and demand response) should be in the market i.e. the wholesale spot market is the primary means by which the reliability standard is met. This ensures that the market has the best chance of meeting the reliability standard without requiring RERT which is the most efficient outcome for consumers.

We would encourage the Commission to consider the following examples to further refine the out of market provisions to allow legitimate demand response to be able to participate:

- As outlined in the Brickworks submission, the proposed definition of “in-market” would seem to exclude a user that is sourcing its electricity from the spot market such as via a pool price exposed product from any participation e.g. through demand response, in the RERT market. Yet a user with the same demand profile that chooses to source its power through a standard retail product can offer demand response into the RERT market.
- Where a consumer has a supply contract/hedge with a retailer/generator that provided for a level of demand response, that consumer should be able to offer additional demand response into the RERT market e.g. in a simplified example, if demand is a flat 20MW and the supply contract includes the suppliers right to use 4MW as demand response, but the consumer could offer up to 10MW as demand response in a RERT situation, then that consumer should be able to offer 6MW into the RERT auction. This issue seems to have been anticipated in the Draft Rule when it says (p.131):

“There may be practical issues with defining market with respect to the retail market. For example, a blanket restriction may exclude large energy users from providing demand response for part of their load through the RERT and part of their load through the market, unless they are separately metered.”

- Similar to this is the second issue raised by Brickworks in its submission. The on-market test for demand response should not be applied at the participant level but at the participant and particular site level. For example, if on-market demand response is sold (whether by the consumer or an aggregator) for Customer A Site A, then any demand response at Customer A Site B should be able to be offered into the RERT auction. The latter site is not on-market. As the Brickworks submission argues:

“Limiting which demand management is capable of supplying RERT services will result in higher RERT costs due to lower cost demand management being disqualified from offering their services in the absence of a large customer permanently withholding their capacity from being “on market” in the hopes of receiving higher RERT revenue later. Amending the proposed requirement for non-scheduled demand to be “out of the market” for only those trading intervals where the RERT service could be called under a RERT contract would lead to lower RERT costs being passed through to consumers.”

(iii) Cost recovery from market customers

While we can understand the logic in the Commission’s decision to recover pre-activation costs in the same way as availability costs, we would hope that the revised procurement procedures for RERT will result in pre-activation costs being a relatively low proportion of total RERT costs – with the main focus on activation costs. We would prefer to not see a repeat of the experience in 2017/18 with pre-activation costs being a significant proportion of total RERT costs.

We would support the issue raised by **Brickworks** in its submission around:

- Ensuring demand response is not counted in allocating RERT costs, and
- the need for large scale batteries and pumped hydro to also incur RERT activation costs, which is not clear in the proposed draft rule 3.15.9.

(iv) Cost recovery by market customers from end consumers

We acknowledge that this is a matter that is outside of the Commission's scope. We also acknowledge that the improved transparency and reporting requirements should provide end consumers with much additional information on which to review any charges that are passed on from their market customer (mostly retailers).

We will adopt a wait and see approach to assess whether this is in fact the case. In particular we see no justification for the retailer to seek to recover any amount other than the actual cost it pays to AEMO.



Andrew Richards
CEO
21 March 2019