

WE SHOULD TALK ABOUT CAPACITY MARKETS NOT EXTEND EXPENSIVE EMERGENCY MEASURES

Reports today that the Victoria Government will seek an exemption from the AEMC to allow AEMO the option of negotiating Reliability and Emergency Reserve Trader (RERT) contracts up to three years in advance is concerning.

“The RERT mechanism is designed as a last resort safety net to be applied when the reliability standard is likely to be breached and has proven to be a very expensive way of managing the energy system,” said Energy Users Association of Australia (EUAA) Chief Executive Officer, Andrew Richards.

“In the last two years it has been triggered several times at a cost to consumers of \$80 million.”

The EUAA recognise that AEMO have a tough job to make sure the lights stay on, a situation made worse by such a toxic and volatile policy environment. We also recognise AEMO may need additional tools to manage the energy system as we transition to more variable power generation from wind and solar.

However, by extending the contracting period from one to three years we begin to move RERT from an emergency measure to the primary means by which we manage the energy system. We may also find that AEMO are competing for the same “firming” resources as market participants, which is likely to drive costs even higher.

“If we need some form of capacity market to ensure we have sufficient dispatchable resources available to AEMO then we should have that discussion and not try to bend an emergency measure into something it was never designed to do. Many energy users recognise RERT is an emergency measure and are prepared to help out, but it can’t be sustained in the long term.”

We have an ageing fleet of coal fired power stations that will progressively retire, an unprecedented uptake of renewable energy and stubbornly high gas prices. Clearly, we need all governments and our regulatory bodies to begin a positive conversation on how we can better manage the energy transition. Without nation-wide coordination of the energy transition, that may include some form of capacity market, energy bills will only go up and reliability will fall.

“The Energy Security Board are looking at a Post 2025 Market Design for the energy market, which is the most appropriate place to have the discussion about what is needed.”

The EUAA represents large energy users, some of whom who are spending \$1 million per day on energy. Many large energy users are seeking solutions to rising energy costs and invested billions into energy efficiency, system upgrades, storage, renewable energy, demand response and many other measures with the aim of reducing energy consumption and costs. Energy users also get bills totalling millions of dollars when the RERT program is used.

Large energy users who are producing essential goods and services, foods, building materials, paper, plastics and raw materials are under increasing pressure from energy bills. Greater grid instability increases costs for everyone and every effort must be made by all parts of the energy system to ensure coordination of programs as we undergo a dramatic shift in generation to ensure efficient costs and keep system risk as low as possible.

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