

31/05/2018

Mr John Pierce
Chair
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear John

ERC0238: Consultation Paper – Reinstatement of the long notice Reliability and Emergency Reserve Trader

TransGrid welcomes the opportunity to provide comments on the Australian Energy Market Commission (AEMC) Consultation Paper on the expedited rule change request to reinstate the long notice Reliability and Emergency Reserve Trader (RERT).

TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that allows for interstate energy trading.

TransGrid supports the reinstatement of the long notice RERT as a short-term measure to enable the Australian Energy Market Operator (AEMO) to manage the demand-supply balance in the National Electricity Market (NEM) in a timely manner. Given concerns about the risk of potential shortages in supply over the 2018/19 summer, there may be merit in AEMO having additional flexibility in the tools it has at its disposal to ensure that there is adequate supply.

However, TransGrid has a number of concerns in relation to the long notice RERT, and the RERT more broadly, so we do not see this as an optimal policy for the longer term. **For this reason we submit that the reinstatement of the long notice RERT should include a sunset clause of up to two years.** This will make clear the intent of the rule change as a short term solution in the context of heightened concern about the reliability of supply over the 2018/19 summer. Including a sunset clause will provide impetus to reconsider the merit of the long notice RERT as part of the Enhancement of the RERT rule change proposal to be considered in June 2018.

TransGrid's concerns in relation to the long notice RERT, and the RERT more broadly, fall under three main headings, which are discussed further below:

1. RERT contracts may not ensure that electricity is supplied to customers at lowest cost over the long run.
2. The RERT may cause distortions in the energy market, if it provides incentives to participate in the reserve market instead of the wholesale energy market.
3. The use of exclusive procurement practices by AEMO is inefficient, both raising the price and lowering the availability of demand response resources for other parties, such as network service providers (NSPs).

1. RERT contracts may not ensure least cost electricity

TransGrid is concerned that there is inadequate governance and oversight of the RERT contracting process, with potential for RERT contracts to be established which do not ensure the lowest overall cost of reliable energy to consumers.

Both AEMO and the AEMC have recognised that the potential cost of RERT contracts needs to be balanced against the benefits. TransGrid encourages AEMO and the AEMC to consider options to enhance the governance arrangements for the RERT, in particular to ensure that customers do not pay more for these contracts than their willingness to pay for reliability.

TransGrid supports consideration of a cap on the availability payments that can be offered to reserves. We also support consideration of other options such as the development and use of a 'pre-qualification' panel of reserve providers ahead of time, which could avoid the use of costly contracts a long way in advance, while giving potential reserve providers an indication of the likely need for their services.

2. The RERT may cause distortions in the energy market

AEMO and the AEMC have also recognised the potential for RERT contracts to distort the wholesale energy market, and TransGrid concurs with this concern. The RERT is intended as a last resort mechanism to balance demand and supply, but it could lead to reductions in supply to the wholesale energy market if RERT contracts are more attractive than selling energy via the wholesale market.

TransGrid supports consideration of AEMO's suggestion that limitations be placed on resources transitioning from the energy market to the RERT.

3. Exclusive procurement practices are inefficient

TransGrid is concerned that AEMO's contracting practices under the existing RERT can result in valuable demand response resources being 'quarantined' even if they do not get utilised by AEMO. For example, AEMO's contracts with demand response providers may bar them from offering demand response to any other parties in the short term. This is more restrictive than the requirements of clause 3.20.3 of the rules, because it prevents NSPs from accessing those resources for non-market purposes such as network support. This reduces the supply and increases the cost of demand management resources available for network management, for example projects such as Powering Sydney's Future. Exclusive contracts lock away resources that could be efficiently used elsewhere without threatening their benefits for reliability.

This highlights TransGrid's concern that a lack of co-ordination could lead to inefficient management of reserve, which could lead to higher costs to consumers. Transmission network service providers are well placed to co-ordinate the provision of reserve over their network in order to provide reserves at the lowest cost to consumers over the long term.

Conclusion

In conclusion, TransGrid supports the reinstatement of the long notice RERT with a sunset clause of up to two years. We believe this will provide comfort that AEMO can manage reliability over the short term, while ensuring that the design of the RERT is examined more carefully in the near future.

While TransGrid supports the reinstatement of the long notice RERT, we encourage AEMO and the AEMC to put in place safeguards which limit the cost to consumers of the RERT and which minimise distortions to the energy market. We also encourage AEMO and the AEMC to review AEMO's ability to undertake exclusive procurement practices, which lead to inefficient and costly management of demand management resources in the market as a whole.

If you would like to discuss this submission, please contact Rachel Houston, Regulatory Consultant, on 02 9284 3336.

Yours faithfully



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