



Department of Environment, Land, Water and Planning

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

Dear Mr Pierce,

Re: Reinstatement of long notice Reliability and Emergency Reserve Trader

Thank you for the opportunity to make a submission on behalf of the Victorian Government to the Australian Energy Market Commission's Consultation Paper on the National Electricity Amendment (Reinstatement of long notice Reliability and Emergency Reserve Trader) Rule 2018.

The Victorian Government supports the reinstatement of long notice Reliability and Emergency Reserve Trader (RERT) for summer 2018-19, and also supports the expedited process for the rule change.

In summary, the Victorian Government supports the development of an enhanced, ongoing strategic reserve policy for the future, that has a transparent and defensible methodology for deciding, in advance, whether additional reserve capacity is required and how much RERT capacity to contract. The Victorian Government also supports the ability to make efficient use of demand response as reserve capacity because it is relatively low cost, provides emissions abatement benefits, and builds the capacity of the Victorian energy sector to meet the challenges of the energy transition.

The RERT was an important mechanism allowing the Australian Energy Market Operator (AEMO) to perform its role in maintaining energy reliability in Victoria during summer 2017-18. With sustained heat waves predicted, AEMO secured 1,150 MW of strategic reserves into the system across Victoria and South Australia. RERT contracts were activated by AEMO twice over summer, successfully maintaining Victoria's reliable energy supply, and protecting the health and wellbeing of Victorians.

Responses to the questions in the consultation paper are below.

Assessment framework

The Victorian Government supports the assessment framework and suggests that the AEMC additionally consider whether the rule change request can assist in decreasing emissions in the electricity sector. It is the Government's view that the RERT can play an important role in supporting reliability during the generation technology transition that is currently taking place in Victoria's energy system by encouraging efficient use of low or zero emissions capacity services such as demand response.

Procurement efficiency and costs

The Victorian Government agrees with AEMO's view that a longer lead time for procuring RERT contracts could improve the efficiency of the process and lower costs for consumers. Based on the experience of RERT procurement in summer 2017-18, longer lead times may increase competitive tension among suppliers.

Energy transformation

The energy market is changing rapidly, and a secure path needs to be found to an electricity system with a low carbon emissions profile, while ensuring affordability and jobs in the Victorian economy. The Victorian Government is playing its role by substantially increasing the role of renewables in the energy sector through the Victorian Renewable Energy Target, and fostering new energy jobs and technologies such as grid connected battery storage and energy efficiency measures.

It is the view of the Victorian Government that demand response will have an important role in the energy system of the future, acting as a balancing resource alongside storage technologies such as batteries.

The Victorian Government supports the use of demand response as a reserve. Demand response will be a vital part of the reliable, low emissions energy system of the future, and the RERT is an opportunity to foster and develop this capability in Victorian businesses and homes. In the early stages of demand response market development, if AEMO is unsure of the 'firmness' in practice of any of the demand response providers, the additional procurement timeframes may allow time for building the capability of the provider.

Preliminary position on RERT guidelines and AEMO's RERT procedure

In extending the procurement lead time for RERT for this summer, the Victorian Government suggests that AEMO and the AEMC give careful consideration to the method for determining the most economically efficient amount of reserves to contract.

As a participating jurisdiction, the Victorian Government must be consulted on the cost of reserve contracts. The government's ability to act in the interests of Victorian consumers requires accurate information not only on risks and contract costs, but importantly on the level of reliability that should be targeted in order to prevent outages at a reasonable cost.

There should be a clear framework for setting the capacity target for reserves, informed by an assessment of the reserves requirement over each hour of the peak demand event based on weather and demand forecasts that are as accurate as possible.

The target for RERT capacity should be published before contracts are sought. While the target may need to change in the case of significant new data, any change should be based on consultation with state governments and republished.

Option for temporary reinstatement

The Victorian Government supports this rule change as a temporary measure – extending RERT until the enduring framework for strategic reserve policy can be established. The Victorian Government will also consider AEMO's second rule change request for an enhanced strategic reserve policy to replace the current RERT model in future years.

Learnings from the ARENA/AEMO demand response trial as well as learnings from the use of RERT in summer 2017-18 and 2018-19 should feed into an optimal and updated strategic reserve design. The updated design will also need to take into account the final design of the National Energy Guarantee, and ensure that any interaction with that scheme does not result in market distortions.

It is the Victorian Government's view that market responses to meet reserve capacity shortfalls would be improved if an enhanced strategic reserve became an ongoing feature of the market. An ongoing strategic reserve may create the time and incentive to build the capacity to participate, and a wider pool of providers is likely to result in a lower cost to consumers.

The Victorian Government urges the AEMC to move quickly to extend the RERT for summer 2018-19, and does not object to the expedited rule making process.

I trust this input is of assistance. If you have any questions about this submission, please contact Mr Paul Murfitt, Executive Director, Energy Sector Reform by email Paul.Murfitt@delwp.vic.gov.au or on (03) 9637 8235.

Yours sincerely



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