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Australian Energy Market Commission
PO Box A2449
South Sydney NSW 1235
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Re: Response to Reinstatement of the long notice Reliability and Emergency Reserve Trader

Infigen Energy Limited

Level 17, 56 Pitt Street
Sydney NSW 2000
Australia
T +61 2 8031 9900
F +61 2 9247 6086
www.infigenenergy.com

Infigen Energy (Infigen) welcomes the opportunity to make a submission to the Infigen operates a 557 MW portfolio of wind capacity across New South Wales, South Australia and Western Australia, and a further 113 MW of generation under construction in New South Wales.

We are active participants in the energy market, developing innovative products with large C&I customers that incorporate demand response. As such, we are acutely aware of price and investment signals in the market, and the need to deliver affordable and reliable supply.

In preparing our submission to this Rule Change, Infigen notes that several competing processes are underway – AEMO’s second rule change request for an enhanced RERT (which Infigen understands would allow for contracting up to three years, plus a number of internal changes to AEMO’s processes), and the Procurer of Last Resort provision in the National Energy Guarantee.

Infigen considers that minimising costs to consumers is critical, and that market participants are best placed to manage risk and uncertainty. As noted by the AEMC in their Reliability Frameworks Review Interim Report, the market has continued delivered a high standard of reliability, even given the unexpected closure of Hazelwood. Participants have made additional capacity available to the market in response to higher prices, independent of any market interventions.

Long-notice RERT increases the risk of inefficient market intervention. It is therefore critical that any procurement under RERT is transparent (e.g., publishing indicative costs and updated USE estimates), avoids competing with the energy market, considers the trade-offs between cost and reliability and is based on as short a lead-time as possible to minimise the risk of error and distortionary actions while balancing the need to intervene if a genuine market failure emerged.

With these caveats, Infigen would cautiously support the reinstatement of the long-notice RERT up to nine months out, if a clear market failure is identified for the coming summer and already contracted/available out-of-market resources (e.g., AEMO/ARENA demand response, South Australian diesel gensets, etc.) are insufficient. This would provide AEMO and the market confidence that the reliability

standard will be met, but the volume and cost of procurement must be a transparent process.

We would not support procurement of reserves further in advance or over longer timeframes – it is important to allow time for the market to deliver the response and have the opportunity to identify and procure resources. Resources procured for RERT are also not available for response at other times, potentially increasing contracting and consumer costs.

We note that it may be appropriate for long-notice RERT procurement to be subject to review by an independent body, such as the AER; such a review could expand on the proposed review for triggering the NEG.

Some further comments and specific responses to the AEMC's questions are provided below.

Question 1 Assessment framework

(a) Is the assessment framework appropriate for considering the changes proposed in the rule change request?

(b) Are there any other relevant considerations that should be included in the assessment framework?

Infigen considers the framework appropriate.

Question 2 Procurement efficiency and costs

(a) What are stakeholders' views on the cost implications of reinstating the long-notice RERT?

This issue was discussed extensively during the previous RERT consultation, and the AEMC should consider those issues. The Reliability Panel is best placed to consider cost-benefit trade-offs.

AEMO notes that the costs of RERT should be considered against the counterfactual of unserved energy, which has an economic cost. However, making this comparison is challenging. For example, a resource with a usage charge of \$15,000/MWh would seem to be a reasonable candidate for RERT (short-run costs above the market price cap but below the typical value of customer reliability (VCR)). However, if this resource is activated under an LOR2 condition with a 10% probability of load shedding (for example), this might equate to an expected \$150,000/MWh cost of avoiding that unserved energy – likely to be significantly more than most customers value reliability. Evaluating the economic efficiency of long-term RERT procurement is even more complex.

In practice, it would be impractical for AEMO to conduct a full economic assessment of RERT procurement or activation in every instance. The NER, RERT guidelines, RERT procedure and RSIG provide appropriate frameworks as a proxy for this calculation, and their settings and design should therefore be carefully considered.

Infigen would also like to clarify AEMO's statement that "the probability of not meeting the standard [in Victoria in 2018-19] is projected to be about nine per cent". While the modelling might show that the level of unserved energy exceeds 0.002% in 9% of scenarios/iterations, this is distinct from the definition reliability standard.

The current standard as defined in the NER is, "a maximum expected unserved energy (USE) in a region of 0.002%". The RSIG¹ further notes, on MT-PASA timeframes: "If the expected **annual USE, averaged across the simulations**, exceeds the maximum level specified by the reliability standard, a LRC is identified." (emphasis added). This is consistent with the interpretation of the standard by the Reliability Panel in their Reliability Standards and Setting Review². As such, only if the average unserved energy across all credible scenarios exceeds the reliability standard would it currently be appropriate to say that the standard is not being met.

(b) Do stakeholders agree with AEMO's views that a longer lead time would improve the efficiency of the procurement process and lower costs for consumers?

Infigen agrees that a longer lead time or greater revenue certainty may allow investment in additional (low cost) resources. In general, this will also provide greater confidence to AEMO that the reliability standard will be met. However, investment risk cannot be eliminated, only transferred – consumers will therefore bear the risk and cost of over-procurement.

For summer 2018-19, it also seems likely that the majority of RERT resources from 2017-18 would be readily available even without long-term contracting or availability payments (but, potentially, requiring higher usage charges), even beyond the AEMO/ARENA contracted resources and South Australian diesel gensets. Infigen notes that AEMO is not prevented from negotiating on medium-term RERT products in advance of the current 10 week procurement timeframe.

Depending on the terms offered through AEMO's RERT procurement, there is also risk that some resources (e.g., demand response) may prefer to contract for RERT with AEMO, rather than with a market retailer. Drawing resources out of the energy market could negatively affect the ability of retailers to manage reliability, leading to a "self-fulfilling prophecy" of the need to activate RERT. This is particularly concerning for retailers that might otherwise use those resources to offer firm and affordable contracts across the whole year, not just during periods of reliability risk.

Question 3 Energy transformation

¹ Section 2.3.1, https://www.aemo.com.au/-/media/Files/Stakeholder_Consultation/Consultations/Electricity_Consultations/2018/RSIG-Final/Reliability-Standard-Implementation-Guidelines-markedup.pdf

² <https://www.aemc.gov.au/markets-reviews-advice/reliability-standard-and-settings-review-2018>

What are stakeholders' views on the changes that have occurred in the market since 2016 that would necessitate the reinstatement of the long-notice RERT?

It is not clear that market conditions are fundamentally more difficult for participants to manage now (or in the near future) than they were in the past. Even if the short-term uncertainty increases over time, market participants have strong incentives to contract and adjust their portfolios to manage that risk, incentivised by the high market price cap. As AEMO's Summer Report notes, in response to AEMO's projections, participants made significant additional capacity available to the market.

Question 4 Preliminary position on RERT guidelines and AEMO's RERT procedure

(a) What are stakeholders' views on the Commission's preliminary position on process for making changes to the RERT guidelines and AEMO's RERT procedure to take in account changes to the RERT framework under a final rule (if made)?

(b) Do stakeholders have views on the proposed amendments to the RERT guidelines set out in appendix C?

If the AEMC decides to make a rule change, then it would be necessary to implement the RERT guidelines and RERT procedure rapidly. The AEMC's proposed framework seems reasonable in this instance.

Infigen would not support a framework that does not include consultation on the RERT procedure. If AEMO proposes substantive changes from the previous procedure, then a minimum three week consultation period would be appropriate.

It may be helpful if the guidelines or procedure provide clearer guidance as to the volume of RERT to procure. Infigen's understanding of the published RSIG is that on MT-PASA timeframes:

- a) AEMO should only procure long-notice RERT in a region if the average USE across a year across all scenarios breaches the reliability standard; and
- b) AEMO should only procure RERT to avoid the Low Reserve Condition (LRC), not to attempt to eliminate any chance of unserved energy (which is impossible, given that there will *a/ways* be some chance of significant outages or extreme demand (or both) leading to unserved energy).

Question 5 Option for temporary reinstatement

Assuming that the long-notice RERT is reinstated, should the long-notice RERT expire?

While the heightened risk of unserved energy is concerning, AEMO's own modelling indicates that it is a short-term issue. Market participants (including Infigen) are actively pursuing new capacity, as well strategies for offering firm contracts to market customers. Improved investment certainty under the NEG is also likely to support additional capacity. Given the competing/complementary rule change proposals being considered, if this rule change is to be addressed with urgency, then a 12-24 month expiry period may be appropriate.



Conclusion

If the AEMC make a rule change, Infigen's concerns over the efficiency and cost of the long-notice RERT can be partially mitigated by appropriate implementation of the guidelines and procedure. We look forward to continuing to engage on this process. Please feel free to contact me directly in relation to Infigen's submission.

Yours sincerely

Paul Simshauser
Executive General Manager - Corporate Development
Paul.Simshauser@infigenenergy.com