

30 May 2018

Australian Energy Market Commission
PO Box A2449
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NSW 1235

By direct lodgment

**Reinstatement of long notice RERT
Consultation paper
ERC0238**

The Major Energy Users Inc (MEU) welcomes the opportunity to provide its views to the AEMC regarding the rule change proposed by AEMO to reinstate the long notice Reliability and Emergency Reserve Trader (RERT). The comments the MEU makes in this submission are informed from the experiences of some MEU members that provided offers to AEMO for the RERT needs during the summer 2017/18.

The MEU has long been a supporter of retaining the RERT in the rules as it provides security of supply to consumers of electricity at a cost less than the costs consumers incur when there is load shedding implemented due to shortages of supply.

In its response to the draft rule in 2016 to reduce the time allowed AEMO to seek and implement RERT options, the MEU commented that 10 weeks was considered to be too short a period for AEMO to contract with RERT providers and the shorter time would lead to higher costs that consumers would have to incur.

The MEU points out that one of the lowest cost options for RERT is for end users to provide load shedding at the request of AEMO when there is a risk of electricity supply shortage. While end users do not have a great desire to limit their operations due to shortages of electricity supply, they do realise that providing load shedding under controlled conditions that the RERT allows, provides a much more preferable solution to those end users than having rolling load shedding without notice.

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The MEU highlights that end users need to implement internal protocols to permit load shedding at call (under the RERT) so the load shedding can be carried out under controlled conditions to avoid damage to their equipment and production processes. To be able to load shed at call, results in costs to establish the ability to reduce demand when needed and costs in the process to prepare for load shedding in addition to the costs incurred to actually provide the reduction in demand. There are also costs incurred in restarting processes to get back to full production. What is also little understood is that the costs incurred at each step vary dependent on what is being produced at any time, market pressures for the product being provided, the amount of time the reduction in demand is required and even the time when the reduction is called. This means that the offers for load reduction from the demand side can often be quite complex.

Unfortunately the AEMC seems to consider that load shedding is quite straight forward, easily implemented and can be contracted by AEMO in short time periods. The implication of the AEMC question regarding the assessment framework, is that it only focuses on the costs to the electricity market of the “distortion” imposed on the market by the use of the RERT. What is more important to consumers is that the costs of an unscheduled loss of supply¹ can exceed by a significant amount, the potential premium that use of the RERT might impose on consumers where those costs result from a competitive tender process.

The consultation paper comments that market distortions impose indirect costs on consumers and therefore there is a need to minimise these distortions. While the MEU agrees that market distortions can impose costs, there are a number of tools already in the market providing incentives to ensure the market operates efficiently. If Market Participants elect not to respond to these incentives, then it is essential for AEMO to have adequate powers to ensure that consumers do not suffer loss of supply.

The MEU considers that there is no reason not to provide a longer time span for AEMO to provide for RERT contracts. The AEMC asserts that having this longer period exaggerates the market distortions that the RERT causes, yet if the market is not prepared to ensure there is adequate supply of electricity as identified by AEMO ahead of time (eg in the statement of opportunities, energy adequacy assessment projection, etc) then it is imperative that AEMO has the powers to contract for supplies via the RERT to avert a loss of supply. The MEU considers that AEMO having the ability to contract RERT longer² is an essential element of ensuring reliability of supply at to provide the RERT at the lowest cost.

Based on the first hand experience of MEU members, the current RERT periods are too short and the proposed extension (or even longer) would enable them to participate more readily in providing RERT services. This means that there would be greater competition to provide RERT services, with resulting lower costs and improved efficiency in the procurement process.

¹ For example, as measured by the Value of Consumer Reliability (VCR)

² Even longer than proposed reinstatement of the 9 month period

There is little doubt that the transformation of the electricity supply market with increased penetration of intermittent generation requires increased reliability options. The decision to implement the National Energy Guarantee to increase certainty of reliable supplies demonstrates this need. Making it easier for the demand side to participate in the market via the RERT process by having longer lead times not only delivers increased reliability options but also an increase in competition for the provision of RERT services.

The MEU considers that the extended RERT should be made permanent and, while noting AEMO has forecast potential issues only for the next two summers but not thereafter, there is no certainty that the AEMO forecasts further out will be determinative and there will not be a need for a long term RERT in these later years.


The MEU is aware that there is already a rule change process in train to enhance the RERT program but this rule change might very well be modified or even not be implemented. There is no doubt that the RERT will be needed into the future and if AEMO needs to obtain RERT services beyond the next two summers, then making the change permanent provides long term certainty for consumers, the market and RERT providers.

If the enhanced RERT is to be implemented, then the issue of whether longer or shorter periods are appropriate for the RERT can be addressed within that rule change process

In conclusion, the MEU considers that the 9 month period for contracting RERT services should be reinstated on an indefinite basis.

Should the AER require additional explanation as to the concerns expressed herein, please contact the undersigned.

Yours sincerely

A handwritten signature in black ink, appearing to read "David Headberry". The signature is written in a cursive style with a small checkmark at the end.

David Headberry
Public Officer