4 June 2018

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

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REINSTATEMENT OF LONG NOTICE RERT – CONSULTATION PAPER

Dear Mr Pierce

Origin Energy (Origin) welcomes the opportunity to comment on the AEMC's reinstatement of long notice Reliability and Emergency Reserve Trader (RERT) consultation paper.

The rule change proposal presented by AEMO does not provide significant justification for the reinstatement of long notice RERT. AEMO note that long notice RERT is required urgently to address reliability shortfalls, however the forecasts for unserved energy currently in the public domain do not show a breach of the Reliability Standard for the 18/19 summer and beyond. Thus, the AEMC should assess if the reinstatement of long notice RERT is critical for AEMO to meet the current Reliability Standard.

The AEMC should also assess the cost effectiveness of 17/18 summer RERT activations, especially in relation to how long notice contracts were utilised and whether lowest cost outcomes were achieved. Additionally, the AEMC should investigate whether long notice RERT providers are able to contract under a medium notice scenario and what impediments there are preventing this from occurring. Without this information, an in-depth analysis cannot take place and the justification for the reinstatement of long notice RERT cannot be established.

Origin also argues that the conditions noted by the AEMC in its 2016 determination for the removal of long notice RERT are still relevant. There is greater forecasting accuracy closer to periods of high demand, it allows market participants greater time to respond to a projected shortfall and minimises the potential for AEMO to crowd out potential market-based arrangements.

Finally, the AEMC should examine if the reinstatement of long notice RERT is aligned with the proposal for a wholesale demand response mechanism and how the payments made under the 17/18 summer RERT activations have influenced participants desire to participate in RERT over a market based response.

Unserved Energy Forecasts
AEMO have noted that in the absence of a long reserve procurement mechanism, there is a risk that the Reliability Standard may not be met, particularly during a 'peaky' demand year. Additionally, AEMO notes that extreme peaks may cause outages and there is a need for long notice RERT to avoid unserved energy even when, on average, the Reliability Standard is met. There are wider issues that are being discussed here, with respect to procurement levels to meet a Reliability Standard or an Operational Standard, and Origin anticipates that these will be examined under the enhanced RERT proposal.

However, it is important to note that two recent reports, the 2018 Reliability Standards Review and AEMO's 2017 ESOO, addressed the issue of unserved energy and meeting the Reliability Standard.

Figures 1 and 2 reveal that the Reliability Standard is unlikely to be breached in summer 18/19 and outer years. In fact, the graphs show that unserved energy is well below 0.002% in the modelled outcomes. This brings into question that the reinstatement of long notice RERT is justified based on meeting the Reliability Standard.

Figure 1: EY NEM modelling expected unserved energy outcomes 2017/18 to 2023/24[1]

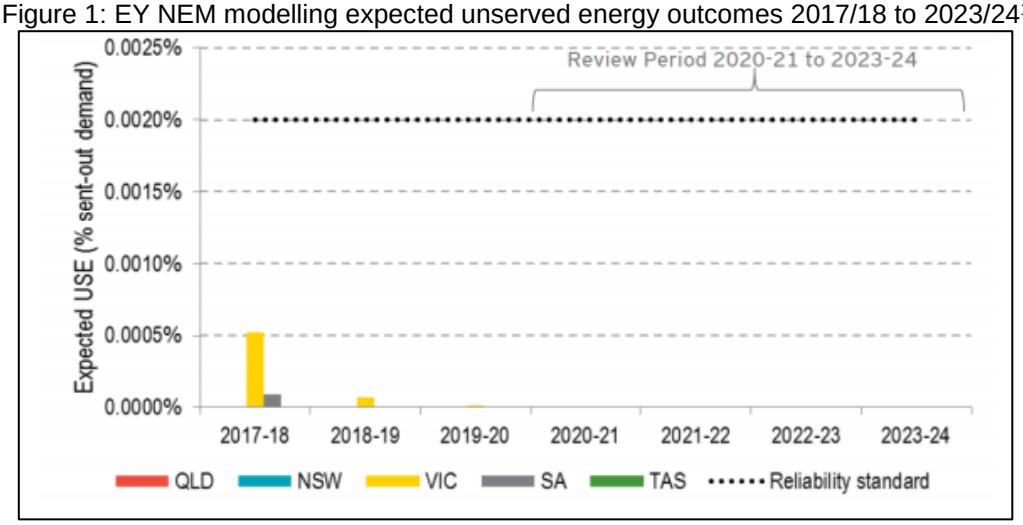
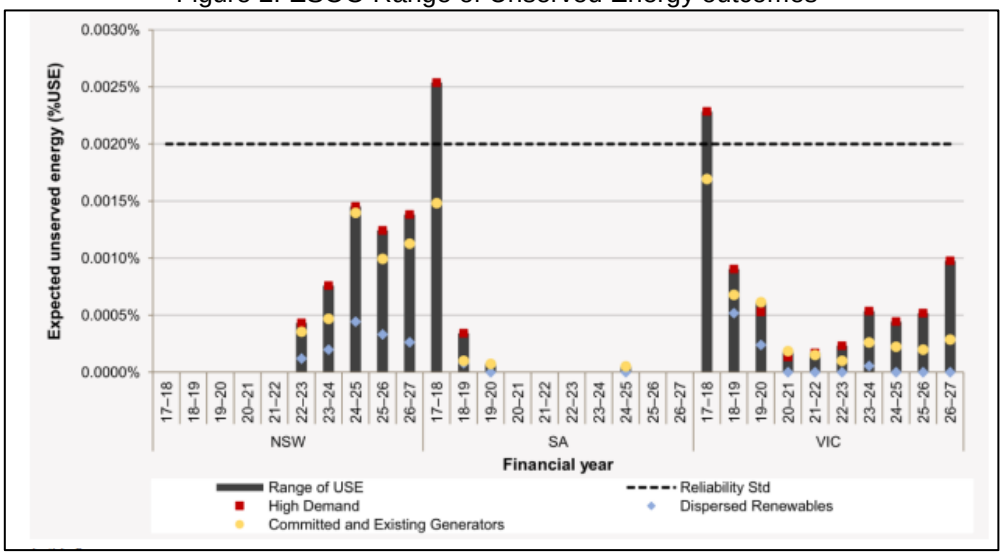


Figure 2: ESOO Range of Unserved Energy outcomes[2]



AEMO has recently implemented additional tools that enable it to forecast unserved energy outcomes more accurately. This includes the requirement that retailers provide NMI level data on any contracts that provide demand side response and those that have a portion of their load subject to the spot market, i.e. not contracted. This should provide greater insight into the demand side response available to the market and aid in firming forecasts of unserved energy. By better understanding market responses to demand side response this may result in a reduced need for large amounts of RERT reserves, including long notice RERT.

Performance of RERT activations to date

It is important to understand the cost drivers of demand side response as it incentivises providers to contract through RERT or through the wholesale market.

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[1] Reliability Standards and Settings Review 2018, AEMC Reliability Panel, p.59

[2] 2017 Electricity Statement of Opportunities, AEMO, p.2

Summer 2017/18 saw two RERT activations take place, occurring on 30 November (32MW) and 19 January (136.5MW). AEMO have identified that these have come at a total cost of $51.26m[3]

The 30 November 2017 activation saw a total of 32MW and 107MWh deployed into the NEM for a total cost of $0.89m[4]. The activation cost in this instance equates to ~$8,300/MWh.

The larger activation that took place on 19 January 2018 saw a total of 136.5MW (130MW in VIC and 6.5MW in SA) and 538.75MWh deployed into the NEM for a total cost ~$24million[5]. The total activation cost in this instance equates to ~$44,500/MWh, which is 3 times the value of the current market price cap.

When one considers the total RERT costs across the 2017/18 summer period, including weekly availability payments, the $~51m that is to be recovered from consumers equates to ~$79,000/MWh, ~5.5 times the value of the current market price cap.

Origin believes that the RERT initiative has incentivised demand side response to participate under contract with AEMO rather than with their retailer or in response to wholesale prices. As identified by the AEMC in its decision to remove long notice RERT contracts, this practice crowds out potential market reactions to wholesale spot prices, especially where RERT activation takes place at a price point before a demand side participant would respond. The AEMC should examine these incentives and determine if reinstating long notice RERT is delivering lowest cost outcomes for consumers.

Contracting RERT limitations

AEMO's 2017/18 Summer Operations Review showed RERT procurement of approximately 800MW in VIC, 290MW in SA and 50MW in NSW[6]. However, as the contract arrangements are confidential between the provider and AEMO, it is difficult to understand what percentage of these contracts were procured under a long notice. The AEMC should assess the proportion of contracts that were under long notice contracts, how they were utilised last summer and the financial payments (including availability/capacity payments) made to contractors. This will enable a proper evaluation of the need for long notice RERT, especially where ongoing availability payments may be made where reserves were not utilised.

Origin notes that under the Rules, AEMO can still discuss contractual obligations for RERT providers well in advance of the medium notice period of 10 weeks, but are restricted from entering into binding RERT contracts before that time. AEMO note that there is a need for certainty of reserves contracts to plan for peak demand periods and that it provides greater levels of certainty to contracted parties. Origin questions this justification and would encourage the AEMC to investigate the potential for those providers of long notice RERT to enter into medium notice contracts. The AEMC could also examine if the 9-month timeframe is still appropriate, potentially reducing that level closer to peak demand periods when forecasting accuracy is likely to be higher.

Should you have any questions or wish to discuss this information further, please contact James Googan on (02) 9503 5061.

Yours sincerely,

Steve Reid
Group Manager, Regulatory Policy

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[3] http://www.aemo.com.au/-/media/Files/Media_Centre/2018/Summer-2017-18-operations-review.pdf, Table 7, p.33
[4] NEM activation of unscheduled reserves for Victoria 30 November 2017 – published February 2018, AEMO, p.9
[5] http://www.aemo.com.au/-/media/Files/Media_Centre/2018/Annexure-B_19-January-2018.pdf , p.9
[6] http://www.aemo.com.au/-/media/Files/Media_Centre/2018/Summer-2017-18-operations-review.pdf , Figure 14, p.32