Major Energy Users Inc.

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Australian Energy Market Commission
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By direct lodgment

Enhancement to the RERT
Consultation paper
ERC0237

The Major Energy Users Inc (MEU) welcomes the opportunity to provide its views to the AEMC regarding the rule change proposed by AEMO to enhance the Reliability and Emergency Reserve Trader (RERT) process. 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.

As with all MEU responses to proposed rule changes, this submission is predicated on two elements – the end user perspective and increasing competition in the market to drive lower prices

The MEU has long been a supporter of retaining the RERT in the rules as it provides security regarding supply of electricity to consumers at a cost less than the costs consumers incur when there is involuntary load shedding implemented due to shortages of supply. The MEU also notes that the RERT is intended to be the vehicle that allows AEMO to address the Reliability leg of the National Energy Guarantee (NEG).

Some general observations on reliability of supply:

The Reliability Standard of unserved energy (USE) set at 0.002% implies that for an entire region, there will be a total loss of supply **into** the market for no more than 10.5 minutes over an entire year. In contrast, the loss of supply seen by consumers at the point of delivery is the sum of the loss of supply into the market (addressed by the Reliability Standard), plus the loss of supply due to transmission

outages and the loss of supply due to distribution network outages. Of these three potential causes for loss of supply, by far the most loss of supply comes from within the distribution network and consumers see much more USE occur from distribution network outages than that implied by the Reliability Standard for supply into the market. In fact, as the AEMC consultation paper notes, loss of supply into the market is a very rare occurrence as annual USE levels have been most consistently measured at zero over the NEM regions since the NEM began.

The MEU notes that there is a view about seeking advice directly from consumers about the Reliability Standard and whether this should be reduced. However, such a process needs to be addressed in a way that end users fully understand that the level of reliability of supply they see at the point of usage is predominantly caused by issues within the distribution networks, and that, as USE from supply is already very low, a further reduction (eg to 0.001%) would have marginal impact on the reliability as seen at the point of consumption but would result in significant cost increases for little benefit.. On this basis the MEU counsels against any reduction in the Reliability Standard.

While demand response to assist in managing reliability of supply is considered by the policy makers as a core aspect of the NEM in the future, it must be recognised that end users use electricity to assist them for their activities to supply their own markets. This means that generally, consumers are not interested in providing demand response as this impacts their ability to manage their own affairs and service their customers. The likely rewards that arise from providing demand side reliability contracts (whether via the RERT or using any other tool) would, for most end users, provide a marginal benefit when it is realised that end users do not want to cease production of the products they sell in their markets[1].

If the process for end users to be involved in the electricity market is too complex and standardised, this will deter end users from wanting to be involved. In this regard, MEU members report that setting up to provide demand responses under the RERT (and even directly with retailers) is a time and cost intensive process and consider that the value to them of being involved is so modest as to consider limiting their involvement.

The MEU notes that there is an assumption that care needs to be taken in structuring the RERT process as retailers have already sought “in market” contracts with end users to provide demand responses, observing that this approach through retailers is more efficient than using the RERT. The MEU highlights that retailers have been markedly unsuccessful in building up significant amounts of “in market” demand response load shedding to the extent that the RERT has become the default means to obtain demand responses. This is despite there being no competition to the retailers from demand response aggregators[2]. MEU members have reported that they get so little value from their retailers for demand response that they are more prepared to work under the RERT process.

[1] The MEU asks what other market expects their customers to provide demand limitations just to make the upstream market more efficient?
[2] Hopefully this will soon change

The concern about end users potentially "gaming" the RERT has not been borne out through experience as it does not reflect the reality that end users would prefer not to be active in the electricity market and only do so to limit the cost of electricity they use.

What is often overlooked in assessments of the RERT is that it is used very occasionally, even when the forecasts imply there might be a shortage of supply in the future – typically during a summer period. Again, typically, a shortage of supply might only occur on a weekday late afternoon after a series of hot days and the need for the RERT might only last for 1-2 hours.

As the frequency of such occurrences are relatively rare and so short lived, the MEU has a concern that the weight applied by the AEMC about the RERT's ability to distort the market is excessively overstated and the market distortion caused by the RERT are modest in the extreme and have much less impact than other distortions already accepted in the market. By overweighting the impact of market distortions, the constraints applied to the RERT will result in higher costs than might otherwise result.

In its response to the proposal to reinstate the RERT contracting period to 9 months in May, the MEU provided views about limitations end users have with their abilities to respond to providing load shedding on demand. Rather than restating what was in that response, the MEU refers the AEMC to those comments. The MEU observations highlight that in order to get the lowest cost for RERT will require AEMO to have significant flexibility in accepting end user load shedding contracts so that they reflect the different ways each end user is able to provide load shedding at the minimum cost.

With this in mind, the MEU considers that the rules need to provide only high level direction with minimum prescription and that AEMO is to develop its procedures to maximise its ability to accommodate the vagaries that each end user has regarding its abilities to provide the responses sought by the market.

Responses to the more specific questions raised in the consultation paper

With the above thoughts in mind and reference to specific questions raised in the consultation paper, the MEU makes the following observations

- The high level rules should not exclude AEMO contracting for longer than one year. While the MEU considers that at least three years forward contracting might be appropriate, it should be left up to AEMO to balance the benefits and detriments of longer term contracts under an overall requirement that RERT costs be minimised.
- AEMO should be required to develop its own approaches to operationalising the Reliability Standard through its own consultation processes rather than having the rules determine what might be the best approach

- The current Reliability Standard has stood the test of time (recognising that the concept was used prior to the NEM being created) and there is no driving reason to change it. As noted above, it is just one element in the supply chain where other issues of reliability also apply and which have a greater impact on reliability seen at the point of consumption
- The issue of the metric for reliability has been debated extensively over the years and it has been concluded that there is no better metric. One of the benefits of the USE metric is that it is quantifiable in terms of impact on consumers whereas other metrics do not as readily do so. This does not mean that other measures might be used to inform AEMO decisions, but USE should be the major metric used.
- The potential introduction of the National Energy Guarantee needs to be a part of the discussion to set the trigger for activation of the RERT
- While it is a separate issue, power system security is inevitably intertwined with reliability and the reliable delivery of electricity to consumers. If the security issues can be addressed by using the RERT at a lower cost than other measures, then the use of the RERT is a sensible tool to be used.
- No consumer wants to lose supply but voluntary load shedding is preferable to involuntary load shedding as voluntary load shedding can be carried out under controlled conditions and with less impact on an end user than sudden loss of supply. This means that while there is an expectation under the Reliability Standard that there might be loss of supply, it is preferable to use offers provided by some end users to shed load when their costs can be controlled than to lose supply with little or no warning.
- The MEU considers that the use of RERT to prevent loss of supply is preferable to losing supply. However, when voluntary load shedding is used under the RERT, this loss of supply should be included in the calculation of regional USE for the year.
- AEMO can make an estimate of the amount of energy that it requires for each year as a reserve and should be allowed to contract for that amount. A strategic reserve does not mean that it will be used but that it is available when called. AEMO should have the ability to decide on what reserves it needs but the level acquired needs to be constrained by a requirement to minimise the costs that consumers will incur by having that reserve available.
- Estimates of costs for the provision of the RERT comprise a number of different elements, including establishing the facility, preparing for a likely event and the actual costs incurred in delivering the load shedding. Because of this, attempting to prescribe a level of reserve is likely to result in inefficiencies
- The MEU considers that, accepting that there will be different requirements from different providers of demand response through load shedding at call, flexibility in approach to establishing the quantity of reserves and how it will be managed is the key to attaining the most efficient volumes of reserves,

accepting the different levels of requirement in each region and the expectations of the frequency and durations they will be needed.

- As the consultation paper highlights, there are benefits and detriments associated with the imposing of standardised products for the RERT. The MEU considers that for such a relatively[3] small volume of energy that will be provided by the RERT, while standardised product might make life a little more simple, it also has the potential to limit the availability of lower cost products. On balance, the MEU considers that while AEMO might cite a preference for products to specified standards in its enquiry, the rules should be flexible enough to recognise that a non-standard product might offer a benefit to consumers and be allowed into the RERT
- While the MEU supports the concept of transparency, it is concerned that transparency could result in a detriment to the end users that are providing demand responses. It must be recognised that offering load shedding services is not only not an end user's core business, but by offering the service this might negatively impact its ability to provide service to its own customers and negatively impact its share price. With this in mind, the MEU considers that transparency must be limited to aggregated data.

Overall, the MEU supports the AEMO proposal in most of its facets, especially in extending the procurement lead time and having greater flexibility in the RERT contracts it can enter into. The MEU considers that the rules should be very high level and require AEMO to develop the detail needed to make the RERT process work in the best interests of consumers.

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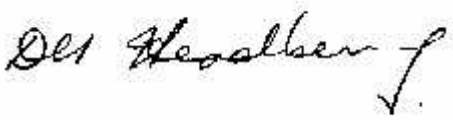
While the MEU considers that some standardisation of contracts will assist in managing the RERT process, the MEU considers that AEMO and the end users that will provide the demand response still need flexibility to enter into contracts outside of the more standard contracts to reflect the reality that all end users have different abilities to provide demand responses.

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

Yours sincerely



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[3] Compared to the volumes traded through the main market