



21/03/2019

Ms Anne Pearson
Chief Executive
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Ms Pearson,

National Electricity Amendment (Enhancement to the Reliability and Emergency Reserve Trader) Rule 2019

Thank you for the opportunity to provide feedback on the draft determination issued by the Australian Energy Market Commission (AEMC) on 7 February 2019.

We note that this draft determination follows a process of extensive consultation. During that process, the AEMC raised many issues concerning the impact of the Reliability and Emergency Reserve Trader (RERT) on the primary energy market and the potential for market distortions. We share the concerns of the AEMC, however we are satisfied that these concerns are broadly addressed in the draft rule determination. Our remaining concerns are limited to the detail of 'out-of-market' provisions and these are set out below.

Timing of exclusion period (Out-of-Market Provisions)

We support strong measures to prevent capacity 'double dipping' and gaming, and encourage participation in the primary energy market. However, exclusion periods that extend beyond the period of the reserve contract create an opportunity cost. Put simply, the 12 month exclusion period may prevent otherwise appropriate capacity from participating, thus limiting the pool of available providers of RERT. This reduced competition for the provision of RERT services could result in increased RERT costs.

Bright future.

We also note that if a provider is able to utilise the capacity it has committed to RERT to provide additional services outside of the contracted period, this is more likely to facilitate the transition of this capacity to providing standard market services in the future, progressively reducing the need for RERT.

Definition of 'market' with respect to 'Reserve Contracts'

We reiterate TransGrid's concern that the 'out-of-market' provisions may prevent RERT participants selling services which are of a fundamentally different nature, including the sale of demand response services to networks. The ability to sell capacity - even simultaneously - to both networks and RERT results in the efficient capture of multiple value streams (that is, value stacking). This encourages Aggregators to efficiently recruit demand response, in the location where it is most valuable to the market as a whole, while still ensuring it is available to address a generation shortfall. Additionally, the provision of supplementary income streams will subsidise the development of aggregated demand response capacity and reduce RERT costs. Consistent with earlier comments, this is also likely to facilitate the transition of this capacity to providing standard network services.

We do acknowledge that the AEMC's technical working group has accepted, as a high level principle, that it is appropriate for providers to sell other services (for example, Frequency Control Ancillary Services). However, clarifying this in relation to network demand response contracts would be advantageous.

Enforcement of Out-of-Market Provisions for Demand Response

It is clear that the draft rule intends to prevent demand response providers from 'double dipping' through the receipt of RERT payments and spot market derived benefits, relating to the same trading intervals. However, there may be a large range of arrangements, including implicit arrangements, which in effect achieve double dipping. For example, a party financially related to a Retailer may provide RERT or a large customer may provide RERT while simultaneously negotiating a supply discount from their Retailer. Uncovering such arrangements, and thereby providing meaningful enforcement, may require strong disclosure powers and penalties.

Given the potential for ambiguity we also reiterate Enel X's recommendation that AEMO issue clear guidance on what constitutes 'double dipping'. This would provide greater certainty and facilitate self-governance.

Please contact Daniel Brass, Market Insights Lead, on daniel.brass@mondo.com.au or 03 9695 6348 if you have any queries in relation to this submission.

Sincerely,



Margarida Pimentel

Manager Policy and Insights