



**ENHANCEMENT TO THE
RELIABILITY AND EMERGENCY
RESERVE TRADER**

**Response to AEMC
Draft Rule Determination**

March 2019

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1. Executive summary

Thank you for the opportunity to provide feedback on the Enhancement to the Reliability and Emergency Reserve Trader (RERT) detailed in the AEMC Draft Rule Determination (Draft Determination).

Stanwell supports the majority of the Draft Determination change, as it will deliver greater transparency for market participants and customers through clearer obligations on AEMO.

One remaining area of concern to Stanwell is the proposal to extend the maximum RERT procurement lead time from 9 months to 12 months. This has serious implications for retailers and liable entities under the Retailer Reliability Obligation (RRO). If the procurement lead time is extended to 12 months then AEMO will be in the market tendering for RERT at the very time when retailers are finalising their contract positions under the RRO in preparation for their T-1 contract reporting obligation.

Stanwell welcomes the opportunity to further discuss this submission. Please contact Evan Jones on (07) 3228 4536 or Jennifer Tarr on (07) 3228 4546.

2. Procurement lead time and contracting duration

The Draft Determination extends the maximum procurement lead time for emergency reserves from nine to 12 months ahead of an identified shortfall. The justifications for the lengthening of the procurement lead time are that it will broaden the pool of potential RERT providers (potentially reducing costs) and create consistency with the lead time under the Retailer Reliability Obligation (RRO), which is currently under development.

The Draft Determination acknowledges that the longer procurement lead time could increase market distortions, but balances this by strengthening out-of-market provisions and introducing a \$/MWh guide for RERT costs.

Stanwell is concerned that the longer procurement lead time will result in AEMO tendering for RERT at the same time as retailers are finalising their contract positions under the RRO (refer Figure 1).

After the ESOO is released, the last four months before T-1 are likely to see significant demand for contracts and a possible short squeeze. AEMO participating in the market at this time will increase costs for retailers and large customers obligated under the RRO.

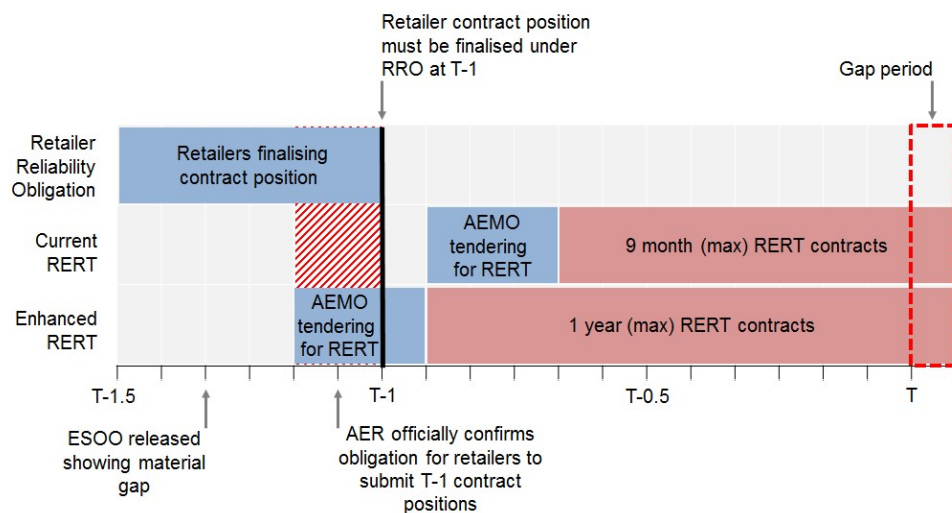


Figure 1: Retailer Reliability Obligation and Enhanced RERT with 12 month procurement lead time

If the current 9 month procurement lead time is maintained, retailers will be able to finalise their position by T-1, then AEMO will have at least three months to negotiate long-notice RERT contracts with out-of-market resources. This will also minimise the trade-offs some potential RERT providers will have to make in determining whether to provide in-market energy services or out-of-market RERT services.

3. Reliability standard and reliability framework

Stanwell supports the continued use of the Reliability standard for both the energy market and RERT, as it ensures that all market participants are incentivised to deliver the same level of reliability.

Stanwell agrees it is appropriate that AEMO retains discretion about how it operationalises the Reliability standard, particularly given the sizeable transformation of the power system that is currently underway.

4. Out-of-market provision

Stanwell commends the AEMC on the strengthening of the out-of-market provisions in the Draft Determination.

Stanwell agrees with the AEMC's views on the potential for the RERT to cause distortions in the energy market, including the withdrawal of capacity, crowding out investment, inefficient investment and cost inefficiency.

Increasing the time that RERT providers cannot have participated in the energy market to twelve months will reduce the incentives for energy providers to consider the RERT market as an alternative channel to market. This will ensure that the wholesale energy market is seen as the first and primary source of power system reliability, with RERT as an out-of-market service that is only to be employed after market responses have been exhausted.

5. Procurement trigger

Stanwell supports the explicit linking of the procurement trigger to the Reliability Standard in the Draft Determination.

Stanwell agrees that ensuring AEMO can only procure emergency reserves when it declares a Low Reserve Condition (LRC) or Lack of Reserve (LOR) will provide

transparency and clarity to market participants, potential RERT providers and end users as to when AEMO is likely to intervene in the market.

6. Procurement volume

Stanwell supports the introduction of a clause in the Draft Determination which links the volume of RERT AEMO can procure to the Reliability Standard Draft Determination.

Stanwell previously advocated for the volume to be limited to the difference between forecast Unserved Energy (USE) and 0.002 per cent USE, but appreciates that there may be circumstances under which the RERT costs could be minimised by procuring a volume of reserves that slightly exceeds the identified gap. As market operator, it is reasonable for AEMO to retain some discretion to select the combination and volume of emergency reserves reasonably necessary to meet the Reliability Standard and minimise costs to consumers.

7. Dispatch trigger

Stanwell supports the continuation of the existing RERT dispatch trigger process.

Stanwell believes it is appropriate that the trigger continues to be linked to the Reliability Standard (through the declaration of LRC and LOR) and, where practicable, power system security. It is also appropriate that AEMO continues to have discretion as to how to trigger RERT dispatch based on how it operationalises the Reliability Standard.

Stanwell supports the enhanced reporting requirements in the Draft Determination. These requirements will improve transparency for market participants and end users around the decisions that AEMO makes when deciding to dispatch RERT. Stanwell is particularly supportive of the proposed transparency on why emergency reserves were dispatched, the reasons for the volume of reserves that were dispatched or activated, and the impact on reliability or power system security.

8. Payment structure

Stanwell supports the payment guide for contractual costs of the RERT detailed in the Draft Determination.

Stanwell agrees that the payment for emergency reserves should be no more than the avoided costs of load shedding (i.e. Value of Customer Reliability), but acknowledges that due to the uncertainties associated with forecasting reserves ahead of time that VCR will act as a guide for \$/MWh RERT costs over a financial year rather than a cap on RERT payments.

Stanwell also supports the cost recovery arrangements outlined in the Draft Determination, whereby costs are recovered, where possible, from the consumers who contributed to the need for the RERT. Coupled with the increased transparency and reporting requirements of the Draft Determination, market participants will be better informed about the cost and drivers of RERT. This transparency will guide parties to make more informed operational and investment decisions, as well as enable end users to plan and budget for RERT charges.

9. Reporting requirements

Stanwell supports AEMC's RERT reporting requirements outlined in the Draft Determination.

Stanwell previously advocated for reporting obligations covering procurement, pre-activation, activation and an end-of-quarter review, but appreciates there is a trade-off between the benefits to customers and the costs to AEMO of increased transparency. Stanwell believes the proposed reporting requirements (coupled with other changes in the Draft Determination that increase certainty and transparency for end users) are appropriate.

10. Governance of the procurement trigger

Stanwell supports the continuation of the current governance of the procurement trigger arrangements.

Stanwell believes it is appropriate that governance continues to be shared by the NER, Reliability Panel and AEMO, with AEMO having the ability to determine how to operationalise the Reliability Standard through its day-to-day operations.

11. Standard products

Stanwell agrees that a prescriptive, high-level framework for standardised products should not be introduced in the NER, but rather left to AEMO to develop.

Stanwell agrees that while product standardisation may make the tendering process easier, it could restrict the number of RERT providers (i.e. exclude RERT providers who do not provide a standardised product), potentially leading to higher costs and less efficient outcomes.

