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Kate Degan
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

21 November 2019

Dear Ms. Degan

RE: Victorian jurisdictional derogation – RERT contracting

Thank you for the opportunity to provide feedback on the consultation paper for the *Victorian jurisdictional derogation – RERT contracting* rule change request.

Enel X works with commercial and industrial energy users to offer demand side capacity into wholesale capacity, energy and ancillary services markets worldwide, as well as to network businesses. We have over 50 demand response programs in 20 countries, which involve altering customers' consumption patterns and controlling onsite generation. In the national electricity market (NEM), Enel X participates in the energy and frequency control ancillary services markets, offers network support to distribution businesses and has developed reserves for AEMO under the Reliability and Emergency Reserve Trader (RERT) framework, including through the ARENA/AEMO demand response trial.

Enel X supports the proposal that AEMO have the option to sign multi-year contracts in Victoria if it will lead to lower costs.

This submission provides information on two issues:

- the benefits of multi-year contracts; and
- availability of demand response.

Benefits of multi-year RERT contracts

In our experience, reserves providers tend to prefer longer duration contracts. Longer contracts allow reserves providers to amortise their fixed costs over a longer timeframe, increase the quantity of reserves offered, and provide greater certainty regarding the level of organisational capacity (i.e. staffing levels) the provider must maintain. This is particularly important for smaller customers, for whom the cost of enabling the site's participation may not be covered under a single year contract.

Similarly, as an aggregator of demand response under the RERT mechanism, multi-year contracts allow us to spread the costs of developing a portfolio over a longer period. The key costs in developing capabilities to provide long notice RERT are the cost of recruiting customers, on-boarding for the program, staff training, developing energy reduction plans and installing hardware to monitor load and automate curtailment of load. These are all one-off costs. Where these can be amortised over a longer period, we are able to offer RERT at a lower per unit cost.

Multi-year contracts would therefore encourage additional reserve providers to offer demand response capability, as well as reducing the average per unit cost of providing RERT. We note that ARENA's demand response trial is a three year program. Funding certainty allowed us to offer very competitive bids. As a result, we were able to build a portfolio of 30 MW in Victoria and 20 MW in NSW.

Availability of demand response

The rule change request notes that "indications are that maximum market availability for demand-side contracts has been materially reached".¹ It is not clear what this opinion has been based on.

In Enel X's view, there remains a significant level of latent demand response that can be tapped into to provide reserves under the RERT mechanism. Based on our experience in multiple markets, our rule of thumb is that around 6-10% of peak demand can be enrolled to provide emergency capacity-based demand response. PJM, ISO-NE, NYISO, and Western Australia have all reached these levels at some points, for programs with similar dispatch expectations to RERT. For a system the size of Victoria's, this suggests that 600-900 MW of RERT capacity should be readily achievable.

If you would like to discuss any aspect of this submission, please do not hesitate to contact me.

Regards

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¹ The Hon Lily D'Ambrosio MP, Minister for Energy, Environment and Climate Change, Minister for Solar Homes (Victoria), Request for urgent change to the National Electricity Rules to allow Extended RERT Contracting in Victoria, 7 October 2019, p6.