



22 November 2019

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

Submitted online: www.aemc.gov.au

Dear Mr Pierce

Victorian Jurisdictional Derogation (RERT Contracting) – Consultation Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) Victorian Jurisdictional Derogation – Reliability and Emergency Reserve Trader (RERT) Contracting Consultation Paper.

Origin supports the RERT framework's objective of safeguarding against supply shortfalls in line with the broader National Electricity Market (NEM) reliability settings. Achieving this objective is challenging given the need to balance the benefits of reliability with overall costs to consumers. To this end, it is clear there are trade-offs associated with multi-year contracting that must be considered.

As identified in the Victorian Government's rule change proposal, a benefit of multi-year contracting is that it would provide additional certainty for capacity providers. This could potentially increase the pool of RERT providers available to AEMO and lower RERT procurement costs under certain scenarios (e.g. where the reliability standard is breached over successive years). It could also result in greater diversification of RERT capacity contracts.

However, there is a risk reserves contracted years ahead of time may not actually be required in subsequent years as forecasts change. This exposes electricity consumers to the costs of a service that may ultimately be surplus to their needs and could distort investment signals by disincentivising participation in the primary wholesale market. Evaluating whether it is cost-effective to enter into multi-year contracts at the time of procurement would also be challenging, given such an assessment would be highly dependent on the accuracy of information available up to three years ahead of time, and likely only include a measure of direct costs.

Notwithstanding the above, we note the Victorian Government's concerns around what it considers to be the heightened risk of unserved energy in the region and the extent to which the existing RERT framework can assist with mitigating this risk. If the Victorian Government wishes to access a broader range of reserves through multi-year contracting, then this could be achieved without burdening customers with a three year cost commitment by direct Government procurement of off-market reserve capacity over a limited period. Such an approach would assist with meeting the Government's objectives, and better insulate Victorian electricity consumers from the inherent risks and direct costs of multi-year contracting under the RERT framework. It would also ensure the RERT continues to be consistently applied across all regions, which is important in the context of the national energy market framework.

If you wish to discuss any aspect of this submission further, please contact Shaun Cole at shaun.cole@originenergy.com.au or on 03 8665 7366.

Yours Sincerely,

A handwritten signature in blue ink, consisting of a series of connected loops and a vertical line at the end, resembling a stylized 'S' or 'R'.

Steve Reid
Group Manager, Regulatory Policy