ENERGY RESPONSE linking demand with supply in the Australian energy market

19 April 2010

The Reliability Panel
Australian Energy Market Commission
PO Box A2449
Sydney NSW 1235
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Dear Sir,

Ref: REL0039 - Consultation on the Amended RERT Guidelines

Thank you for the opportunity to comment on the RERT draft report. Energy Response strongly supports RERT and believes improving its flexibility and using it for system security will improve the operation of the National Electricity Market (NEM). From our experience we suggest changes to the operation of RERT which will make it a much more effective program and one that will attract significantly more participation from end users directly and via aggregators (such as ourselves). We note that this draft report calls for comment on the RERT "guidelines", so our comments are confined to that area.

Background

In Energy Response's previous submission to the AEMC on 29 May 2009, we expressed the concern that the overriding focus in the design of RERT appeared to be the minimisation of market distortion rather than being effective. We believe our submission was predominantly ignored in favour of maintaining market purity (ie the energy only market principle) and making sure that Demand Side providers do not receive additional payments from other market participants (retailers and networks) rather than fixing the problem RERT was created to address. This problem, in essence, is because Demand Side is a capacity mechanism. We believe that the AEMC's priority should instead be to ensure that a sufficient quantity of reliable, fast-acting reserve capacity is procured to make RERT effective and efficient in the NEM.

Energy Response has also had extensive discussions with AEMO noting the issues with the current RERT program however AEMO can only implement the program in accordance with the AEMC's guidelines.

Since AEMO have reported in their submission that they have only contracted one participant to join the current RERT panel and that they are in negotiations with only one other, our previously expressed concerns appear to be well founded. Such a limited number of participants cannot provide the reliable coverage necessary across all regions of the NEM. Although the RERT program, so far, has been a failure, we think that it may be possible to salvage it.

Recommendations

1. **Payments.** RERT is envisaged as a continuous source of Demand Side based Reserve Capacity which will be reliably available at any time to minimise the impact of market failures such as occurred in Victoria 16Jan07 and 30Jan09.

We believe that the guidelines for the RERT panel and the rules as interpreted by AEMO impede the recruitment of Demand Side on a large scale. The Demand Side is out there in the marketplace, but the RERT payment/fee structure is a disincentive for participation. In particular the lack of a management or availability fee and the lack of certainty that once on the panel the Demand Side will be called upon makes RERT, in its current form, an inferior proposition to other programs.

Therefore, we submit that members of the RERT panel should be contracted by tender and that section 6.1 of the RERT Guidelines should be amended to allow members of the RERT panel to receive payments for MW's under long term contract ie an availability payment for 5 to 10 years at a time.

As a contracted resource the RERT program would be totally isolated from the day to day operation of the NEM. When RERT is called into operation the NEM would already be at an extreme level of operation (at or near VoLL) or under an administered price cap and little to no further distortion would likely ensue with the Demand Side resource activated. Further, the contracted Demand Side would be transparent to the market and as such the action would be totally predictable. This is how ERCOT implemented a similar program in Texas, U.S.A. (another energy only market).

2. **Ensuring that Offered Reserve is not otherwise available to the Market.** This requirement is covered by Sections 7.1 and 8.1 of the RERT guidelines

[section 7.1]

In situations where there is more than seven days of notice of a projected shortfall in reserves, the steps which AEMO may take to inform itself if the reserves are not the subject of any other arrangements include:

- *requiring a tenderer at the initial tender stage for reserve contracts to enter into an undertaking with AEMO which states that the reserve is not available to the market through any other arrangement;*

making reasonable enquiries in the market;

assessing any information that is available to AEMO and relevant to whether the reserves are available to the market through any other arrangement; and

improving AEMO's measures when it develops its RERT procedures to reduce the likelihood that AEMO will enter into a reserve contract with a party who has made the reserves, the subject of the reserve contract, available to the market through any other arrangements.

[section 8.1]

The relevant actions that AEMO may take in relation to the exercise of the RERT with more than ten weeks of notice of a projected shortfall in reserves include:

… dispensing with any tenders that do not provide an undertaking that the reserves are not available to the market through any other arrangements except on terms agreed with AEMO …

One of these requirements mandates *AEMO's* rejection of tenders that do not provide an undertaking that the *reserve* being offered is not available to the *market* through any other arrangements except on terms agreed with *AEMO*. Energy Response considers this requirement fair and reasonable.

The other requirements are not mandatory.

Nevertheless, *AEMO* considers it prudent to reject any tenders where a tenderer who is offering *reserve* that involves the reduction of *load* refuses to provide *AEMO* a signed consent that enables *AEMO* to contact the tenderer's electricity retailer to confirm whether the offered *reserve* is the subject of any demand. Energy Response considers this requirement most unreasonable

since it involves identifying NMI's of potential Demand Side providers to market participants who may use them for their own benefit. The identification and recruitment of Demand Side providers for use by market participants is an intrinsic part of the value of a Demand Side aggregator. Enforcing this interpretation of the guidelines identifies actual or potential Demand Side providers to the very companies that aggregators are trying to sell to for other purposes. To make matters worse, RERT provides no compensation for having this Demand available – clearly no right minded Demand Side aggregator would agree to such terms. And this is why so little Demand Side has been attracted to RERT.

We understand that the Reliability Panel wishes to ensure that DSR is not double counted. However, we would caution that it is dangerous to assume that all other Demand Side, which has been procured by other parties for other purposes, will be activated or dispatched during a RERT event. Our experience is that such instances are rare. Further, disallowing Demand Side used for non-market purposes (ie for network support) to be used in a RERT program means that less Demand is available for RERT duty, when in fact there is ample available – in fact many hundreds of MWs.

Demand Side used as an energy product for financial purposes (ie by electricity retailers to limit their exposure to market prices) is fast acting, but the decision to dispatch depends on details of the hedge position of the buyer. Also, if a $300 administered price cap is in place (as happened this summer and last summer in South Australia), no market-based Demand Side would be dispatched, as there is no price signal to encourage it.

If we want to ensure that all possible reserve capacity is activated when needed, some provision must be made to allow Demand Side which is contracted for other purposes to participate in RERT. Otherwise, we risk seeing a repeat of the unacceptable situation which occurred in Victoria in January 2009, where there was involuntary load shedding, inconveniencing thousands of end users, at the same time as reserve capacity from volunteer Demand Side providers went unused.

As a general observation the RERT program appears to be structured around single sites rather than a portfolio of sites provided by a Demand Side aggregator. A RERT program based on individual NMI's cannot possibly provide a sustainable and reliable resource as requested of the AEMC by the MCE. Members of the RERT panel are required to advise on an ongoing basis any changes that may affect their ability to supply the capacity submitted in their application. In the case of an aggregator this could mean individual NMI/s dropping out of the Demand Side portfolio. Fair enough. However, additional NMI/s for inclusion in the Demand Side portfolio can only be made at the time AEMO returns to the market for submissions. This is only planned to happen once or twice a year. This changes the status of the aggregator to one of agent and means any erosion in the total MW's tendered cannot be addressed for 6-12 months.

Finally, as observed in point 2, there is a requirement to ensure that offered reserve is not otherwise available to the Market. Apart from the points made above, this requirement means that Demand Side not available at the time of a submission cannot be included until AEMO invites new offers from the market (6-12 months). If the AEMC is keen to encourage large quantities of Demand Side into the NEM why would you have such an impediment that clearly serves

no benefit to the NEM, or to AEMO, or to consumers who may wish to participate in RERT?

As mentioned in our previous submission the current RERT Guidelines are not conducive to a successful RERT program. Indeed the current RERT program is far worse than we envisaged for the reasons note above and should be of no surprise that the program has failed. Also, as an emergency program, the current RERT program fails to ensure the Demand required under an emergency could ever be available, therefore this program needs major surgery, not a simple adjustment to succeed. The easiest, quickest and most effective way for RERT to be salvaged and improved is to allow AEMO to tender for its requirements in a minimum of 30MW parcels for no less than 5 years at a time.

We trust these comments are useful in the RERT consultation process and we look forward to improvements which may ensue.

Yours faithfully

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