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Lodged (by online/email): <http://www.aemc.gov.au/Contact-Us/Lodge-a-submission.aspx>

Extension of the Reliability and Emergency Reserve Trader

The Australian Energy Council (AEC) welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) Extension of the Reliability and Emergency Reserve Trader (RERT) Consultation Paper.

The AEC is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

The AEC considers that the Council of Australian Governments' Energy Council (COAG EC) Reserve Trader extension request is valuable in the broader debate that is currently unfolding as to what measures, if any, are required to ensure the reliable and secure supply of electricity as the sector transforms towards a lower emissions future. While extending the RERT may serve as a stopgap mechanism to address perceived reliability concerns, the AEC believes it should not be made permanent.

Should the Reserve Trader mechanism be extended?

The AEC considers that rather than merely extending the Reserve Trader mechanism, as proposed by the COAG EC, it is important to undertake a more comprehensive assessment as to what measures, if any, are required to ensure electricity supply reliability and security during the transformation of the sector.

As a fuel and technology neutral organisation, the AEC supports all sources of generation and demand side response integrating effectively and efficiently in the market. Yet the significant investment in intermittent energy capacity underpinned by out-of-market payments coupled with the retirement of generation capacity is impacting market outcomes in the NEM.

The AEC notes that AEMO was required to contract an additional 35MW of Frequency Control Ancillary Services in South Australia (SA) over October and November last year, when a trip of the Heywood interconnector saw a large amount of load shedding in the region. This is in addition to the AEMO low reserve forecasts contained in the 2015 Electricity Statement of Opportunities within the SA region for summer 2016-17 and summer 2017-2018.

With some thermal plant assets expected to retire or become mothballed there may be limited opportunities for AEMO to contract with supply side reserves in order to operate the Reserve Trader mechanism (noting that demand side participation remains an option).

The AEC notes that AEMO is due to report shortly on its analysis addressing the SA issue specifically. This work has undertaken detailed analysis of the issues and AEMO have also set up a Power System Integration Technical Advisory Group (PSITAG).

Finally, COAG EC justification for extending the Reserve Trader Mechanism is due to 'extenuating' market circumstances. Given that there has now been a series of requests to extend the Reserve Trader mechanism over a period of time due to 'extenuating' circumstances', AEC considers that this warrants a more complete assessment as to the framing of any additional measures, including safety-net provisions, that may be required. The outcomes of the AEMO initiatives referenced above will be a useful input into any such assessment.

The AEC notes that the design of the RERT contains an expiry of 30 June 2019. This effectively means that the default outcome is that the RERT will expire unless it is actively extended. As such, the AEC considers that unless there is sound evidence that can be adduced to make the case to retain the RERT, the RERT should lapse as intended and not be permanent.

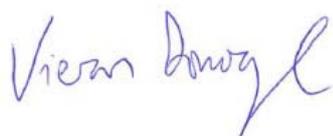
The AEC disagrees with COAG EC's contention that the delay in the implementation of a demand response mechanism into the wholesale dispatch market is a factor in retaining the RERT. Notwithstanding the AEC's concerns with the proposed DRM it is not clear that it would be in any way effective in underpinning security of supply and reliability. If the wholesale market does not support sufficient supply to do so, it is unlikely that a DRM is a better source of reliability.

Reserve Trader effectiveness and impacts

AEC notes that it is a difficult proposition to assess the effectiveness of the Reserve Trader mechanism as, although capacity has historically been contracted under the mechanism, it has not been dispatched or activated at any point in time. Further, because of the low incidence of frequency of AEMO contracting capacity under the Reserve Trader mechanism, it is highly unlikely to have had any meaningful impact on incentives in the market - either for supply side or demand side reserves.

Any questions about our submission should be addressed to Panos Priftakis, by email to panos.priftakis@energycouncil.com.au or by telephone on (03) 9205 3115.

Yours sincerely



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