



# ENHANCEMENT TO THE RELIABILITY AND EMERGENCY RESERVE TRADER

Response to AEMC  
options paper

November 2018

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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 Options Paper (Options Paper).

Stanwell supports changes to the RERT process in order to deliver greater transparency for market participants and customers through clearer obligations on AEMO.

Stanwell also suggests that the cost of RERT would be minimised if total RERT payments (on a per megawatt hour basis) were limited to the Value of Customer Reliability (VCR). Consideration should also be given to whether availability payments should be phased out or greatly restricted (such as only available to those genuinely undertaking capital expenditure to provide the service).

Stanwell suggests that a modified version of Option 1 be adopted.

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. Clearer RERT procurement obligations on AEMO

Under the current arrangements in the NER, AEMO can exercise discretion in the timing and volume of RERT procured. This allows AEMO to procure reserves on an “as needs” basis rather than using a predefined trigger e.g. forecast Unserved Energy (USE), with loose limits on the total volume procured.

This discretion means market participants and RERT providers are uncertain about when AEMO will procure reserves, as well as the volume of reserves AEMO will procure. As noted in the Options Paper, this lack of clarity could:

- Increase RERT costs or reduce reliability (if low-cost RERT providers choose to not to participate in the RERT process, or potential investment in market supply is deferred or cancelled); and
- Create market distortions (if market participants or RERT providers act in a way they may not have if they had greater clarity about the trigger and volume).

Stanwell appreciates the need to allow AEMO a level of operational discretion in managing a secure and reliable power system, but the level of discretion needs to be balanced against economic efficiency.

Stanwell supports clearer RERT procurement obligations on AEMO to provide greater transparency in determining the volume and timing of RERT procurement to meet reliability. Given AEMO must liaise with state governments on procurement volumes, these obligations will assist in demonstrating alignment with the Reliability Panel’s careful consideration of the economic cost of greater reliability

## 3. Greater RERT procurement transparency

RERT costs for summer 2017/18 were \$52 million. While AEMO estimates this equates to an annual average of less than \$6 per household (0.3 per cent of an average household bill)<sup>1</sup>, this downplays the impact of large, unbudgeted RERT charges on Commercial and Industrial (C&I) customers. Energy affordability is a

key priority, particularly for customers in energy-intensive, trade-exposed industries.

	Availability payments	Pre-activation costs	Activation costs	Other costs <sup>A</sup>	Total costs <sup>B</sup>
RERT costs in financial year 2017-18	\$27.03	\$ 21.56	\$3.23	\$0.17	\$51.99

A. “Other costs” represent compensation paid to Market Participants due to the intervention event (for example, to compensate for energy generation which is displaced by RERT capacity), and to Eligible Persons due to changes in interconnector flows, and therefore changes in the value of Settlement Residues.

B. Costs are passed through to Market Customers in the relevant region in accordance with the NER.

**Table 1: RERT costs associated with 2017-18 financial year (\$ million). (Source: AEMO, RERT 2017-18 cost update)**

Following RERT procurement for summer 2017/18, some of Stanwell’s C&I customers expressed outrage that, through RERT availability payments, they were subsidising other C&I businesses. Some customers were also reluctant to pay the additional charges without greater justification regarding the calculation of the charges. Stanwell found it difficult to justify the charges given the lack of transparency.

Justification for the RERT charges was also complicated by the disparity between the volume of RERT contracted and the volume of RERT activated. While 1,141 MW of off-market reserves were contracted for summer 2017/18, only 32 MW was activated pre-contingency on 30 November 2017 and 136.5 MW on 19 January 2018. This created confusion amongst customers given the large charges imposed as only around 6.5 per cent of RERT charges related to visible action by AEMO.

Greater RERT procurement transparency achieved through timely publication of RERT information would ensure market participants are able to incorporate potential RERT volumes into their planning for the relevant periods. This includes budgeting for RERT costs, particularly in relation to availability payments which are expected to be largely static.

<sup>1</sup> [www.aemo.com.au/-/media/Files/Media\\_Centre/2018/Summer-2017-18-operations-review.pdf](http://www.aemo.com.au/-/media/Files/Media_Centre/2018/Summer-2017-18-operations-review.pdf)

Stanwell's proposed RERT procurement, pre-activation, activation and post event reporting obligations for AEMO are detailed in Table 2.

Trigger	Timeframe	Contents
Procurement – on entering into RERT contract	Shorter than current one month optional requirement <sup>2</sup>	Name of the counterparty to the contract and the volume and timing of reserves
Procurement – before relevant quarter begins	Within 1 week of quarter beginning	Aggregated RERT costs categorised by payment type
Pre-activation	As soon as possible	Market notice indicating total pre-activation costs that will be incurred.
Activation	As soon as possible	Market notice of RERT activation.
	Within 2 days	Report detailing the total cost of intervention (allowing for the disclaimer that some costs may vary as meter data comes in).
End of quarter for which RERT was procured	Within one month of end of quarter	System report detailing: <ul style="list-style-type: none"> <li>• The forecasts that indicated intervention was required;</li> <li>• The key drivers of the forecast shortfall of reserves;</li> <li>• Details of AEMO's intervention in the market, including; <ul style="list-style-type: none"> <li>○ The volume and cost of reserves procured;</li> <li>○ The volume and cost of reserves activated; and</li> </ul> </li> <li>• The impact on market reliability.</li> </ul>

Table 2: Stanwell's proposed reporting obligations timeframe

<sup>2</sup> We note that under sections 8.1, 8.2 and 8.3 of the RERT Guidelines, following contracting of reserves, actions that AEMO "may take include... within one month of entering into a contract for reserves, publish the name of the counterparty to the contract and the volume and timing of reserves procured under the contract [emphasis added]" see [www.aemc.gov.au/sites/default/files/2018-07/RERT%20guidelines%202018.pdf](http://www.aemc.gov.au/sites/default/files/2018-07/RERT%20guidelines%202018.pdf)

Given the burden of greater transparency requirements on AEMO, the AEMC could also consider a tiered approach to transparency. For example transparency requirements for RERT procurement and activation could be tiered with the total cost of RERT; the higher the expected and actual costs, the greater the transparency required.

#### 4. Reliability Standard remains appropriate

The Reliability Standard remains an appropriate target for long-notice RERT. Explicitly linking the long-notice RERT trigger and volumes to the Reliability Standard ensures all market participants are seeking to achieve the same level of reliability over the long-term, providing consistent investment signals for existing and new market participants.

Applying a different reliability standard to RERT than what the rest of the market is incentivised to deliver would clearly separate the RERT framework from the rest of the reliability framework. As noted in the Options Paper, this could shift some risks from market participants to consumers, result in more reserves being procured than necessary, and incentivise market participants to leave the energy market in favour of the RERT market. This could potentially exacerbate USE, Low Reserve Condition (LRC) or Lack of Reserve (LOR).

Recent actions to address USE beyond the current Reliability Standard have been predicated on alleged changes in consumer preferences about reliability. If the current Reliability Standard does not accurately reflect customers' expectations of reliability, proper consideration of the Reliability Standard through the Reliability Panel is the appropriate approach. This is a preferable, and consistent, process to ensuring RERT procurement is aligned with customers' preferences rather than using a different standard of reliability for long-notice RERT.

Currently, AEMO operationalises the RERT in the short-term through the Lack of Reserve framework. There is no explicit link between the LOR framework and the Reliability Standard. Stanwell considers this appropriate, as security and reliability are intermeshed at these timeframes. Also the market has had the opportunity to respond to the potential reserve shortfall and there are fewer market distortions than longer-notice RERT. Therefore, Stanwell does not propose any changes to using LOR as the trigger for short-notice RERT procurement.

## 5. Value of Customer Reliability a relevant consideration

While not explicitly part of the Reliability Standard, the Value of Customer Reliability (VCR) is also relevant for RERT procurement.

Stanwell considers that the VCR should act as a cap on total RERT costs. When comparing expected RERT procurement costs against the VCR, AEMO should include all RERT costs (i.e. availability, pre-activation and usage charges) when estimating the per megawatt hour cost of RERT.

While actual RERT costs may not align with estimated RERT costs (because the actual number of activations and the volume of RERT activated differs from AEMO's forecasts), AEMO can use VCR as a benchmark during the procurement process to ensure the expected cost of RERT procured does not exceed the value customers place on reliability. The quarterly system reports proposed by Stanwell above could then determine whether actual RERT costs were greater or less than the VCR and whether anything can be learnt from the experience.

If the VCR is outdated (because of the number of years between reviews and the changes in the market since the last review) then this is best addressed by the AER in its current review.

## 6. Maximum contract length does not need extension

A limit on the length of reserves contracts AEMO can enter into is warranted. In June 2016, the AEMC shortened the period over which AEMO could contract reserves ahead of a projected shortfall from nine months to 10 weeks. The aim of the rule change was to minimise any distortions from the infinite extension of the RERT framework by:

- Increasing the timeframe that the market can respond to projected reserve shortfalls;
- Minimising the likelihood that AEMO "crowds out" potential market-based arrangements; and
- Utilising new, up-to-date information to inform both the assessment of capacity adequacy and decisions about entering reserve contracts

(reducing the likelihood that reserves will be contracted but not dispatched).<sup>3</sup>

When AEMO requested long-notice RERT be reinstated in 2018, it noted the market had undergone rapid transformational change, including:

- Changing generation mix, driven by the retirement of thermal generation and an influx of variable renewable energy; and
- Increase in resources (primarily demand response) that can change consumption in response to instructions but do not participate in the wholesale market, but longer lead times are required for these types of reserves.<sup>4</sup>

The cited key benefit of reinstating long-notice RERT was an expected increase in the range of resources that could participate in the process, potentially improving efficiency of the procurement process, placing downward pressure on the direct cost of RERT, and promoting reliability.

Stanwell acknowledges that determining a limit on the length of contracts requires trade-offs between the time market participants have to respond to an expected lack of reserves, the accuracy of the forecasts underpinning the declaration of USE or a lack of reserves, the range of potential RERT providers and the cost and availability of reserves RERT providers are willing and able to offer.

Stanwell considers the current limit on contract length is appropriate. Even if USE was forecast over a number of consecutive years, entering contracts on this basis assumes both that the forecasts are accurate and that the market would not respond to this lack of reserves.

Long contracts may reduce the unit cost of RERT but are unlikely to reduce the total cost relative to a shorter, more targeted contract. Increasing the overall volume of RERT being procured could result in distortions in the energy market.

<sup>3</sup> [www.aemc.gov.au/sites/default/files/content/3bf9f6fb-365c-4103-aeec-2af44e5591bf/ERC0198-Extension-of-the-RERT-Final-Determination.PDF](http://www.aemc.gov.au/sites/default/files/content/3bf9f6fb-365c-4103-aeec-2af44e5591bf/ERC0198-Extension-of-the-RERT-Final-Determination.PDF)

<sup>4</sup> [www.aemc.gov.au/sites/default/files/2018-06/Final%20determination\\_1.pdf](http://www.aemc.gov.au/sites/default/files/2018-06/Final%20determination_1.pdf)

## 7. Markets deliver security and reliability

AEMO involvement outside the market discourages resources from participating inside the market.

Market participants have demonstrated that they are incentivised to deliver system security and reliability. For example, during summer 2017/18, while AEMO declared forecast LOR conditions 31 times, there were no load shedding events because demand decreased (including demand-side management), supply increased (in response to market conditions), or weather conditions changed (which affected supply e.g. renewable energy generation and/or demand e.g. air conditioner load).<sup>5</sup> On only two days were RERT resources activated to manage the risk after any potential contingency.

Stanwell suggests that regulators redouble their efforts to ensure that all available resources are available in the market. For example:

1. Encouraging scheduling of generators. There are examples of sizable generators being granted “non-scheduled” status which acts against the transparency that AEMO requires for efficient operation of the market e.g. SA Power Network’s 277 MW Temporary Generation
2. Encouraging customers to participate on a scheduled basis through the existing scheduled load registration category or through other scheduled arrangements that may evolve in the future; and
3. Participating in demand response through their retailer. Retailers notify AEMO of these arrangements through AEMO’s Demand Side Participation Information Guidelines.

## 8. Stanwell supports greater forecast transparency

AEMO’s supply and demand forecasts are a key input into the RERT process with the assessment of expected reliability determined from the ESOO, MT PASA and ST PASA.

By their nature, forecasts are underpinned by assumptions and as market operator, AEMO has considerable discretion in developing market forecasts. Some discretion is appropriate, but must be associated with strong transparency.

Given the impact of AEMO’s forecasts on market participants and consumers through RERT procurement costs, Stanwell supports a more collaborative and transparent approach to AEMO’s forecast development. Stanwell is pleased to note the developments in this area such as the forecast recommendations in the AEMC’s Reliability Frameworks Review and increased transparency proposed in the Retailer Reliability Obligation.

## 9. Stanwell’s preferred option

Of the Options presented in the Options Paper, Stanwell’s preference is for a modification of Option 1 as outlined below.

### Procurement trigger

The Reliability Standard should be the unambiguous trigger for procuring RERT in the long- and medium-term, as it provides investment signals to market participants about potential reliability issues.

An implicit procurement trigger embedded within an economic assessment framework (as per Option 2) would not increase clarity for the energy market and RERT participants about the trigger.

The declaration of LOR2 should continue to be used as trigger for procuring RERT in the short-term, as it is more appropriate than USE when addressing operational issues (with the price at which RERT is procured constrained by the VCR).

### Reliability Standard

The Reliability Standard should be retained for both the RERT and energy markets, excluding short-notice RERT as described above.

Adopting a different standard for RERT (as per Option 2) would result in the RERT framework separating from the rest of the reliability framework, decreasing clarity for market participants and potentially distorting the market.

### Procurement volume

When forecast USE is greater than 0.002 per cent, AEMO would procure a volume of long-notice or medium-notice RERT equal to the difference between forecast USE and 0.002 per cent USE.

<sup>5</sup> [www.aemo.com.au/-/media/Files/Media\\_Centre/2018/Summer-2017-18-operations-review.pdf](http://www.aemo.com.au/-/media/Files/Media_Centre/2018/Summer-2017-18-operations-review.pdf)

If there was not an explicit link between the Reliability Standard and the volume procured (as per Option 2), market participants will be uncertain about the volume of RERT that will be procured to address an identified shortfall of reserves.

Further, developing a methodology for sub-annual USE targets (as per Option 3) would make the process more complex and less flexible, potentially decreasing market participant clarity and AEMO's range of operational responses.

#### Payment structures

Stanwell notes that a large portion of RERT costs in summer 2017/18 was due to availability payments. Stanwell requests that the AEMC consider whether the ability for AEMO to offer availability payments should be phased out or greatly restricted. For example, if availability payments are to be made for long-notice RERT, it could be limited to only new demand response customers who require capital upgrades to provide the service. This should exclude customers who:

- a) Have previously entered into network support agreements;
- b) Have demonstrated an ability to respond to spot prices either through their retailer or on their own; or
- c) Have entered into previous RERT contracts.

AEMO notes that providing greater certainty to RERT providers through availability payments or longer contracts could result in greater reserves being made available at a lower cost. Stanwell's position is that providing RERT providers with more certainty increases the likelihood that the RERT market comes to be perceived by market participants and customers as an alternative market to the energy market. The RERT market should continue to be used (and seen) as an intervention only to be enacted if market incentives, market settings and supplementary information have not resolved an expected shortfall of reserves.

Stanwell also suggests that total RERT payments (on a per megawatt hour basis) should be limited to the VCR.

