

Our Ref: D19/182219  
Your Ref: ERC0283  
Contact Officer: Mark Feather  
Contact Phone: 03 9290 6958

Mr John Pierce AO  
Chair – Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

**Re: Rule Change proposal consultation Victorian jurisdictional derogation – RERT contracting**

Thank you for the opportunity to comment on the *Victorian jurisdictional derogation – RERT contracting* rule change request and the related Australian Energy Market Commission (AEMC) consultation paper.

We welcome the AEMC's work to support reliability in the national electricity system and identify solutions to address the Victorian Government's concerns.

We support the Reliability and Emergency Reserve Trader (RERT) mechanism as an important tool available to the Australian Energy Market Operator (AEMO) to deal with forecast generation gaps in the National Electricity Market (NEM).

Our 2018 Wholesale Electricity Market Performance Report<sup>1</sup> noted that participants expressed concerns that the increased use of RERT was distorting investment signals. It is important to balance the need for the RERT, as an important safety net to underpin reliable supply, with the risk it may defer efficient market-led investment or demand response. This could occur if market participants deferred participation in the market (either through investment or demand side response) if they perceived that they could obtain a higher price in a RERT tender. The role of the AEMO's ES00<sup>2</sup> report, as well as the MT-PASA and ST-PASA<sup>3</sup>, are not just to identify where the RERT mechanism might be needed but also to communicate generation gaps to the market and allow for the market to respond with investment and operational decisions.

---

<sup>1</sup> <https://www.aer.gov.au/wholesale-markets/market-performance/aer-wholesale-electricity-market-performance-report-2018>

<sup>2</sup> AEMO's Electricity Statement of Opportunities: <https://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Planning-and-forecasting/NEM-Electricity-Statement-of-Opportunities>

<sup>3</sup> The medium term projected assessment of system adequacy (MT-PASA) and short term projected assessment of system adequacy (ST-PASA) is undertaken by AEMO. The MT-PASA details the system adequacy and generation requirements on a weekly basis for the two-year horizon, and is published monthly. The ST-PASA details the system adequacy and generation requirements on a six-hourly basis for the three-week horizon, and is published weekly.

Under the current market design, reserves are intended to be delivered by the market. The RERT is designed to be a last resort mechanism, only enacted after market responses and other interventions are not sufficient. Because of this, the RERT mechanism has a number of conditions on how and when AEMO can procure RERT contracts, to ensure it remains an out-of-market, last resort mechanism.

The AEMC should consider the proposed rule change in the context of the RERT as an out-of-market, last resort mechanism to ensure reliability and the impact the proposed changes could have on the electricity market.

To ensure that Victorian energy consumers are paying no more than necessary for safe and reliable energy, we support the AEMC examining the evidence on the potential for cost savings associated with procuring a three-year RERT contract.

In evaluating the rule change proposal, the AER also suggests that the AEMC examine the following issues:

- whether the rule change proposal would lead to a deferral of investment or demand side participation, noting that under the proposal once the RERT mechanism is triggered the maximum three year contract duration would be regardless of the ESOO unserved energy forecasts in subsequent years;
- the risks associated with AEMO over-forecasting the RERT requirement in Victoria and the impact that this may have on costs to consumers; and
- whether there may be an impact on the cost of electricity provision in other regions of the NEM should an extended RERT be applied solely in Victoria.

In the event the evidence supports the rule change proposal, we also suggest thorough consideration by the AEMC of ways to minimise any adverse effects. For example, a shorter time limit on the derogation to address only the predicted shortfalls that will take place before the RRO could be triggered. This also allows more flexibility to respond to any future changes to the reliability framework. In addition, if the rule change is to be progressed, the AER would also support consideration of measures that would ensure that any multi-year tender process and its outcomes are transparent to the market, so that optimal pricing outcomes and value for money can be achieved for customers.

Please contact Mark Feather on the details above should you wish to discuss any matters raised in this submission.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Clare Savage', with a stylized flourish at the end.

Clare Savage  
Chair  
Australian Energy Regulator

Sent by email on: 22.11.2019