Submission

Infigen

Level 17, 56 Pitt St,
Sydney NSW 2000
Australia

T 02 8031 9900
infigenenergy.com

Infigen Energy Ltd
ABN 39 105 051 616

To	ESB
Reference	Interim Reliability Measures – Reliability Reserve Submitted via email to info@esb.org.au
Date	12 Jun 2020

Subject **Interim Reliability Measures – Reliability Reserve**

Overview:

Infigen Energy (Infigen) welcomes the opportunity to make a submission. Infigen delivers reliable energy to customers through a portfolio of wind capacity across New South Wales, South Australia, Victoria and Western Australia, including both vertical integrated assets and PPAs. Infigen also owns and operates a portfolio of firming capacity, including a 123 MW open cycle gas turbine in NSW, a 25 MW / 52 MWh battery in SA, and will soon take ownership of 120 MW of dual fuel peaking capacity in SA. Our development pipeline has projects at differing stages of development covering wind, solar and batteries and we are also exploring further opportunities to purchase energy through capital light PPAs. This broad portfolio of assets has allowed us to retail electricity to over 400 metered sites to some of Australia's most iconic large energy users.

Infigen is committed to delivering reliable, affordable and low emissions energy to customers through our portfolio of assets. However, we consider it critical that policy changes will deliver meaningful improvements to consumers, consistent with the National Energy Objectives. Infigen therefore:

- Supports progressing to a comprehensive two-sided market
- Is concerned about contracting RERT beyond immediate needs
- Notes that removing the T-3 trigger from the Retailer Reliability Obligation will tend to increase retailer contracting levels, but may result in higher costs to consumers

These points are explored in greater detail below. Infigen has also attached a recent working paper written by Prof Paul Simshauser and A/Prof Joel Gilmore, which provides a detailed analysis of recent investment in the NEM.

Reliability and Emergency Reserve Trader

The RERT is a key component of the NEM's design, and provides a tool for responding to unexpected system events, on both operational and investment timeframes. Given that the

Market Price Cap is less than the average value of customer reliability[1], procuring demand response through the RERT therefore may allow for (arguably) more orderly load shedding, without needing to increase the Market Price Cap for all participants.

However, in our view, customers need to be given the tools to be able to choose their desired level of reliability and associated costs. Facilitating an active two-sided market, where both supply and demand participate in price setting, will allow for more efficient outcomes and contribute towards the National Energy Objectives.

The ESB should fast track the Two-Sided Market workstream, which should reduce the need for RERT interventions and may also avoid the need for the proposed Demand Response Mechanism (avoiding the need for centrally determined baselines, and providing options for residential consumers currently excluded under that scheme).

While RERT is a valuable tool, we consider that in-market mechanisms should be pursued where possible, such as Infigen's proposed Operating Reserves framework. Infigen is concerned that procuring RERT resources for multiple years risks drawing valuable demand response resources out of the market. This prevents their use in delivering lower-cost retail contracts. Infigen has one large energy user with an active demand response program, and is in advanced negotiations with another major user. We recommend that AEMO should only procure RERT to the extent level needed to meet the agreed standard in the upcoming year, with those contracts extended for multiple years only if AEMO has a high degree of confidence it will be required *and* AEMO can demonstrate that expected costs will be lower to consumers relative to sequential contracts.

More broadly, we consider that the Reliability Panel remains best placed to review and make recommendations on NEM reliability settings, including standards and price caps. The Reliability Panel includes representatives from consumers and industry, and has contributed to the NEM meeting the Reliability Standard in all but one year of the NEM's 22 year history. It would be reasonable for the Reliability Panel to be consulted on AEMO's procurement of multi-year contracts.

Finally, as the AEMC has previously noted, lost load from system security events already exceeds reliability events (with local network outages being far higher again), and this, along with associated dispatch inefficiencies, should be a higher priority area for the ESB.

Retailer Reliability Obligation

The original intent of the Retailer Reliability Obligation design (which Infigen contributed to, through secondment of staff to the ESB) recognised that retailers already have strong incentives to deliver a reliable system through the NEM's high Market Price Cap. The intent was that retailers and large energy users that took prudent steps to contract capacity should not be penalised for *unexpected* system changes in the future that were not identified by the Market Operator.

[1] Australian Energy Regulator, Values of Customer Reliability – Final Report on VCR Values, December 2019

The requirement for a T-3 trigger was meant to give retailers sufficient time to respond to identified shortfalls, but not penalise retailers for unforecasted system changes. For example, if an aging coal asset closes unexpectedly at T-18 months, a reliability issue may emerge and retailers (who had contracts with that asset) may no longer have sufficient contracts to meet their demand – and limited opportunity to recontract.

We expect that the risk of a T-1 trigger at any time will drive higher levels of contracting. Infigen acknowledges that contracting to at least a "1 in 2 year demand" is likely to be a prudent strategy for most retailers (and large energy users). However, the ESB must recognise that retailers may be required to pursue a more conservative contracting strategy to mitigate the higher risk imposed by the risk of an unexpected T-1 trigger – this will necessarily result in higher costs being passed on to consumers during average years.

If implemented, this change should be reviewed in parallel with any recommendations from the Post-2025 Market Design program.

Conclusion

We look forward to the opportunity to continue to engage with the AEMC. If you would like to discuss this submission, please contact Dr Joel Gilmore (Regulator Affairs Manager) on joel.gilmore@infigenenergy.com or 0411 267 044.

Yours sincerely

Ross Rolfe
Managing Director