



17 September 2010

Chairman Reliability Panel  
Australian Energy Market Commission  
PO Box A2449  
SOUTH SYDNEY NSW 1235

Dear Mr Henderson,

**REL0041: Review of the Reliability and Emergency Reserve Trader (RERT)**

Origin Energy (Origin) welcomes the opportunity to contribute to the Reliability Panel's (Panel) review of the RERT mechanism.

Origin has consistently maintained that intervention in the market is only justified where there are clear instances of market failure. As highlighted in the Panel's Issues paper, the national electricity market (NEM) has had an exemplary record in delivering reliability which in our view indicates that interventionist mechanisms such as the RERT are not required. This, along with the market distortionary nature of the RERT is sufficient grounds for not extending its tenure beyond the scheduled expiry date. Our detailed views are outlined below.

*1. The RERT is not needed*

*1.1 NEM has delivered reliability despite RERT never being dispatched*

Since the start of the NEM the market operator has contracted for reserves under the reserve trader/RERT on only two occasions. Importantly in both instances the reserves were not dispatched. Throughout this time the NEM has consistently met its reliability objectives to which the RERT has made no contribution. In fact the RERT's net contribution over this period has been -\$5m (i.e. the cost to the market of contracting for reserves).

*1.2 projected shortfalls incentivises investment*

The Panel should resist the urge to maintain the RERT in response to projected supply shortfalls. Forecasted supply deficits are actually an important part of the smooth functioning of the market in that they signal the need for additional generation investment. Provided that the market is working effectively (which is a reasonable assertion given the NEM's track record) the required investment needed to meet the reliability standard is likely to be forthcoming. It should also be noted that the recent increase in the market price cap (MPC) to \$12,500/MWh should serve to further incentivise new investment in the market.

Where investment signals have been blunted, for example as a result of continuing uncertainty surrounding a carbon price, the extension of a safety net such as the RERT should not be viewed as a means of safeguarding long term reliability. If sizeable supply shortfalls were to eventuate, it is unlikely that Australian Energy Market Operator (AEMO) would be able to secure sufficient reserves under the RERT beyond that which could be obtained through the market.

## 2. *The RERT is distortionary*

### 2.1 *Retention of the RERT will retard development of demand side participation*

Given the timeframes involved, much of the reserves secured under the RERT are likely to be as a result of demand side activities. The Issues Paper notes that to date, the uptake of demand side participation (DSP) in the NEM has been low. By creating a sub-market for reserves the RERT further retards the development of DSP in the NEM, to the extent that it incentivises participants to by-pass the main market in favour of the sub-market. It should also be noted that unlike the NEM, the reserves market is not subject to a price cap and participants are paid what is essentially a capacity payment. These key differences make interaction with the NEM more difficult, creating further distortion.

### 2.2 *Retention of the RERT could deter investment*

The retention of the RERT will institutionalise what was initially intended to be a transient mechanism. Ultimately this is likely to disincentivise investment in the NEM if investors opt to participate in the reserve market instead. This could create a circular effect whereby supply shortfalls in the NEM lead to further calls for the retention of a reliability safety net.

## 3. Answers to Panel's questions

Question	Origin response
1. The Reliability Settings have been set at levels that are expected to encourage sufficient investment in new capacity. Do stakeholders consider that the residual risk of insufficient capacity being available in the future is high enough to retain a form of reliability safety net (of similar form to the reserve trader)?	No, a reliability safety net was never intended to be a permanent feature of the market framework. Its continued existence will only distort the market for no material gain.
2. If a form of reliability safety net is required, do stakeholders consider that the current short, medium and long-notice forms of the RERT are effective?	A safety net is not required.
3. Do stakeholders consider that the current expiry date for the RERT is appropriate and, if not, what is the most appropriate date?	Origin considers that the current expiry date for the RERT is appropriate and if the Panel is considering deviating from this timetable, it should be to abolish the RERT sooner.



If you wish to discuss any of these issues further please do not hesitate to contact me on (02) 8345 5250 or Steve Reid on (02) 8345 5132.

Yours Sincerely,

A handwritten signature in black ink, appearing to read 'Tim O'Grady', with a fluid, cursive style.

**Tim O'Grady**  
**Head of Public Policy**