



10 February 2011

The Reliability Panel
PO Box A2449
Sydney South NSW 1235

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Review of the Reliability and Emergency Reserve Trader – Draft Report

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Reliability Panel's draft report for its review of the Reliability and Emergency Reserve Trader (RERT).

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ over 52,000 people and contribute \$16 billion dollars directly to the nation's Gross Domestic Product.

The Reliability Panel's draft finding is that there is a role for the RERT in the short term, but that in the longer term the mechanism should not be maintained. It recommends that the RERT be extended for one extra year and hence expire on 30 June 2013 rather than 30 June 2012 as currently scheduled. The Panel also considers that the provisions for the Panel to review the RERT should be removed from the Rules.

The Association strongly supports the Panel's draft recommendations regarding the eventual abolition of the RERT and the excise of the review provisions from the Rules. In a number of recent submissions to the Panel and the Australia Energy Market Commission, the Association has questioned the need for the RERT, given the energy-only, decentralised decision-making framework of the National Electricity Market and the limited contribution the RERT has made to reliability outcomes. esaa considers that the removal of the RERT is a logical step forward in the ongoing process of energy market reform.

esaa does, however, have concerns about the Panel's current proposal to delay the removal of the RERT. The Panel's justification for retaining the RERT for one additional year is that "...it provides an opportunity for demand side participants, who may not otherwise present, to operate in the market."¹ The Panel considers that after the proposed one year delay, current work on the role of demand side participation in

¹ AEMC Reliability Panel 2010, *Review of the Reliability and Emergency Reserve Trader (RERT), Draft Report*, 24 December 2010, Sydney, pg. 7.

the NEM should be completed,² which "...should have addressed any reasonable remaining constraints on efficient demand side participation."³

While the Association supports work to address unwarranted barriers to efficient demand side participation in the NEM, it considers that these processes to facilitate demand side participation are unrelated to the RERT and should be kept separate from considerations of the RERT's future role in the market.

Given that demand side participation in the RERT to date has been limited and only one participant has joined the RERT panel since its introduction, it seems unlikely that completing this demand side work will precipitate the emergence of material amounts of demand side resources over the timeframes discussed.

Further, under the Panel's draft recommendation, any new demand side resources that were unlocked by the demand side work would only be able to access the RERT for one additional year under the Panel's proposal. To the extent that those resources are viable participants in the NEM in their own right, access to the RERT would be not required. (Indeed, in such cases the RERT could be considered a superfluous subsidy given that RERT payments are not constrained by the market price cap that applies to the rest of the market.) Conversely, if newly emerging resources stimulated by the demand side work require the RERT to be viable, the one year extension of the RERT will do little to underpin their long-term involvement in the market.

The Association considers, however, that the more fundamental consequence of the Panel's juxtaposition of the RERT with these processes to facilitate demand side participation is an implicit reconceptualising of the nature of the RERT. In particular, it portends a subtle but substantive revision of the RERT from a mechanism to support reliability to a tool to support demand side participation.

The Association considers that modifying *ex post* the rationale for an existing policy is poor policy practice and in this case, raises the risk of entrenching a link between the removal of the RERT and particular outcomes with respect to demand side participation. It is conceivable that this could result in a situation where a failure of demand side resources to materialise could be used to justify preservation of the RERT. The Association's firm view, which is confirmed by the Rules, is that the purpose of the RERT is to enhance reliability,⁴ and not to entice a class of energy resource into the market. As such, these processes do not provide a compelling reason to prolong an unwarranted policy distortion.

² The work identified in the Panel's draft report is the Ministerial Council on Energy (MCE) work program on Demand Side Participation including the National Smart Meter Program and the National Stakeholder Steering Committee; the Australian Government's Smart Grid Smart City initiative; AEMO's consultation on the Small Generator Framework; and the proposed MCE review of demand side participation (DSP) in the electricity market.

³ AEMC Reliability Panel 2010, *Review of the Reliability and Emergency Reserve Trader (RERT)*, Draft Report, 24 December 2010, Sydney, pg. ii.

⁴ National Electricity Rules, Chapter 3, Market Rules, Section 3.20.2, states that: AEMO must take all reasonable actions to ensure reliability of *supply* and, where practicable, take all reasonable actions to maintain *power system security* by negotiating and entering into contracts to secure the availability of *reserves* under *reserve contracts* (*reliability and emergency reserve trader* or *RERT*).

In summary, esaa does not consider there to be any justification for extending the RERT beyond its current sunset date. The Association urges the Panel, in its final report, to recommend that the RERT expire on 30 June 2012, as scheduled.

Any questions in respect of our submission should be addressed in the first instance to Kieran Donoghue, by email to kieran.donoghue@esaa.com.au or by telephone on (03) 9670 0188.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brad Page', with a stylized, cursive script.

Brad Page
Chief Executive Officer