NATIONAL GENERATORS FORUM

Energy Retailers Association of Australia Limited

9 February 2010

Mr Neville Henderson
Chair, Reliability Panel
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged online via www.aemc.gov.au

Dear Mr Henderson

Re: Review of the Reliability and Emergency Reserve Trader – Draft Report

The National Generators Forum (NGF) and the Energy Retailers Association of Australia (ERAA) welcomes the opportunity to respond to the Draft Report on the Review of the Reliability and Emergency Reserve Trader (RERT).

The NGF represents the 22 major power generators in the National Electricity Market (NEM). The installed capacity of NGF members is almost 48,000 MW, with an asset value of more than $40 billion. Annual sales are over 202,000 GWh, with a value of about $7 billion. This output accounts for about 96 per cent of the Australian market.

The ERAA is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every state and territory throughout Australia. These businesses collectively provide electricity to over 98% of customers in the NEM and are the first point of contact for end use customers of both electricity and gas.

The Reliability Panel's (the Panel) findings in response to the three key questions in the Terms of Reference are:

- the RERT should not be maintained in the long-term but there is a role for the RERT in the short-term;
- the RERT should be extended for one year to 30 June 2013 from its current nominal expiry date of 30 June 2012; and
- the provisions for the Panel to review the RERT should be removed from the National Electricity Rules.

The Panel indicates that the driver for the one year extension is to allow any potential recommendations from ongoing work programs, primarily related to demand side participation (DSP), to be implemented.

The NGF and ERAA support the expiry of the RERT

The NGF and ERAA supports the findings of the Panel that there is no ongoing role for the RERT in the National Electricity Market. As indicated over the course of recent submissions the NGF and ERAA have indicated that the RERT lacks transparency, was distortionary in that it created significant inconsistencies, reflected poor policy and had little value in securing long-term reliability, generally or in the context of climate change policies.

In this regard, we agree with the Panel's findings that the RERT is unlikely to incentivise supply side participation and note that the decentralised energy-only market continues to deliver reliability and security of supply.

Likewise, the NGF and ERAA agrees that current investment signals, notably the MPC and evolving conditions more generally, promote supply side investment and that such investment, not the RERT, is directly relevant to overcoming any reliability and security of supply uncertainty.

The NGF and ERAA support the removal of the review provisions

The Panel has recommended that the requirement for the Panel to review the RERT should be removed. Given the absence of a significant contribution by the RERT to reliability, we strongly support this recommendation. If there is any party who believes that the RERT has some value, they are able to submit a rule change to extend the date and such a request would be considered against the National Electricity Objective.

It should be noted that these reviews cost the industry significant sums of money and there is a need for much greater rigour on the part of regulators in their assessment of the likely value of a review to ensure that its likely benefits outweigh the costs to industry.

The NGF and ERAA question the value of extending the RERT for an additional year

While the NGF is supporting the Panel's overall recommendation that the RERT should expire, we do not support the extension of the sunset clause by one year to allow DSP work to be completed and implemented and believe the Panel's conclusions in this area require further testing.

Firstly, the NGF and ERAA support and actively participate in the ongoing work programs related to DSP. However, we do not believe these work programs should be retrospectively linked to the existence of the RERT and hence we suggest that the RERT and DSP work programs should continue to be kept separate.

Second, the Panel's conclusions imply that DSP Stage 3 will lead to material demand side participation. However, no evidence has been presented to indicate that this is the case and given the focus of DSP Stage 3, following already significant work in this space, the NGF does not expect it to be so.

Furthermore, the Panel's conclusions imply that any existing barriers to DSP, that may exist, are overcome due to the existence of the RERT. The implication that the RERT overcomes barriers to DSP in the National Energy Market is fundamentally unproven and is, in the NGF's view, unlikely to be the case.

The DSP work program has been going on for some time now and, to date, have had little impact on the market. Whilst the work is worthwhile, the implication that the ongoing work program will lead to further, material demand side participation is potentially misleading. Hence, the Panel's recommendation lends itself to an expectation that the RERT should continue in the absence of increased DSP in the near term, as the Panel's analysis implies that DSP is somehow being excluded from the market, this is highly concerning.

Third, it should be noted at this point that there appears to be an increasing willingness of major customers to accept spot price risk and to respond to high spot prices. This appears to have come about as these customers become more sophisticated as the market matures, with the increasing attraction of reducing energy costs and the increase in the level of the Market Price Cap by 25%.

The market rules are very attractive for loads that are able to change their loads unilaterally without any notice to the market and with no rebidding restrictions. This involvement is consequently very hard to measure and often goes unnoticed in the market. As an example, in Tasmania one customer effectively has 70MW of load which responds to market prices (aside from the interruptability associated with Basslink) in a region with an average load of 1100MW.

Therefore, to somehow suggest that the RERT is needed to support DSP is not evidence by current market outcomes, or by the number of the demand side participants who have registered with the RERT.

Finally, the implied revision of the RERT's objective from mechanism to support reliability to a de facto sectoral assistance mechanism raises a secondary set of concerns that we do not believe the Panel has appropriately considered.

The NGF does not believe dedicated support is required to encourage DSP and any inference of support undermines the competitive neutrality principles upon which the National Electricity Market was founded. While the DSP Stage 3 work program is appropriate to ensure DSP does not face artificial barriers to entry into the market the use of the RERT as an industry assistance mechanism is not appropriate and would be a highly concerning policy development.

The purpose of the RERT has not been, and was never intended to be, a sectoral assistance mechanism for DSP. Any steps that redirect the RERT towards this aim cannot be permitted.

Conclusion

While we are alarmed by the linkage of the RERT to increased DSP, we commend the Panel for its overall recommendation to allow the RERT to conclude and we support the view it is not needed now and has not played a significant role in supporting reliability and security of supply to date.

If you any queries in respect of this submission, please contact David Bowker on 03-62305775.

Yours faithfully,

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