



22 November 2010

Mr Rory Campbell
Senior Director
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Sent by email: panel@aemc.gov.au

Dear Mr Campbell

Review of the Reliability and Emergency Reserve Trader – Request for further information

Thank you for your letter of 21 October 2010 regarding the Reliability Panel's review of the Reliability and Emergency Reserve Trader (RERT) and in particular, the issue of market distortions that may arise from the presence, and use, of the RERT. The Energy Supply Association of Australia (esaa) appreciates the opportunity to provide further information to assist the Panel's deliberations.

esaa understands that the Panel has also sought input from other members of the energy industry and that a joint response has been received from the National Generators Forum, the Energy Retailers Association of Australia and Loy Yang Marketing Management Company, which included a report by ACIL Tasman.

The Association broadly endorses this joint response, as well as the analysis in the ACIL Tasman study on the market inefficiencies associated with the RERT.

Evidence of market distortion

In your letter you seek, on behalf of the Panel, further evidence on how the RERT may cause market distortion, where the distortion may occur and the size of the economic costs to the market that may result from such distortion. You note that the Panel is seeking an evidence-based assessment to the extent possible.

The Association acknowledges the Panel's request for evidence. However, for a range of reasons, providing specific evidence of the distortionary impact of the RERT is problematic. These reasons include the lack of transparency on the identity of the parties contracted to the RERT, and more fundamentally, the difficulty in identifying the market participants and/or intending market participants whose actions are impacted by the RERT.

There is also a dynamic element to the potential market distortions caused by the RERT in that it may affect the path of the market's future development. Once again, it is difficult to provide evidence of this as the counterfactual of an alternative development path is naturally not readily apparent. However, the Association considers that in addition to the supply side impacts of the RERT identified in the ACIL Tasman study, such as the impacts on contracting, the Panel should be mindful of the potential distortionary impacts of the RERT on the development of the demand side of the market.

As a fuel and technology neutral organisation, esaa supports all sources of generation and demand side response integrating effectively and efficiently in the market, as commercial circumstances dictate.

Looking forward, as the technology to measure electricity consumption in real time is progressively deployed and a range of new demand side possibilities emerge, such as through smart grids or electric vehicles, the involvement of the demand side in the NEM will expand, potentially significantly. Much of these possibilities will be examined in Stage 3 of the AEMC's Demand Side Participation review.

The relevant question with respect to the RERT is how the demand side develops in the years ahead.

The Association's preference is that the demand side develops organically through decentralised, commercially-based agreements and investments. However, by indirectly sponsoring an administrative, supplementary sub-market for reserves rather than encouraging integration in the primary market, the RERT may prejudice against this outcome. While the precise effects are difficult to prejudge, as noted in the Reliability Panel's own 2009 Rule change proposal to expand the RERT, a potential consequence of the RERT is that it may actually crowd out the development of market-based demand-side responses.

Justifying the continuation of the RERT: Where does the burden of proof lie?

As noted above, the Association appreciates the Panel's preference for an evidence-based assessment. Concrete evidence is important for constructing a sound case for change. In general the Association supports the National Electricity Market reform program being underpinned by solid evidence.

While the Association regrets the difficulties in providing direct evidence of the distortionary impacts of the RERT, it also notes that the design of the RERT contains an in-built sunset clause of 30 June 2012. This effectively means that the default outcome is that the RERT will expire unless it is actively extended.

As such, the Association considers that the burden of proof in this review lies with the case to extend the RERT. In other words, unless sound evidence can be adduced to make the case to retain the RERT, the Association considers that the Reliability Panel should allow the RERT to lapse as intended. As noted in esaa's original submission to the Panel, there does not appear to be a case for the RERT's retention.

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