

27 November 2018

John Pierce
Chairman
Australian Energy Market Commission (AEMC)
PO Box A2449
Sydney South NSW 1235

By online submission

Dear Mr Pierce

Enhancement to the Reliability and Emergency Reserve Trader - ERC0237

Hydro Tasmania welcomes the opportunity to provide a response to the Options Paper on the Enhancement to the Reliability and Emergency Reserve Trader (RERT) rule change.

The enhanced RERT rule change is being considered during a period of policy and regulatory uncertainty as well as a transformation of the energy supply industry. It is important that the AEMC actively considers the potential implications that various other proposed changes to market and policy frameworks may have on the functioning of the proposed enhanced RERT. These changes include for example the consultations that are currently underway for the Retailer Reliability Obligation; the Australian Government's underwriting new generation investment; and the wholesale and retail demand response rule changes.

The RERT aims to provide a safety net to support a reliable and secure supply of electricity.

The RERT is designed to enable AEMO to contract for reserves to assist in managing forecast and actual supply shortfalls.

The Options Paper sets out a range of options for the way in which the trigger for the RERT could be set and associated volumes of reserves procured. Hydro Tasmania has long advocated for minimal intervention in the energy market. This is based on the need to avoid market distortions stemming from interventions, as well as minimising consumer prices. Hydro Tasmania does not provide specific comments on each of the options, but proposes that reserves should be:

1. an absolute last-resort response to maintain reliability and/or system security;
2. designed to avoid crowding out investment and/or market response;

3. activated rarely;
4. offered by truly additional capacity only (must be 'out of market' reserves);
5. transparent in nature (with a clearly understood process for procurement, cost allocation, enactment and timely publication of RERT outcomes); and
6. administered at the lowest-possible cost to ensure that customers pay no more than necessary.

It is important that the design of the enhanced RERT must meet these principles if it is to function as an appropriate and enduring mechanism. This is particularly relevant given that the RERT plays a key role in shaping investment decisions and that consumers bear the costs.

Hydro Tasmania appreciates the work that the AEMC has undertaken to develop the proposed options and the initiative to share an update of its thinking with industry through this consultation process. Hydro Tasmania looks forward to ongoing engagement with the AEMC and considering the details of the rule change further as the consultation process continues. If you would like further information on any aspect of this submission, please contact John Cooper (john.cooper@hydro.com.au or (03) 6230 5313).

Yours sincerely



Gerard Flack
Director Wholesale Energy Services