



*In reply please quote 5806832  
Enquiries to Rebecca Knights  
Telephone 08 8204 1715*

ENERGY DIVISION  
Level 8  
11 Waymouth Street  
Adelaide SA 5000

GPO Box 1533  
Adelaide SA 5001

Telephone: 08 8226 5500  
Facsimile: 08 8204 1730

ABN 92 366 288 135

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

Dear Mr Pierce,

Thank you for the opportunity to provide comment on the Reliability Panel's proposed Rule change regarding Expiry of the Reliability and Emergency Reserve Trader (RERT).

The RERT mechanism allows the Australian Energy Market Operator (AEMO) to intervene in the market to ensure the reliability of supply and to maintain power system security during periods of low reserve. South Australia believes it is critical to maintain a mechanism to enable AEMO to intervene as a last resort to minimise the significant social and economic impacts arising from load shedding.

Given the potential impact this proposed rule change could have on reliability in the NEM, particularly in South Australia, the Energy Division engaged Intelligent Energy Systems (IES) to provide advice on whether the market mechanisms intended to provide reliability and security of the power system are sufficient in the absence of the RERT. The IES Report is provided as [Attachment 1](#) for your information.

The Reliability Panel's reasoning for expiry of the RERT on 30 June 2013 is based on its findings that the RERT is a distortionary mechanism and that to date the National Electricity Market has shown to perform adequately and has ensured the security and reliability of supply<sup>1</sup>. This assessment, however, seems to be entirely based on historic performance and fails to account for the challenges that the market faces moving forward. Further, while the Rule change proposal discusses the distortionary nature of the RERT, there is no evidence provided as to the impact, if any, of such a market distortion.

The Energy Division notes that the market has performed well to date in terms of meeting the required level of reliability and that there has been limited use

---

<sup>1</sup> Reliability Panel AEMC, *Rule Change Proposal – Reliability and Emergency Reserve Trader*, 1 July 2011, p. 4.

of the RERT mechanism and its predecessor the Reserve Trader. The Energy Division considers, however, that there are significant ongoing uncertainties in the market which may impact on reliability heading forward. These are discussed below.

The 2011 Electricity Statement of Opportunities (ESOO) states that South Australia requires additional generation investment by 2014–15, assuming medium economic growth. At least 46 MW of new generation or demand-side investment is required to delay a reserve shortfall in South Australia until the following year. However, AEMO's 2011 South Australian Supply and Demand Outlook (SASDO) notes that investment in new generation in South Australia has slowed. Proponents are attributing this to a number of concurrent market conditions including low market prices, insufficient demand and uncertainty with regard to environmental policies<sup>2</sup>. The SASDO notes that wholesale electricity market prices are lower than they have been since the start of the NEM.

In South Australia there has been significant investment in wind generation and there is currently an installed capacity of 1150 MW. Incentives provided by the Commonwealth Government's Renewable Energy Target and the introduction of a carbon price will continue to drive investment in wind generation. To date, renewables such as wind have been incorporated into the electricity system while maintaining the required level of reliability, however, further penetration of intermittent generation such as wind will introduce greater uncertainty.

Energy Division understands that the impacts of the large-scale renewable energy target (LRET) may cause difficulties in meeting unserved energy targets in the NEM in most States over the period to 2020. We understand this is because the LRET depresses wholesale pool prices, which reduces the primary source of revenues for non-renewable generators. The consequential reductions in operating hours for gas fired generators, combined with projected higher gas prices, mean that it is not economic for sufficient new gas fired generation to develop to meet the unserved energy target (with current market and policy settings - in particular the market price cap (MPC) and cumulative price threshold).

In addition, modelling undertaken by IES showed a significant sensitivity of South Australian USE to the assumed pattern of wind generation. This sensitivity resulted in the substantially higher MPC for an extreme peaking plant to be economic for South Australia to achieve the 0.002% USE when incorporated in the modelling. As the amount of intermittent wind generation in South Australia continues to increase, so do the uncertainties associated with it. IES state that this may become one, if not the, key uncertainty in the market, particularly in South Australia.

Energy Division understands that uncertainty on the implementation of a carbon policy is having an effect on investor confidence and is leading to

---

<sup>2</sup> AEMO, *2011 South Australian Supply and Demand Outlook*, 2011, p. 101.

investment lags. We understand that there will need to be greater than 1,000 MW of non-intermittent generation committed within the next two years in order to maintain the market reliability standard. This will require certainty about the implementation of carbon policy, otherwise system security and reliability may be reduced in the medium term. Energy Division consider that other factors contributing to the slowing in generation investment include the current MPC and the market price for Renewable Energy Certificates (RECs).

In its Rule change proposal, the Reliability Panel states that it considers that the current Reliability Settings are sufficient to ensure the reliability and the RERT is no longer required<sup>3</sup>. This is inconsistent with its findings in the review on the Reliability Standards and Settings, where it considered that the ability of the current set of Reliability Settings to achieve each of the stated objectives, including meeting the required level of reliability, is limited<sup>4</sup>. This is consistent with the modelling undertaken by IES which noted that taking into account the full distribution of load and wind generation and the dynamics of the NEM it could be argued that a higher MPC would be required to meet the required level of reliability.

The Energy Division notes that further increasing the MPC introduces increased market risks to participants and that this cost could outweigh the benefits of meeting the objectives of the reliability settings. A mechanism such as the RERT is therefore important in providing a safety net while maintaining a balance between the appropriate level of the MPC and the financial risks carried by participants.

Energy Division considers that the issues raised regarding the uncertainty in the market, the potential lack of investment and the impact wind generation is having on wholesale market prices (and noting that there are significant levels of further wind generation planned), further suggests there is a need for a last resort support mechanism. If the AEMC feels that the RERT is not the appropriate mechanism to provide this function then it should consider an alternative support mechanism.

The Energy Division considers that last resort support mechanisms are important components of competitive markets such as the NEM. For example the Gas Short Term Trading Market includes a Contingency Gas mechanism that, in principle, serves a similar purpose to that of the RERT. Just as RERT allows AEMO to contract for capacity during periods of low reserves, AEMO is able to procure contingency gas in consultation with pipeline operators and distributors. In both cases these provisions allow AEMO some moderate intervention in the market to reduce the need for involuntary curtailment.

The Energy Division notes that under the Rules, clause 3.20.1, the RERT is set to expire on 30 June 2012. A preferable Rule would be a further extension of the RERT for a period of time while the AEMC further considers alternative

---

<sup>3</sup> Reliability Panel AEMC, *Rule Change Proposal – Reliability and Emergency Reserve Trader*, 1 July 2011, p. 16.

<sup>4</sup> Reliability Panel AEMC, *Final Report – Reliability Standard and Reliability Settings Review*, 30 April 2010, p. 42.

mechanisms that provide capacity as a last resort to avoid involuntary load shedding.

Should you wish to discuss this submission please contact Ms Rebecca Knights, Director Energy Markets, Energy Division on (08) 8204 1715.

Yours sincerely,



Vince Duffy  
EXECUTIVE DIRECTOR  
ENERGY DIVISION

13 October 2011

Attachment 1