

Reliability Panel AEMC

Australian Energy Market Commission Reliability Panel

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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear John,

Draft Rule Determination (Expiry of the Reliability and Emergency Reserve Trader)

The Reliability Panel (Panel) thanks the Australian Energy Market Commission (Commission) for the opportunity to provide a submission on its draft determination on the Panel's proposed Rule "Expiry of the Reliability and Emergency Reserve Trader".

The Panel engaged in extensive consultation under direction from the Commission on this matter, and gave careful consideration to the largely aligned views of participants from all segments of the market. Consequently the Panel finds it of concern that the Commission has proposed a "more preferable" Rule.

The Panel notes that the obligation on the Commission under s.91A of the National Electricity Law in making a more preferable Rule is that the more preferable Rule is "**likely to better** contribute to the achievement of the national electricity objective". In the circumstances outlined below, the Panel does not believe this hurdle has been met.

The Panel believes that the case for the extension of the expiry date of the Reliability and Emergency Reserve Trader (RERT) to 30 June 2016 will not improve the likelihood of "better contributing" to the NEO, because it considers on the evidence and views available to it that the RERT is unlikely to be used, and if used is unlikely to materially improve reliability.

The Panel is of the view that the Commission does not provide clear reasons in its draft determination as to the NEO benefits of a longer RERT retention. The draft determination considers that maintaining the RERT for a longer period is likely to provide benefit to consumers in terms of a reliable and secure supply of electricity, but provides little evidence to suggest why. The Panel is of the view that there are not material net benefits in maintaining the RERT and notes that no benefits were claimed by representatives of commercial or residential users during the Commission's consultation on the RERT. However the Panel acknowledges that the Major Energy Users did argue for an extension of the RERT during the Panel's recently concluded review.

The core argument of the only submissions to the Commission in favour of the RERT is that the Market Price Cap and Cumulative Price Threshold are too low, despite the Commission's recent determinations on appropriate levels for their values, and therefore a safety net is required.

However, even if this were the case, the Panel does not believe the RERT is an instrument capable of providing that safety net. The RERT Panel process has delivered little interest, RERT capacity has not been deployed, and the scale of typical RERT capability has been small compared to the major increments of capacity deficiency that would trigger a reliability event. In the extreme example, the RERT is clearly incapable of dealing with the reliability issues attending potential plant closure or any lack of investment occasioned by market uncertainties, for example arising from climate change responses.

Furthermore, it is arguable that the existence of, and reliance on an ineffective measure such as the RERT can represent a barrier to the establishment of more effective arrangements that can meet consumers' desire to avoid wide-spread unserved energy (USE). If market conditions warrant a safety net (some form of emergency arrangement) then an alternative to the RERT may be required; however the Panel is of the opinion that in practice, the RERT is unlikely to deliver a material reduction in USE.

The Panel in its recommendation to the Commission had already delayed its recommended closure date for the RERT, on balance erring to the conservative, in part to allow greater demand-side development. The Panel urges the Commission to reconsider its draft decision to further extend the remit of the RERT.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Neville Henderson', written in a cursive style.

Neville Henderson
Chairman, Reliability Panel
Commissioner, AEMC