



21 September 2009

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By email: submissions@aemc.gov.au

National Electricity Amendment (Improved RERT Flexibility and Short-notice Reserve Contracts) Rule 2009

The Energy Supply Association of Australia (esaa) welcomes the opportunity to comment on the Reliability Panel's proposed Rule change to the Reliability and Emergency Reserve Trader (RERT) mechanism.

esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of over 40 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ 52,000 people and contribute \$16.2 billion directly to the nation's Gross Domestic Product.

esaa has some concerns with the proposal to change the RERT to enable the Australian Energy Market Operator to convene short and medium-term panels of pre-accredited reserve providers that are able to be contracted with significantly less notice than reserves under current RERT arrangements.

The Association does not consider that a strong rationale for extending existing reserve procurement powers has been established and believes that there are risks in enlarging the scope for regulatory interventions in the market, particularly as sufficient analysis to gauge the materiality of possible distortionary consequences has not been undertaken.

In the National Electricity Market (NEM) the responsibility for delivering a reliable supply of electricity to consumers resides principally with market participants. As an energy-only market, the NEM's primary mechanism to ensure sufficient capacity is installed to meet policy makers' expectations for reliability – as articulated in the Reliability Standard and operationalised in the reliability settings – is the spot price. Notwithstanding the constraints imposed on the spot price, the energy-only market has worked effectively over the last ten years to deliver some new investment (although little private sector baseload investment) and to provide an incentive for plant to be available during periods of tight supply and demand conditions.

esaa considers the effective operation of the energy-only market is impacted by interventions to deliver capacity through mechanisms such as the RERT. The Reliability Panel acknowledged the distortionary impact of reserve trading mechanisms in its Comprehensive Reliability Review in 2007, but nonetheless

recommended converting the previous Reserve Trader mechanism into the RERT, which extended reserve procurement powers from six months before an anticipated reserve shortfall to nine months, on the grounds that the benefits outweighed the costs.

The current Rule change would build on this earlier expansion by collapsing the timeframe for contracting reserves from the current 10 weeks before a projected shortfall to three to four hours before dispatch. esaa is concerned that this significant expansion of the scope for market intervention portends a subtle but material departure from the NEM's energy-only basis and will introduce further distortions that may have substantial and difficult-to-predict impacts on generator behaviour, the wholesale market and investor decision-making. While no detailed analysis of the potential consequences of this Rule change on the market's operation has been provided with the proposal, a clear possibility, identified in section 4.2.2 of the Rule change proposal, is that the reserve panels may crowd out the development of market-based demand-side responses. The prospect of demand-side reserves withdrawing from the market to join the panel may increase the probability that the RERT panels are deployed.

esaa is of the view that if the Australian Energy Market Commission (AEMC) has reservations about the market's ability to deliver sufficient capacity to meet the current reliability expectations of the NEM, then a fulsome review into capacity availability and the drivers of market failure should be undertaken at the appropriate time, noting that this would likely be after the uncertainty around the impending introduction of the Carbon Pollution Reduction Scheme and the expanded Renewable Energy Target is resolved. The Association notes, however, that the NEM has historically performed well against the Reliability Standard and that no region has failed to comply with the long-term reliability standard.¹

Alternatively, if there is a view among policy makers that electricity supplies should be delivered with greater reliability than the current market and reliability framework are designed to achieve, then rather than incrementally expanding intervention powers to achieve an implicitly higher reliability standard through regulatory means, a clear policy objective should be articulated following comprehensive reappraisal of the market framework. In this context, esaa notes that the current Reliability Standard and Settings Review and the Review of the Effectiveness of NEM Security and Reliability Arrangements in light of Extreme Weather Events would be instructive.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Brad Page', with a stylized flourish at the end.

Brad Page
Chief Executive Officer

¹ This is stated in the Reliability Standard and Settings Review Issues Paper, where unserved energy from industrial action in existing plant is excluded, as is the practice.