

2 February 2012

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

By online submission

Dear John

Re: Expiry of the Reliability and Emergency Reserve Trader - ERC0132

The Energy Retailers Association of Australia (ERAA) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) consultation on the Draft Rule Determination for the Reliability Panel's (the Panel) rule change regarding the expiry of the Reliability and Emergency Reserve Trader (RERT) and the Panel's requirement to review the RERT a year prior to its expiry.

The ERAA is the peak body representing the core of Australia's energy retail organisations. Membership is comprised of businesses operating predominantly in the electricity and gas markets in every State and Territory throughout Australia. These businesses collectively provide electricity to over 98% of customers in the NEM and are the first point of contact for end use customers of both electricity and gas.

In this submission the ERAA relies on previous issues raised in joint submissions made by the NGF and the ERAA to the Panel on 9 February 2010 and 17 September 2010 during their review of the RERT and subsequent submissions made by ERAA members and the esaa in recent consultations.

Whilst the ERAA supports the AEMC's decision to remove the obligation on the Panel to review the RERT a year prior to its expiry, the ERAA does not support the AEMC's decision to extend the RERT to 30 June 2016. This decision concerns the industry as we feel previous issues raised by the industry throughout the lengthy consultation phase have not been properly addressed.

Whilst this submission does not plan to reiterate previous concerns raised by the industry, the ERAA maintains its strong position that the RERT:

- Creates a secondary market, outside the primary market, which distorts supply and demand signals and contradicts the AEMC principle of "allowing energy markets to operate without distortion as the primary means of protecting the interests of consumers"¹.
- Is an unnecessary cost burden borne by both industry and consumers at a time when energy prices are rising and inefficiencies in energy costs are being highly scrutinised. Since its introduction AEMO (NEMMCO) has only ever entered into reserve contracts in 2005 & 2006 at an estimated cost of \$5.4 million, exclusive of administrative costs, paid for by the industry and consumers – for little or no

¹ Australian Energy Market Commission, *Draft Rule Determination, National Electricity Amendment (Expiry of the Reliability and Emergency Reserve Trader) Rule 2012*, December 2011



perceived benefit. In addition, AEMO did not receive a single expression of interest in response to its most recent RERT Panel request².

The ERAA is also unclear as to why the Commission has opted to extend a mechanism that is clearly not supported by the industry, has clear operational challenges as noted in AEMO's letter to the AEMC January 3 2012 and is considered by the Commission in its Draft Ruling as not "a suitable tool to accommodate the withdrawal of substantial amounts of generation capacity from the NEM as a result of climate change policies"³.

Whilst we appreciate that the Commission is concerned about protecting the key objectives of electricity services in the NEM, the Commission has not provided sufficient justification as to the extension of the RERT, in consideration of the numerous issues raised and outlined by the ERAA and its members throughout the consultation period.

AEMO has recommended, as a result of the Draft Determination, to make substantial changes to the operation of the RERT.⁴ Whilst the ERAA's preferred approach is for the AEMC to reconsider its decision to extend the RERT to 30 June 2016 in its Final Determination, the ERAA anticipates that the AEMC will conduct a further round of consultations for industry to consider proposed operational changes should the RERT be maintained for a further 4 years.

Should you wish to discuss the details of this submission further please contact me on (02) 9241 6556 and I will be happy to facilitate such discussions with my member companies.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Cameron O'Reilly', with a large, stylized flourish at the end.

Cameron O'Reilly
Chief Executive Officer
Energy Retailers Association of Australia

² Australian Energy Market Operator, AEMO Communication No. 876 – NEM – Update on the Request for Expressions of Interest for RERT Panel, e-mail, 30 November 2011.

³ Australian Energy Market Commission, *Draft Rule Determination, National Electricity Amendment (Expiry of the Reliability and Emergency Reserve Trader) Rule 2012*, December 2011, p.21

⁴ AEMO submission on Australian Energy Market Commission, *Draft Rule Determination, National Electricity Amendment (Expiry of the Reliability and Emergency Reserve Trader)*, January 2012.