

9 October 2008

Mr Ian Woodward  
Chairman  
Reliability Panel  
Australian Energy Market Commission  
PO Box A2449  
SOUTH SYDNEY NSW 1235

By email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Mr Woodward,

### **Reliability and Emergency Reserve Trading guidelines**

The Energy Retailers Association of Australia (ERAA)<sup>1</sup> is pleased to have the opportunity to comment on the draft Reliability and Emergency Reserve Trading (RERT) Guidelines (the guidelines).

On the whole we support the guidelines. The ERAA would like three changes:

1. NEMMCO should be allowed to inform itself more broadly during stage 1 of the RERT process;
2. NEMMCO should be required to consider the impact on the contract market when it contracts for reserves; and
3. NEMMCO should be required to ensure that only new or additional reserves are contracted during the RERT process.

#### ***NEMMCO should be able to inform itself more broadly during Stage 1***

The ERAA agrees that NEMMCO should, as a minimum, use the information from MT PASA and drought studies during Stage 1 of the RERT process. We think, however, that NEMMCO should not be restricted to these inputs.

We would therefore suggest that the dot point “any other information that *NEMMCO* reasonably identifies as necessary” be moved from Stage 2 to Stage 1.

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<sup>1</sup> The ERAA is an independent association representing twelve retailers of electricity and gas throughout the National Electricity Market (**NEM**) and the jurisdictional gas markets. ERAA members collectively provide electricity to 11 million customers in the NEM and are the first point of contact for end use customers for both gas and electricity.

***Impact on the contract market.***

Section 4.1 of the guidelines deals with minimising distortion on the market. The ERAA notes that the AEMC and the Reliability Panel are fully aware that operation of the RERT is inherently distorting and that both the Rules and the guidelines are careful to minimise distortions. We think, however, that NEMMCO should be required to check for all market distortions, including the contract market.

The ERAA would therefore request that a dot point be included in section 4.1 to the effect of “any impact on contracts between retailers and providers of reserves”.

***Need to ensure that any contracted reserve is new to the market***

As a matter of principle, the ERAA has always maintained that any reserve provided under reserve trading should be “new” to the market or otherwise unavailable. Central provision of reserves is designed to add reserves to the market based on the inability of the current reliability settings to provide them directly.

To this end Rule 3.20.3(h) requires NEMMCO to be sure that any scheduled reserves that are contracted would not otherwise be available to the market. The ERAA remains concerned that no similar requirement is made in relation to unscheduled reserves.

Anecdotal evidence from previous reserve trading episodes indicates the some unscheduled reserves contracted by NEMMCO would have been available to the market at a lower cost via contracts with retailers. This means that:

- no actual additional reserve was provided for those episodes; and
- the reserve provided by NEMMCO for them was at a higher cost than would have otherwise been achieved through normal market mechanisms.

The ERAA requests that a provision be inserted in the guidelines to the effect of: “NEMMCO must take reasonable steps, including market inquiry, to verify that unscheduled reserves offered for contract under the RERT would not have otherwise been available to the market. Evidence that a party has previously offered the reserve directly to the market would be prima facie evidence that the reserve is not eligible for a RERT contract”

Should you require any further information in relation to this matter please feel free to contact me on (02) 9437 6180.

Yours sincerely



Cameron O'Reilly  
Executive Director

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