



5 June 2009

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,

**RELO035: NEM Reliability Settings: Improved RERT Flexibility and Short-term Reserve Contracts Exposure Draft**

Origin Energy (Origin) welcomes the opportunity to comment on the Reliability Panel's proposal for a short-term version of the Reliability Emergency Reserve Trader (RERT).

Origin has previously voiced concerns (through past AEMC consultations) on the market distortionary effects of the RERT. We will not revisit these here, particularly given that the Reliability Panel has also expressed similar views. It is worth reiterating, however, that interventionist mechanisms such as the RERT are inefficient and distortionary and should only be explored if market based solutions fail to deliver the desired outcome.

The recent reliability incidents in Victoria and South Australia which lead to involuntary load shedding has brought into focus the low reserve levels in these regions. Given the timeframes involved a supply side response is unlikely to alleviate this situation in the short-term. It is therefore important that demand side measures are given every opportunity to enter the market where efficient, (i.e. when the avoided supply-side costs outweigh the loss of value to consumers from using less electricity).

In our view any attempts to safeguard against future reliability incidents, such as the proposed short-term RERT, must not add to the market distortion already created by the original RERT. We have assessed the short-term RERT with this criterion in mind. Our views on the specific design features are outlined below.

*Establishment of the RERT Panel*

Origin considers that the establishment of a pre-accredited RERT panel could help NEMMCO acquire contracted reserves at short notice. This would significantly reduce the time it takes NEMMCO to enter reserve contracts and ensure a quicker response to unexpected shortfalls in supply. In order to facilitate this process we support the proposal that the Rules be clarified to enable NEMMCO to negotiate with prospective panel members at anytime, on the legal and technical issues which must be resolved



prior to a contract being finalised. Note that we are not supportive of NEMMCO being able to finalise contracts until there is a clear indicator of a supply shortfall.

Given that panel members are not obliged to make their reserves available they should be required to advise NEMMCO when their capacity is unavailable. This will enable NEMMCO to immediately focus on members which have available capacity when an emergency situation arises.

#### *Payments to the RERT Panel*

We strongly support the proposal that there should be no payment for being on the RERT panel as this would amount to a capacity payment, and represent a significant departure from the energy only market framework. For the same reason we do not support payment to panel members for one-off expenses they may incur in resolving any technical/legal issues with NEMMCO. In any case panel members will be able to recover these costs through their offer price, which given opportunity cost, they are likely to do even if they did not bear these expenses themselves.

#### *Continuous operation of the RERT Panel*

Origin supports the recommendation that the RERT panel operate on a continuous basis (i.e. panel members are able to remain on the panel until they chose to withdraw), provided that this does not inhibit prospective members from joining. Additionally, there should be scope for NEMMCO to remove members that had previously failed to fulfil contractual obligations (e.g. not informing NEMMCO that their capacity is unavailable).

The continuous operation of the panel would allow for the avoidance of administrative costs that would be incurred if panel membership had to be continually re-negotiated.

#### *Double dipping*

Capacity that is the subject of a reserve contract through the short-term RERT arrangements should not be available to the market via another mechanism. It would create market distortion and confusion if contracted members of the RERT panel are also able to enter contractual arrangements with other market participants such as retailers.

#### *Security events*

Origin supports the extension of the RERT to cover system security events, but notes that given the localised nature of system security events the RERT may not alleviate the supply shortfall. Further, pricing and recovery would need to be addressed in an equitable manner.

#### *Review process*

The short-term RERT should be subjected to the same review process and expiry date as the RERT.

If you wish to discuss any of these issues further please do not hesitate to contact me on (02) 8345 5250 or Steve Reid on (02) 8345 5132.

Yours Sincerely,

A handwritten signature in black ink, appearing to read "Tim O'Grady".

Tim O'Grady  
Head of Public Policy