



2 February 2006

By email: submissions@aemc.gov.au

Dear Sir or Madam:,

TRUenergy submission on Proposal for 2 year Reliability Safety Net extension

Thank you for this opportunity to comment upon the extension.

Please also find attached submissions by our predecessor, TXU, to previous extensions to the reserve trader.

- 24 March 2005 Submission to ACCC
- 20 March 2003 Submission to ACCC
- 22 February 2003 Submission to ACCC

If successful, we understand this will be the fourth occasion since NEM start that the reserve trader has been extended without adequate consideration of its effectiveness. In its supporting submission, The Panel has noted two previous extensions, but overlooked that the reserve trader was also extended from its initially scheduled sunset of 2000, but was extended to 2003 in lieu of NECA's "Capacity Mechanisms" review held in 2000 and 2001.

In each of the previous extensions, the Panel cited an approaching "comprehensive review" as a satisfactory explanation for the regulator to expediently ignore the need to demonstrate a compelling case to retain the initial transitional intent. However the AEMC, unlike NECA, has a clear market objective that it must consider any rule change proposal against. If it is not satisfied that the reserve trader's existence during the two-year period is in the long-term interests of customers, then it must not accept this proposal. Any intention of the panel to conduct a "comprehensive review" is irrelevant to the AEMC's decision that must be taken only upon the merits of the evidence before it regarding whether the market objective is furthered in the presence of a reliability safety net as opposed to its absence.

And like previous extensions, the Panel again appears to presume that a case needs to be demonstrated for allowing it to terminate rather than bother to make a substantial case in favour of its benefits. This is despite its limited horizon being a key factor in the original ACCC authorisation of it in 1998.

The panel provides only one piece of evidence as to why the safety net should be extended:

"the reliability safety net was used in 2004 and has been commenced in 2005 due to projected supply shortfalls over the summer period".

The letting of some reserve trader contracts in 2004 and 2005 is hardly sufficient evidence for the AEMC to conclude that the NEM is better off with the reliability safety net. The panel has not discussed:

- That NEMMCO also advertised for reserve trader contracts in late 2002, however a change in generator outages plans caused the process to be interrupted. We understand that the process was on the verge of failure due to a lack of tenderer interest.
- That during 2004 and 2005 NEMMCO contracted to an amount well short of the claimed shortfall in reserves, indicating that the safety net has major shortcomings somewhere in its process that require a fuller explanation before the AEMC could consider its extension.
- That the contracts let in 2004 and 2005 are yet to be operated, and thus so far customers have paid several millions of dollars without receiving any actual benefit.

There is no need for the reserve trader to remain in place during this fourth attempt of the Reliability Panel to undertake a “comprehensive review” of capacity mechanisms. The Statement of Opportunities indicates that during the period of extension, the reserve trader will not be required. In fact it would be better for the environment of the review that there is no “status quo” situation regarding the reserve trader mechanism.

With respect to this matter, we quote TXU’s submission to the ACCC in March 2005 when considering an extension:

“In 2003 the ACCC attempted to break the cycle (of repeating extensions) by placing clear conditions forcing the reliability panel to complete a thorough review prior to 1 July 2004. This did not work and it is very likely that in 2006 the AEMC will be authorising a further expedient extension.”

For further discussion of our views on these matters, please contact me on 03 8628 1280.

Your Sincerely,

Ben Skinner
Regulatory Manager, Wholesale Markets