



Mr John Pierce  
Mr Neville Henderson  
Dr Brian Spalding  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Commissioners,

**Reference: ERC0132**

## **A: Introduction**

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TRUenergy welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Consultation paper that discusses the National Electricity Amendment (Expiry of the Reliability and Emergency Reserve Trader) Rule 2012.

The Reliability Panel (Panel) conducted a review of the Reliability and Emergency Reserve Trader (RERT) prior to this rule change. The Panel undertook the review in accordance with Section 38 of the National Electricity Law (NEL), clause 8.8.3 (c) of the National Electricity Rules (Rules) and the National Electricity Objective (NEO).

The Panel published its final report on the review of the RERT on 21 April 2011.

The Panel submitted a Rule change request to the AEMC entitled 'Expiry of the Reliability and Emergency Reserve Trader' following this review, on July 1, 2011,

The Rule change request proposed to:

- postpone the specified date for the expiry of the RERT by one year, from 30 June 2012 to 30 June 2013 as a transitional measure and allow the RERT to expire from the Rules on 30 June 2013; and
- remove from the Rules the requirement for the Reliability Panel initiated review of the RERT mechanism.

The AEMC released a consultation paper in order to get feedback from stakeholders on the key elements of this Rule change. In response to this, we submit the following comments to the questions raised by the AEMC in its consultation paper.

## **B: TRUenergy position on the RERT**

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TRUenergy supports the proposal to remove the RERT.

We consider that the reliability of supply of any region in the National Electricity Market (NEM) will not be guaranteed by including a RERT.

We believe that the reliability settings – which were recently amended following the Reliability Settings and Standards Review - like the Market Price Cap (MPC) and the Cumulative Price Threshold (CPT) will ensure that the reliability standard of (0.002% of unserved energy) in the NEM is met.

We consider that the RERT distorts the price of energy in the NEM. Whilst we agree that its impact is marginal, this is largely because reserves have been adequate. If they were to tighten, the RERT could become a significant distortion and reduce incentives for longer term capacity provision via investment in the primary market. Therefore, we think it should be removed as soon as possible.

We believe that the RERT is more attractive to some demand side participants ahead of the primary market. Some participants who have been unable to compete with market based capacity services - such as those with strict restrictions on availability - may find the RERT more attractive.

We think that this available capacity should be priced and provided through the spot and contract energy markets (as is other capacity services). The purpose of the RERT has never been to subsidise uncompetitive business models or products, and to maintain the RERT for these reasons would be distortionary and inefficient.

Therefore, on the basis that RERT delivers in-efficient outcomes that are inconsistent with the NEO, we support its removal.

## **C: Responses to key questions**

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TRUenergy submits the following responses to the questions raised by the AEMC in the consultation paper.

**1. What market distortion is created by the RERT, and what evidence is there in support of that position?**

TRUenergy considers that the RERT creates a secondary market for reserves.

It encourages providers of peak reserves to participate indirectly in the market by contracting with AEMO rather than contracting directly with a retailer.

We agree that this approach could deter participants from entering into commercially negotiated agreements and this could deter investment in the long term.

Whilst we agree that the market distortion from the RERT is small, nonetheless it still has a secondary impact that distorts the market.

Overall, we consider this capacity would be priced more efficiently if were contracted through a market mechanism either directly with retailers or other market participants rather than through AEMO.

**2. What are the benefits of retaining the RERT does the RERT in its current form provide a safety net benefit?**

TRUenergy remains unclear on the benefits of retaining the RERT.

Whilst some market participants claim that the RERT is useful in addressing small supply shortfalls for a small duration, we are not convinced that this provides a real benefit. In general, we consider that the limited capacity available under the RERT makes it in-effective in addressing any significant supply shortfalls. Therefore, we think that it is inconsequential in terms of ensuring that the Reliability Standard is achieved.

We are not convinced that the RERT provides a safety net benefit. By and large, it just allows the capacity reserved for the RERT to be supplied through a secondary market creating a distortion in the NEM.

We consider that the changes to the methodology for determining the reliability settings following the Reliability Standard & Setting Review are appropriate. The reliability settings which are set under the revised framework will ensure that the reliability standard of (0.002% of unserved energy) in the NEM is met.

Overall, we remain unclear on the role that the RERT provides in this regard.

**3. Are stakeholders of the view that it is necessary to extend the expiry date of the RERT to 30 June 2013? If so, why?**

TRUenergy disagrees that it is necessary to extend the expiry date of the RERT to 30 June 2013.

We understand that the Panel considers that there may be some value in having the RERT extended for a year. Those stakeholders whose core business was impacted by abolishing the RERT would get sufficient notice to make the necessary adjustments they needed to make.

We remain unclear on the relevance of this argument. The RERT has been in place in the NEM to act as some form of mechanism to support the reliability of supply to the market. It is not a sectoral mechanism that has been placed to support the demand side. We consider that improved demand side initiatives will develop and evolve following the AEMC's Demand Side Review.

We believe that maintaining the RERT for another year to support the demand side is irrelevant in the context of this review and would contribute to ongoing inefficiency by subsidising uncompetitive business models.

**4. Does the proposed carbon legislation have any impacts relevant to existence of the RERT? If so, what are they?**

TRUenergy believes the proposed carbon legislation has no relevance to the existence of the RERT.

We draw this conclusion for the following reasons that include:

- It would be impractical for an interim approach such as the RERT to be able to provide enough capacity to fill the gap caused by the departure of a large scale based load plant as a result of the introduction of a price on carbon
- The reliability settings designated by the Panel following the Reliability Standards & Settings Review are the main mechanism that will ensure the reliable supply of electricity in the NEM. As such, we do not consider that the RERT is the proper mechanism to deal with any shortfall of capacity as a result of the introduction of a price on carbon.
- The Federal government's decision to issue carbon permits to impacted generators as a result of the introduction of a carbon tax will be a major factor in ensuring the reliable supply of electricity in the NEM continues. We do not consider that the RERT has a role to play in this regard.

## C: Conclusion

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TRUenergy supports the proposal to remove the RERT.

We consider that the reliability of supply of any region in the NEM will not be guaranteed by including a RERT.

We believe that the reliability settings – which were recently amended following the Reliability Settings and Standards Review - like the Market Price Cap (MPC) and the Cumulative Price Threshold (CPT) will ensure that the reliability standard of (0.002% of unserved energy) in the NEM is met.

We thank the AEMC for considering the issues that we have raised in relation to this Rule change. We hope that they will give our submission its due consideration.

If you have any enquiries regarding this submission, please feel free to contact Mr. Con Noutso - Regulatory Manager at TRUenergy on Tel: 03 8628 1240

Regards



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