

AEMC Review of RERT

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NGF Position on RERT

- *It is not needed*
- *It is a distortion to the market*
- *It is poor policy to develop a sub market for reserve*
- *It perpetuates an inconsistency in the rules on the implied value of achieving a secure operating state*
- *Removal will increase the achievement of the NEO*

It is not needed

- Introduced as a safety net at market start
- Only contracted twice in 12 years
- Has not contributed 1MWh to reliability
- Not considered when setting MPC/CPT
- Too small to meet any significant shortfall

It is a distortion to the market

- Creating a submarket within the NEM for reserve is a less efficient approach
- Efficiency can be maximised by encouraging  ALL generation and load to take part in the primary market
- This is increasing for loads as large end customers take spot positions for part of their load and take an active part in the market
- For generation, simpler connection standards are needed
- Panel recognised it is distortionary in 2008
 - Should not be needed in the long term
 - Isn't 12 years long term?

It is poor policy to develop a sub market for reserve

- An efficient market design would have all potential participants competing in one market
- Work needs to be done (and is under way) to remove impediments to potential RERT tenderers taking part in the market
- Panel should publish details of type of generation/load which has been contracted to enable assessment of why this generation/load is not taking part in the market
- No price cap on this market

It perpetuates an inconsistency in the rules on the implied value of achieving a secure operating state

- Without RERT
 - AEMO relax constraints to resolve infeasible dispatches
 - Load shedding will not be used to avoid the risk of load shedding
- With RERT
 - RERT contracted services used to achieve a secure operating state
 - No price cap so RERT price can exceed MPC
- Leads to different value for achieving a secure operating system

Removing RERT improves achievement of NEO

- More efficient (single) market
- Removes inefficient costs from consumers
- Removes inconsistent approach in the rules to valuing secure operating state with RERT price uncapped
- Encourages participants to be active in the market all the time (and not wait for RERT tenders) and contribute to reliability all the time
- No reduction in USE over last 12 years

Issues Raised by the AEMC

- External and policy regulatory factors –
 - notes carbon uncertainty may reduce investment
 - medium term issue which will be fixed by carbon certainty
 - capacity available through RERT will be too small if this is an issue
- Uptake of Demand Side Participation
 - notes lack of uptake
 - omits to recognise customers with spot pass thru who take part in demand side
 - this involvement is very hard to measure but seems to be increasingly popular.
- Other factors – Extreme weather
 - notes AEMC's multiple recommendations in the Extreme Weather report
 - arguably energy only market gives stronger signals under extreme weather than other designs

Reliability Panel Questions

1. The Reliability Settings have been set at levels that are expected to encourage sufficient investment in new capacity. Do stakeholders consider that the residual risk of insufficient capacity being available in the future is high enough to retain a form of reliability safety net (of similar form to the reserve trader)?

- ***Answer: No***
- *If there is a reserve problem from major plant closure, using off market capacity will be ineffectual due to the small volumes available*

Reliability Panel Questions

- 2. If a form of reliability safety net is required, do stakeholders consider that the current short, medium and long-notice forms of the RERT are effective?*
- ***Answer:*** *If there must be one, current RERT is tolerable*

Reliability Panel Questions

3. Do stakeholders consider that the current expiry date for the RERT is appropriate and, if not, what is the most appropriate date?

- ***Answer: 30 June 2011 or earlier***
- *This inefficient unnecessary feature should be removed as soon as possible.*

Possible ways or reducing the inefficiency of the RERT

- NGF opposes the retention of the RERT but its inefficiency could be reduced by:
 - Limiting the effective cost of RERT to MPC
 - Hard to do given possible availability payment
 - More transparency of successful RERT tenderers (non commercial information)

Summary

- *It is not needed*
- *It is a distortion to the market*
- *It is poor policy to develop a sub market for reserve*
- *Focus should be on bringing all available generation/loads into the primary market*
- *Removal of RERT will increase the achievement of the NEO by eliminating inefficient costs*