



3 February 2006

Dr John Tamblyn
Chairman
Australian Energy Market Commission
POI Box H166
Australia Square NSW 1215

By email: submissions@aemc.gov.au

Dear Dr Tamblyn,

RE: Proposed Rule change to extend the Reliability Safety Net

The Energy Retailers Association of Australia (ERAA) is the peak industry body representing energy retailers in Australia. We appreciate this opportunity to comment.

Over time the ERAA has raised issues to NECA and AEMC with the cost and effectiveness of the reserve trader mechanism¹. These have related to:

- The impact of contracting providers who may have otherwise participated in the energy market;
- The impact upon demand forecasting caused by the incentives upon demand-side providers to claim non-participation in the energy market;
- That the potential costs of the safety net might outweigh its benefits.
- That the fixed payment mechanism is not consistent with the energy market design.

With respect to the first 3 matters, we acknowledge that NEMMCO and the panel have made some improvements over the last two years, but these concerns can probably not be completely eliminated within the current safety net design.

ERAA therefore supports the AEMC's request for the panel to undertake a comprehensive review during 2006/7 that will include the role and form of the safety net. The key question is whether that necessarily implies that the current safety net must be extended in the meantime or allowed to lapse. As any rule change must be

¹ E.g. See ERAA submission on "DRAFT GUIDELINES FOR INTERVENTION BY NEMMCO FOR RELIABILITY" 2005

considered against the market objective, a case must be demonstrated that the objective has been furthered by the extension, i.e. that the reliability safety net does actually enhance consumer interests over having no safety net. The proponent accepts that as the theoretical evaluation is yet to be conducted, the case can only be established through practical experience.

The panel claims the initiation of the safety net for the summers of 04/5 and 05/6 provides adequate prima-facie evidence that consumer interests are furthered by the safety net. Yet it has not presented some other relevant evidence:

- That despite the 3 months of reserve trader operation to date, there have been no "Lack of Reserve" conditions in the relevant NEM regions and the contracts have not been dispatched. In fact consumers to date have received no actual reliability benefit from its operation.
- That the cumulative costs of the safety net will accrue to at least \$6 million, thereby clearly adversely impacting upon consumers in the affected regions with respect to price.
- That the NEMMCO reserve outlook indicates that reliability standards will be met during the two years of proposed extension and therefore it appears the safety net cannot further consumers' interests with respect to reliability from July 2006-June 2008.
- That NEMMCO intended to purchase a substantially greater volume of contracts than it actually achieved indicating a potential failure in the existing safety net's design.

It would appear there is insufficient evidence before the AEMC to demonstrate that the reliability safety net does in fact further consumers' interest with respect to *both* reliability and price. Such a demonstration will benefit from the theoretical evidence provided by the comprehensive review.

In summary, the practical evidence to date does not present the compelling case required for the AEMC to accept the extension.

Yours sincerely,

Transmitted via email.

Patrick Gibbons
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Energy Retailers Association of Australia
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