



Energy Retailers Association
of Australia Limited

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ERAA Submission: STTM Start Date

Dear Michelle,

The Energy Retailers Association of Australia (ERAA) makes this submission in response to the consultation for the Exposure Draft of the Short Term Trading Market amendments for the National Gas Rules.

Background

The ERAA is an association representing 18 electricity and gas retailers that operate throughout the National Electricity Market and the jurisdictional gas markets. The ERAA members collectively provide electricity and gas to the majority of energy customers in Eastern Australia and ERAA members are the first point of contact for end-use customers for both gas and electricity. Whilst the member organisations of the ERAA have market share throughout the Nation, in the main, the ERAA's interests are concentrated in the Southern and Eastern States of Australia. Because the ERAA represents both incumbent and 2nd tier Retailers, the business interests of members often vary. The matter that is addressed in the letter has been supported by all non-incumbent retailers who are intending participants in the STTM.

The ERAA's involvement in the development of STTM

Through its gas retail members, the ERAA has been actively involved in the development of the STTM from the inception of the project. This involvement has spanned the entire hierarchical reporting structure that has been established specifically by the gas industry to deal with the end-to-end process for market roll-out. The ERAA participation in the STTM has included representation on the Gas Market Leaders' Group, the STTM Steering Committee (now defunct), the STTM Working Group and the STTM Industry Legal Working Group. In discussions in these

working groups, the ERAA has not only made contribution to debate on specific retailer issues, it has also provided advice on wider and related interests such as upstream gas supply contracts, transmission haulage contracts to the STTM Hubs and carriage regimes for the distribution network.

The ERAA's expertise in the proposals for the STTM has been cultivated through its extensive involvement in all aspects of STTM project as detailed above. These experiences, together with the business interests of its gas retail members, constitute the basis for the ERAA's credentials in the subject matter of this submission.

STTM Start Date Proposal

As currently proposed, the Ministerial Council on Energy - Standing Committee of Officials (SCO) have confirmed that the start date for the STTM in both the NSW and SA Hubs will be 4th June 2010. The ERAA's non-incumbent gas retailers believe that this date was first proposed in the early days of the project when the full ramifications of a peak period start date may not have been fully appreciated by decision makers. Since that time, many aspects of the STTM have become clearer. Importantly, potential participating retailers in the STTM now have a better understanding of the nature of the broad constructs that were outlined in the original ICF recommendations and retailers are better informed by the more detailed outworking of the ICF paradigms as described in the recently released exposure draft of the STTM Rules.

It is the ERAA's view there is a common agreement within the gas industry (and amongst SCO members) that there is a clear central message in the material from the STTM Project Office. That message is that the new market will fundamentally alter the way that commerce is conducted downstream of the Hubs. As a result and because retailers will be the principal participants in the STTM, the ERAA's members will need to manage an entirely new suite of risks from a novel and untested market for which there has been no precedent and for which retailers' understanding is theoretical at best. Whilst there is no precedent for the retailers' understanding of the real risks in the STTM, all potential market participants would agree that the potential for wealth transfer and the probability of heightened market stress are greatest during the peak season when demand at the Hub is elevated.

STTM Market Trial

ERRA is familiar with the argument that has been made by protagonists for the retention of a winter start date which relies on the position that the "market trial" (which is part of AEMO's roll-out program) is a reasonable surrogate for actual market operation. This position has been reinforced by numerous references in AEMO's documentation to the market trial operating in an "as real" mode. The ERAA's non-incumbent gas retailers response to AEMO's "as real" description of the market trial is that of necessity, the environment for market trial must be artificial because it will be run in parallel with (and separate from) the current markets in both jurisdictions. These ERAA members maintain that the "as real" reference in AEMO's documentation simply refers to transplanting actual metered data and allocations from the existing market arrangements to the trial environment. Crucially, the artificial commercial environment in the market trial will not be ameliorated by this information and as a result, the trial will not be an adequate training ground for the real market behaviour that will occur on and after the start date.

Given the matters highlighted above, the ERAA's non-incumbent gas retailers' view is that in an environment where:

- the STTM is entirely new (in the world),
- the underpinning design is untested by real market operation,
- the understanding of those that must bear market risk is theoretical at best,
- there is a heightened likelihood of elevated risk during the peak season; and
- the proposed market trial is not a surrogate for real market operation,

a start date at the beginning of winter 2010 is neither optimal nor preferred.

Moreover, the ERAA's non-incumbent gas retailers believe that, the continued insistence by decision makers to start the new market at the beginning of the peak gas season places in doubt the potential for the success of the STTM

ERAA's Start Date Proposal

As an alternative to the currently proposed commencement date for the STTM, the ERAA's non-incumbent gas retailers suggest that it is prudent for SCO to adopt a "soft start" principle. To this end, it is recommended that the SCO change the start date for the STTM to the commencement of the off-season in the fourth quarter 2010 (1 October 2010). From discussions with STTM project office, it is understood that a preliminary cost estimate for the remobilisation and AEMO system restart costs to implement a later start date is of the order of \$1.0m. The ERAA suggests that AEMO firm-up their cost estimate (with supporting information) and that discussions commence between AEMO and industry to identify more efficient ways of reducing this cost. Nevertheless, even assuming that AEMO's initial estimate is accurate, the ERAA believes that this insurance premium is cost effective against the potential for wealth transfer that may result from starting the STTM in the peak season where market participants may not have fully come to understand the operation of the new market.

Should you have any queries, please feel free to call me on (02) 9437 6180.

Yours sincerely,

[Transmitted electronically]

Cameron O'Reilly

Executive Director

Energy Retailers Association of Australia