

22 December 2010

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Re: Submission on National Retailer of Last Resort Scheme

Dear Tom,

AEMO welcomes the opportunity to provide the following submission on the AER's National Retailer of Last Resort (RoLR) Scheme, November 2010. AEMO is supportive of the AER's objectives of the National RoLR scheme and provides comments regarding the RoLR Plan Development issues paper, and the RoLR Registrations and Appointment issues paper. AEMO does not have any comments regarding the AER's RoLR Cost Recovery scheme issues paper.

AEMO welcomes the opportunity to discuss these matters further with the AER and/or provide further technical detail as required.

AEMO looks forward to working with the AER and industry to assist where possible in the development and implementation of the National RoLR Scheme.

If you require any further details or wish to discuss AEMO's submission, please do not hesitate to contact me on 03 9690 8520.

Yours sincerely



Terry Grimwade
Executive General Manager, Market Performance

Attachments:

AEMO Comments on the RoLR Plan Development Issues Paper – November 2010

AEMO Comments on the RoLR Registrations & Appointments Issues Paper – November 2010

AEMO COMMENTS ON THE ROLR PLAN DEVELOPMENT ISSUES PAPER - NOVEMBER 2010

	AER ISSUES PAPER	AEMO COMMENTS
1	<p>3.2 Development approach</p> <p>Template for AER RoLR plan</p> <p>“However, the AER’s RoLR plan will need to reflect the following:</p> <p>Differences between states/territories”</p>	<p>AEMO prefers that a single RoLR Plan is created covering all jurisdictions which makes provisions for any jurisdiction specific requirements, as a RoLR event is likely to be spread across multiple jurisdictions.</p>
2	<p>“Q6: Are there any other parties that should be included by the AER as RoLR plan participants? If so, who?”</p>	<p>AEMO suggests that all Distributors and Meter Data Providers (MDPs) should be included as RoLR Plan participants. MDPs provide high volumes of meter reads to the market including the suspended retailer and the RoLR during a RoLR event. Thus MDPs play a crucial role in the event.</p>
3	<p>6 Communication leading to the issue of a RoLR notice</p> <p>Summary of proposed communications in the lead-up to a RoLR event</p> <p><i>AEMO</i></p> <p>“AEMO currently has standing instructions with jurisdictional regulators that address communication between the two parties during a market suspension....”</p>	<p>AEMO prefers that a single standing instruction is developed covering all participating jurisdictions and incorporating any jurisdiction specific requirements.</p>
4	<p>7 Communication after the issue of a RoLR notice</p> <p>RoLR notice</p> <p>“...The RoLR notice must specify the:</p> <ul style="list-style-type: none"> • endorsement revoking the failed retailer’s 	<p>Although the clause suggests that the failed retailer’s authorisation may not always be revoked, from a market operator’s perspective, once suspended by AEMO the retailer will not be able to participate in the market until the suspension is lifted.</p>

	AER ISSUES PAPER	AEMO COMMENTS
	authorisation (if necessary)”	
5	Appendix A – Proposed communication requirements before the issuing of a RoLR notice	AEMO agrees with the timeframes stated and requests that where possible, specific timeframes rather than general timeframes are listed as they are easier to administer.
6	Appendix A Information flows prior to issuing a RoLR notice – general “From: AER To: AEMO Communication: Confirmation of the designated RoLR Time Frame: As soon as possible”	To avoid any changes that could potentially lead to confusion or errors in the activation of a RoLR event, AEMO requires confirmation of the designated RoLR from the AER : <ul style="list-style-type: none"> • in the case of the NEM, following the issue to a participant of a Call Notice and by the deadline under the NER for the participant’s response to that Call Notice; and • in the case of the STTM or DWGM, upon advice from AEMO that a participant has failed to meet a Margin Call by the required time in accordance with the NGR. This is to allow adequate time for the preparation & implementation of various tasks including customer transfer systems, load estimation and prudential assessments. In the new scheme, customer transfers would be more complicated as it will possibly include combinations of multiple RoLRs, local retailer area, customer classes & TNIs.

Minor Comments:

	AER ISSUES PAPER	AEMO COMMENTS
1	<p>Appendix A (b) Information flows prior to issuing a RoLR notice – specific <i>“(1) AEMO Electricity wholesale market suspension process</i> From: AEMO To: AER Communication: Call notice satisfied Time Frame: Within 2 hours or if the event occurs after 4pm by midday the following day.”</p>	<p>For consistency, AEMO suggests including the word “business” to the timeframe as follows: Time Frame: Within 2 hours or if the event occurs after 4pm by midday the following business day.</p>
2	<p>Appendix A (b) Information flows prior to issuing a RoLR notice – specific <i>“(1) AEMO Electricity wholesale market suspension process</i> From: AER To: Minister and energy departments Communication: Default notice issued Time Frame: Within 2 hours or if the event occurs after 5pm by 12pm the business day.”</p>	<p>For consistency, AEMO suggests including the word “following” to the timeframe as follows: Time Frame: Within 2 hours (from receipt of AEMO advice) or if the event occurs after 5pm by 12pm the following business day.</p>
3	<p>Appendix B – Proposed communication requirements following the issue of a RoLR notice per affected party “From: AER/AEMO To: Affected community Communication: Publication of the RoLR notice on websites. Time Frame: Within 2 hours of the AER issuing the</p>	<p>The 2 hours timeframe differs from the timeframe stated in section 7 as follows: 7 Communication after the issue of a RoLR notice <i>Affected community</i> “This information will be provided through the RoLR notice, which, as noted above, will be published on the AER’s and AEMO’s websites. The AER’s notice will be published within 24 hours of the AER giving the RoLR notice to</p>

	AER ISSUES PAPER	AEMO COMMENTS
	RoLR notice”	the prescribed parties....”
4	<p>Appendix B – Proposed communication requirements following the issue of a RoLR notice per affected party</p> <p>Page 5</p> <p>“From: AEMO To: AER</p> <p>Communication: RoLR notice</p> <p>Time Frame: Within 2 hours of the AER being notified of the retailer suspension or otherwise, 2 hours from an AER Board decision to invoke a RoLR event.”</p>	<p>The FROM and TO parties are incorrectly stated. AEMO believes the RoLR notice would be sent FROM: AER To: AEMO.</p>
5	<p>Appendix C – RoLR customer transfer notifications</p>	<p>AEMO notes that timeframes for the ‘RoLR customer transfer notifications’ steps in Appendix C will be consistent with the gas and electricity RoLR market procedures.</p>

AEMO COMMENTS ON THE ROLR REGISTRATIONS & APPOINTMENTS ISSUES PAPER - NOVEMBER 2010

	AER ISSUES PAPER	AEMO COMMENTS
1	<p>3.2 RoLR registrations & appointments: constraints</p> <p>Timing of RoLR designation</p>	<p>To avoid any changes that could potentially lead to confusion or errors in the activation of a RoLR event, AEMO requires confirmation of the designated RoLR from the AER :</p> <ul style="list-style-type: none"> • in the case of the NEM, following the issue to a participant of a Call Notice and by the deadline under the NER for the participant's response to that Call Notice; and • in the case of the STTM or DWGM, upon advice from AEMO that a participant has failed to meet a Margin Call by the required time in accordance with the NGR. <p>This is to allow adequate time for the preparation & implementation of various tasks including customer transfer systems, load estimation and prudential assessments.</p> <p>In the new scheme, customer transfers would be more complicated as it will possibly include combinations of multiple RoLRs, local retailer area, customer classes & TNIs.</p>
2	<p>Q4 RoLR registration criteria</p> <ul style="list-style-type: none"> • the financial resources test 	<p>The financial resources criteria should have regard to the retailer's ability to procure bank guarantees and other prudential instruments in short timeframes. In receiving customers from the suspended retailer, the RoLR's maximum credit limit will increase in the NEM and it may breach trading limits in the gas markets, necessitating the lodgement of additional security at short notice.</p>
3	<p>4.2.2 Areas of registration</p>	<p>AEMO agrees with electricity RoLR registration being based on Transmission Node Identifier (TNI) or local retailer area or jurisdiction as existing market systems will support these methods.</p> <p>AEMO notes that TNIs cannot be further split as TNI is a key component in the market systems for the settlement & prudential processes.</p>

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4	<p>“Q8: Stakeholders’ views are sought on whether they prefer default electricity RoLRs to be registered on the basis of TNI, local retailer area or jurisdiction (or another approach)?”</p> <p>“Q12: Stakeholders’ views are sought on whether they prefer additional electricity RoLRs to be registered on the basis of TNI, local retailer area or jurisdiction (or another approach)?”</p>	<p>Using any method other than the existing methods (TNI, Local Retailer, jurisdiction) for RoLR assignment will likely result in significant cost and effort to make changes to the existing market IT systems, including:</p> <ul style="list-style-type: none"> • a change required to MSATS to action bulk transfers based on the new method, • a change required to the Market Management System (MMS) to store new data & then use the new data in the retailer prudential assessment calculation process. <p>Additional costs may also be incurred by participants to bring quality of data (if a new approach is decided) to an acceptable standard for RoLR transfers.</p>
5	<p>4.4 RoLR terms and conditions</p> <p>Number of customers</p> <p>“Retailers will be able to nominate the maximum number of customers or customer load that they are prepared to accept. In addition to minimising a retailer’s risk, a cap on customer numbers or load may assist the retailer to prepare for the transfer of RoLR customers if it knows it will receive no more than it can manage”</p>	<p>AEMOs ability to perform timely and accurate prudential assessment (both for credit limits and for daily monitoring) would be impaired if assignment is based on a nominated maximum number of customers.</p> <p>If assignment is performed based on TNI, AEMO is able to perform timely and accurate prudential assessment for the potential RoLR(s).</p>
6	<p>4.4 RoLR terms and conditions</p> <p>Prudential limits – “...For example, an electricity retailer may wish to register to take on a number of customers or load up to an amount that, following the transfer, will not cause it to exceed existing credit limits....”</p>	<p>AEMO clarifies the “existing credit limits” refers to the credit limits set by AEMO under the NER and NGR.</p>
7	<p>5.2 RoLR designation criteria</p> <p>a. RoLR criteria</p> <p>“...At the time of a RoLR event, the AER will also consider the likely flow-on effects of a retailer taking on</p>	<p>At the time of a RoLR event it is likely that alternate RoLRs may also be under prudential stress, and their existing or potential Maximum Credit Limit (MCL) may not be representative of their prudential capability to take on additional customers.</p> <p>AEMO could provide the current MCL, potential MCL, and existing</p>

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	additional customers. AEMO’s advice on retailers’ prudential limits will be helpful in this respect.”	guarantee value, but the AER would also need to assess the alternate RoLR’s ability to deliver additional guarantees (also see item 2 above).
8	<p>4.4 RoLR terms and conditions</p> <p>Market price – “...Retailers may also specify current wholesale energy market conditions under which they would be prepared to be appointed a RoLR (e.g. the average electricity spot price for a prior period)...”</p>	AEMO notes that the market price is different in each jurisdiction. Hence the average electricity spot price can be markedly different between two jurisdictions. A failed retailer will most likely be involved in multiple jurisdictions. This will need to be accounted for within the Terms and Conditions set for a RoLR.
9	<p>4.6 Review of RoLR Registration</p> <p>“The AER may terminate a retailer’s RoLR registration – at any time, for default RoLRs, and after giving due notice, for additional RoLRs. Additional RoLRs may also terminate their RoLR registration at any time.”</p>	AEMO requests that there are some specific conditions and timeframes in place for a RoLR’s firm offer such that a RoLR cannot terminate their offer just approaching or during a RoLR event.
10	<p>5.3 Timing considerations and appointment options</p>	AEMO agrees with and is pleased about the inclusion of the “little notice” process as it addresses the requirement for immediate RoLR implementation.
11	<p>5.4 Appointment of Multiple RoLRs</p>	AEMO agrees with and welcomes the option of a Standing Instruction for large retailer failures.