

Claire Rozyn  
Australian Energy Market Commission

By web submission

Tuesday 26 November 2013

Dear Claire,

**Re: Advice on linking the reliability standard and reliability settings with VCR – Ref EMO0026**

GDF Suez Australian Energy (GDFSAE) appreciates the opportunity to comment on the above review. In general, GDFSAE is not convinced that an adequate case has been made that would justify a change in the manner in which the reliability standard and reliability settings are determined. These reliability settings are fundamental to the NEM and should not be altered unless there are clear drivers for change, and alternative settings are identified which materially advance the NEO.

It is not clear to GDFSAE that there is a material problem with the current reliability standard and reliability settings, or that the options proposed would materially advance the NEO. GDFSAE therefore requests that the AEMC more clearly spell out the nature of the problem that the proposed changes are seeking to resolve. Once the problem definition is clearly identified, it will be easier for the industry to judge whether the proposed changes are likely to overcome the problem, and benefit customers through an improvement in the NEO.

GDFSAE is concerned that the AEMC consultation paper seems to apply an inappropriately low hurdle for assessment of the efficiency benefit of any alternative to the current arrangements. For example, in the third paragraph in section five of the AEMC consultation paper, there is a suggestion that the test for introducing a new approach is merely that the new approach is 'consistent with' current 'efficient market outcomes'. This does not seem to be a sufficient test for introducing significant change.

The AEMC have acknowledged that considerable time<sup>1</sup> would be needed to properly assess and determine the best methodology for estimating and updating the VCR for the NEM. In the absence of a clearly defined problem to be solved, it is difficult to understand why it is worth such considerable effort to establish appropriate VCR levels for reliability purposes.

GDFSAE acknowledge that application of VCR to network reliability assessment is appropriate and feasible as the particular customers impacted by the network element can be identified, and their VCR can be used as a direct measure to determine if network upgrade costs are justified. It is more difficult to apply VCR to the overall NEM supply reliability as the customers are more diverse, and the association between supply reliability and VCR is less direct.

Set out below are the GDFSAE responses to the specific questions posed by the AEMC in the consultation paper.

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<sup>1</sup> AEMC Consultation paper - Advice to SCER on linking the reliability standard and reliability settings with VCR; pp 24

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## Question 1 - Reliability in the NEM

### **(a) What should be the primary purpose of the market price cap and other reliability settings in the NEM?**

The primary purpose of the MPC is to limit market participant's exposure to high price risk. The MPC also needs to be sufficiently high so that it provides an incentive to attract enough new generation investment to ensure that the reliability standard is maintained.

Another consideration in setting the MPC is its impact on demand side participation in the NEM. Since VCR varies across the different customer categories, it is possible that some customers will have a VCR level below the MPC, and other customers will have a VCR above the MPC. As the MPC setting is decreased, there will be fewer customers likely to take up demand side participation in the NEM.

### **(b) If the market price cap is linked to some level of VCR, is a reliability standard required?**

The MPC and VCR are quite different metrics, and caution needs to be exercised in any attempt to link them. If a VCR were able to be determined that was an accurate reflection of all customers' true value of reliability, then it would provide a suitable reliability trigger. However, it is not practically possible to achieve an accurate VCR for all customers for the reasons set out in the AEMC report. VCR will therefore never be able to be regarded as a suitable replacement for the reliability standard.

If all demand were to be scheduled (bid into the market and scheduled by AEMO) then all customers could determine their own price at which they no longer wish to consume electricity. There would be no need to have a MPC as the market would continue to clear up to the highest priced demand bid. However the NEM does not mandate that all demand is bid into the market so this consideration is of theoretical interest only.

## Question 2 - Value of customer reliability

### **(a) Once a VCR methodology is determined and a range of VCR estimates collected, how should the data be used to determine a VCR which best reflects the diverse preferences of customers?**

GDFAE does not believe that it is feasible to determine a single value of VCR which best reflects the diverse preferences of all customers.

VCR can be used for network expansion considerations, where the specific customers impacted can be assessed based on customer type and location. However, a NEM wide VCR would include a wide range of diverse customers with widely varying values which would likely vary across the day / week / season. Any attempt to represent such a diverse range of customers with a single value would be inevitably wrong.

As noted in the AEMC report<sup>2</sup> Ofgem acknowledged that VCR estimates produced from almost any methodology are likely to be highly uncertain due to the practical difficulties of eliciting values for outages from consumers.

## Question 3 - Options for linking the reliability standard and reliability settings with VCR

### **(a) Which of the four options for linking the VCR with MPC is most appropriate for the NEM?**

GDFAE is not convinced that any of the four options for linking VCR with MPC are required, as there is insufficient definition of the problem that the AEMC are trying to solve.

Of the 4 options, only option 2 (use VCR as a cross-check on the reliability standard and settings) is worth considering, as it might provide some value in informing the Reliability Panel of the efficacy of the standard and settings.

The other 3 options give too much emphasis to the VCR which (as noted above) is virtually impossible to establish across all customers, and will therefore almost inevitably be wrong.

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<sup>2</sup> Ibid: box 4.2 page 30

**(b) Are there any other options which would be more appropriate than the four listed?**

GDFSAE believe that a 'do nothing' option would be most appropriate for the reasons noted above.

GDFSAE hope that the comments provided in this submission are of assistance to the AEMC in its deliberations, and encourage you to contact Chris Deague if you wish to discuss further.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'C. Deague'.

Chris Deague  
Senior Market Specialist