NATIONAL GENERATORS FORUM

Lvl 6, 60 Marcus Clarke St.
Postal: GPO Box 1301
Canberra ACT 2601
ABN: 83 113 331 623

Tel: 02 6243 5191
Fax: 02 6243 5143
www.ngf.com.au

14 August 2009

Australian Energy Market Commission
PO Box A2449
Sydney South
NSW 1235

Dear Dr. Tamblyn

Reliability Standards and Settings Review

The Reliability Panel (Panel) is required under clause 3.9.3A of the National Electricity Rules (Rules) to review the reliability settings every two years. By 30 April 2010, the Panel is required to review and report on the Reliability standard and settings that should apply from 1 July 2012.

The NGF requests the Panel to consider the following comments in response to the key questions in this review.

1. Is the current form of Standard appropriate for current and projected market arrangements or should it be replaced by another form such as LOLE or LOLP?

In relation to the current form of the Reliability Standard, we:

- query whether the Panel is the right organisation to decide on the form of the Reliability Standard for our current market; or whether this is a core policy decision that the Ministerial Council of Energy (MCE) should make
- suggest a case exists for improving the definition of the Reliability Standard to aid market participants, consumers and to better manage the tension between the economic and political consequences of the current Reliability Standard
- however do not have a specific suggestion on how this could be achieved, and in the absence of a clear alternative approach, regard the target to achieve an expected unserved energy of no more than 0.002% in each financial year, each region and in the National Electricity Market (NEM) as “reasonable”.

We also experienced difficulty in reconciling the practice of aiming to achieve the Reliability Standard of no more than 0.002% in each year with the practice of measuring the Reliability Standard performance over a ten year period. A more consistent approach between what is targeted and how the outcome is measured is recommended.

2. Given the Reliability Standard that the stakeholders consider is appropriate, what are the levels of reliability settings (consisting of market price cap, market floor price and the cumulative price threshold) required to deliver the reliability standard?

In relation to reliability settings to support the reliability standard of 0.002% in the current market arrangements, we support:

- a Market Price Cap (MPC) of $12,500 per/MWh to apply from 1 July 2010.
- That the approach taken to establish this level of the MPC was a reasonable methodology to establish a minimum level of the MPC to deliver the reliability standard within the existing market design and framework, and that this methodology should be re-used in future MPC assessment.
- a Cumulative Price Threshold (CPT) of $187,500 to apply from 1 July 2010. Currently, the view is the CPT should be set at a level that protects market participants by limiting their exposures to extreme price events. At the same time, the level of CPT should not inhibit investment incentives in the NEM.
- the development and implementation of an analytical and repeatable methodology to allow setting of the CPT. The methodology must seek to appropriately balance the requirement to limit the market's exposure to system failure due to long term to high price events, against the requirement not to inhibit investment.

We support these levels of reliability settings subject to a crucial caveat – that there is a need for flexibility to adjust the MPC to an appropriate level if climate change policies mean that unserved energy limit of 0.002% would be breached.

In addition, we note that the CPT instrument does not protect participants from extreme transmission events that are outside the market design envelope, and continue to present a major risk to the sustainability of impacted generation businesses. The NGF continues to support development of a mechanism to limit the impacts of risks of this kind.

We thank you for your consideration of these issues. Please contact Mr. Con Noutso Manager Regulation (Access) at TRUenergy on Tel: 03-8628-1240 for any queries regarding this submission.

Yours faithfully

Alex Cruickshank
Chair, Market Working Group