Government of South Australia
Department for Transport, Energy and Infrastructure

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Dear Mr Henderson,

Thank you for the opportunity to provide a submission to the Reliability Panel's review of the Reliability Standard and settings.

The initial findings from the ROAM modelling indicate that a significant increase in the level of the Market Price Cap (MCP) to approximately $16,000/MWh may be required to meet the Reliability Standard, attributed to higher costs for gas turbines, peakier demand and more representative interconnector assumptions.

The methodology used by ROAM in its modelling based on a theoretical marginal peaking generator, appears to overstate the MPC required to meet the Reliability Standard. The required MPC is determined, not on the basis of commercial market operation, but rather by the cost structure of a new open cycle gas turbine if it only ran on the margin to avoid load shedding. This does not accurately reflect observed commercial realities or market behaviour and hence produces some counter intuitive and perverse outcomes.

For example in the modelling in order to meet a USE target of 0.002%, generating capacity had to be removed from both Queensland and New South Wales, suggesting current MPC levels are already delivering sufficient capacity. In spite of this, the ROAM modelling proposes a significant increase in MPC from 2012 to maintain the current level of USE at 0.002%.

The Energy Division considers that modelling should be undertaken which more accurately reflects actual commercial behaviour and bidding by generators. In this way, such modelling would calculate USE as an outcome, and by using a range of MPC's, the MPC required to deliver the USE standard could be determined.

Using outcomes from commercial behaviour, for example the utilisation of cap contracts and the resultant bidding strategies, rather than a theoretical marginal peaking generator, would provide a more realistic basis for the consideration of what MPC value is required for 2012/13 and 2013/14 to maintain a level of USE of 0.002%.

As noted in the Reliability Panel's draft report, significant increases in MPC, such as those that are discussed in the ROAM modelling, require further detailed analysis of the consequential issues resulting from such an increase, including effects of a consequential increase in prudential requirements, the impact on retail competition, impact of additional risk premiums in the contract market and the impact of reduce liquidity of the contract market on market customers including retailers. The Reliability Panel should investigate these issues further, and in some detail, before making a final determination on the Reliability Standard and settings.

Should you require clarification on matters raised in this submission please contact either Vince Duffy on 08 8204 1724 or me on 08 8204 1715.

Yours sincerely,

Sean Kelly

Sean Kelly
EXECUTIVE DIRECTOR
ENERGY DIVISION

25 February 2010