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Australian Energy Market Commission
PO Box A2449
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Dear Dr. Tamblyn

Review of the Operational Arrangements for the Reliability Standard

On 3 March 2009 the AEMC issued the Reliability Panel (Panel) with Terms of Reference for the "Review of the Operational Arrangements of the Reliability Settings and Reliability Standard and Settings Review".
The Reliability Panel (Panel) is requested to review the operationalisation of the Reliability Standard which includes a range of critical issues.

We submit the following responses to the key areas of this review.

1. Short Term Reserve Assessment of Reliability

In relation to the Short Term Reserve Assessment of Reliability, we:

- consider that there is a need for an additional short term intervention trigger to work in tandem with the LoR2 trigger
- believe the Panel should clearly define the short term intervention trigger levels for each region in the Reliability Standard

2. Short Term RERT for critical emergencies

In relation to the Short Term RERT, we:

- believe the current RERT represents a distortion in the NEM; therefore, we do not support the expansion of this distortion in the form of a short term RERT.
- suggest the current RERT takes away critical capacity from the market which would normally be dispatched competitively through market processes
- do not support the AEMO using additional contracted reserves during a "system security" event as:

- the Panel has not established the need for such a service, including that customers want to pay for this service. This is required by the terms of reference and would seem a necessary step before changing the nature of the RERT; and
- this type of event is not clearly defined. Presumably it refers to an event where the system needs to be restored to a "secure state" but If the AEMC chooses to adopt this proposal then the NGF believes it is critical that the rules clearly provide unambiguous examples of its operation.

3. Clarification of the Reliability Standard

We support the clarifications to the wordings of the Reliability Standard recommended by the Panel. The changes add clarity to the current policy decisions made by the Panel.

4. Guidelines for management of Electricity Supply Shortfall Events

We do not support the proposal submitted by TRUenergy to the NECA Reliability Panel in September 1998. In short, this proposal:

- allows more "scenario events" to occur in South Australia before that state reaches its unserved energy targets. However, if all the USE was allocated to Victorian during a supply shortfall event – we are unclear of the implications this would have for Victoria.
- is unachievable under the current Rules
- will prove difficult to implement in an operational time frames

5. Methodology for calculating the Minimum Reserve Levels (MRLs)

We offer the following comments on the Minimum Reserve Levels (MRLs). We support:

- Expanding the scenarios used in modelling USE outcomes to use 90% scenarios in addition to 10% POE & 50% POE demand simulation results. The scenarios should be weighted to mirror the probability distribution they approximate. This modification will be more realistic by modelling a wider range of the demand distribution, and ensuring no systemic bias toward a conservative MRL (and hence unnecessary market interventions).

6. Appropriateness of the Minimum Reserve Level approach

The MRL is estimated in order to provide an indication of when reserves may be reducing to levels that may impact on the reliability standard. Importantly however, the MRL is no more than an approximation of what reserves may be required under modelled circumstances to deliver the reliability standard (ie. the USE target).

In relation to this, we noted that during 2008, NEMMCO noted a potential MRL breach, and then moved to assess the likelihood of a breach of the standard in more detail using modelling from the Drought Study (now known as the EAAP). This more detailed analysis, indicated that the MRL was too conservative, and that the standard was not in fact likely to be breached. On this basis RERT proceedings were appropriately not initiated.

In this light, we recommend that consideration be given to moving away from using an MRL style approach, and toward using the now regular EAAP assessment to monitor reliability outlooks (at least in the medium term timeframe). This would be a more accurate assessment of reserve levels against the reliability standard, and represent a more realistic trigger for intervention. The benefits of this would include:

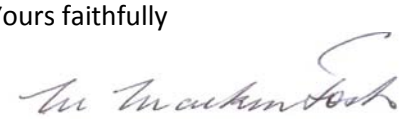
- Reduced risk of spurious RERT events being triggered and reduced market distortion; and
- Reduced risk of unnecessary sensationalist media coverage reflecting badly on the industry (and itself tempting more serious political and counterproductive interventions in the investment environment).

In the shorter term timeframe (e.g. ST PASA and dispatch), as identified by the Panel, it is not clear that the MRL continues to be meaningful as a trigger for intervention. For this reason discontinuing with the MRL approach altogether may also be appropriate.

At a minimum, even if the MRL methodology is to continue, it should only be seen and clearly communicated as no more than a "broad brush" assessment of reserve levels, and a trigger for greater analysis. It should not in its own right be seen as a trigger for intervention.

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



Malcolm Mackintosh
Acting Executive Director