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5 June 2009

The Reliability Panel
Australian Energy Market Commission

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Submission be e-mail to: submissions@aemc.gov.au

Dear Reliability Panel,

Re: REL0035 – Exposure Draft Rule and Guidelines for Consultation

NEM Reliability Settings: Improved RERT Flexibility and Short-term Reserve Contracts

The NGF appreciates this opportunity to provide comment on this exposure draft rule. While it is noted that the Reliability Panel recognises that the RERT is yet another form of market intervention and therefore a market distortion, it remains unclear to the NGF why this "improved" RERT is required and the reasons underpinning these recommendations.

The NGF provides comment on each of relevant issues raised in the report. The NGF's overall position can be summarised as:

- Detailed cost / benefit analysis is required to justify the proposed RERT flexibility arrangements. What are the potential short term gains from these arrangements versus long term efficiency losses through reduced investment certainty due to the on-going threat of increased interventions and regulatory creep; and
- Use the existing market mechanisms such as the setting of VOLL as the primary basis to signal to the market the need for more investments to increase reliability. Secondly, the focus should be improvement of existing intervention mechanisms such as Directions instead of introducing further refinements to new market interventions.
- As a safety net in the market, the Reserve Trader and now RERT has made no significant contribution to system reliability in 10 years. This change will increase the level of intervention whereas NGF would like to see the level of intervention being reduced with an eventual aim, of removing the RERT. In particular, a change such as this proposal

should not be expedited as an urgent Rule change. The delay in CPRS further justifies the NGF's position on the urgency of the Rule change.

Impact on the operation of the wholesale market

The NGF notes that the Reliability Panel expressed concerns that any form of the RERT was a market distortion to the operation of the energy-only market. The short term RERT seems to be premised on risks in the near term that may impact the NEM achieving the reliability standard. It is unclear to the NGF what these risks are and their materiality.

The NGF believes that the improved flexibility to the RERT further distorts the operation of the energy-only market as:

- The timeframe for NEMMCO to contract with RERT Panel members is reduced to within 24 hours of actual dispatch. This further encroaches on the efficient function of the spot market as there would be an additional source of uncertainty for participants in their scheduling of plant and commitment decisions; and
- More discretion is given to NEMMCO to source non market generation and demand side response instead of relying on the market to deliver this response.
- This measure will discourage non market participants from becoming involved in the market thereby increasing the administrative burden on NEMMCO. Through the Participant fees, existing Market Participants are subsidising this process.

The NGF is concerned that these improved RERT flexibility mechanisms are further interventions in the market that ultimately would undermine investment confidence.

Perhaps a more fundamental question is, has there been market failure to deliver the NEMs reliability standard? The modified RERT approach came about through the MCE direction to the AEMC to consider the impact of 'extreme events' on the effectiveness of the NEM mechanisms.

The NGF argues that on the 29th and 30th January 2009, prior to the outage on Basslink the NEM was operating as designed. The NEM and the reliability standard is set based on long term (10 year averages) or in other words 1 in 10 year events. NEMMCO's power system incident report on the events in 29-30 January 2009 states,

> *The weather across south-east Australia on 29 and 30 January 2009 was much worse than would be expected for a 10% probability of exceedence (POE) event and was closer to a one in one hundred year event.*

The NGF believes the NEM has performed as designed and there has been no market failure to date to deliver generation and demand side response to meet the reliability standard. This raises the question as to why the improved RERT is required.

The NGF believes that while their may be a short term gain from the implementation of these arrangements, this would be negated by long term negative impacts as these arrangements reduce investment confidence. The NGF would like to see detailed cost / benefit analysis under short and long term timeframes to see where the net benefits lie to justify these new arrangements.

The RERT is subject to a sunset of 30 June 2012 and will be subject to further review before this date. However, the original Reserve Trader arrangements were subject to similar sunsets which have progressively been extended. This highlights that new market arrangements such as the RERT should be subjected to a rigorous test (that is, does it meet the NEM objective) before its introduction since once introduced it appears to be difficult for it to be removed.

The Use of Existing Market Settings and Market Intervention Mechanisms

The NGF advocates that existing market settings such as VOLL and the cumulative price thresholds should be the primary mechanisms to signal to the market the need for new investment..

The NGF advocates improving existing market intervention mechanisms such as the use of Directions to address any perceived deficiencies in the current arrangements.

For instance, there is a potential gap in the Rules where there is the inability to compensate 'unscheduled' loads which are capable of being directed to meet a reserve shortfall. The use of market directions is on the basis of last resort in the absence of a market response. Hence the appropriate use of directions by NEMMCO should on balance be less distortionary than the use of the short term RERT. That is, the RERT is activated further away from real time and hence subjected to more uncertainty (eg. forecasting error).

The NGF favours modifying the existing directions mechanism to allow NEMMCO to compensate these unscheduled loads if they are directed. This is one example of the direction which the NGF believes should be pursued by making the existing market mechanisms stronger and not modifying new market intervention mechanisms such as the RERT.

Other Issues

The NGF does not support NEMMCO paying auditable expenses to entities that negotiate with NEMMCO to join the RERT panel. We agree with the Reliability Panels assessment that such a payment would be difficult to define and quantify. Further, given that once a RERT Panel provider meets NEMMCO's due diligence checks that its inclusion on the RERT Panel is on a continuous basis (providing no material changes to its circumstances to deliver a service) it is not unreasonable for these providers to pay for these once off expenses.

The NGF appreciates the opportunity to provide input to the exposure Draft Rule. Please contact Kevin Ly on (02) 9278 1862 should you have any enquiries in relation to this submission.

Alex Cruickshank
Chair, Market Working Group