

SUBMISSION FOR ISSUES PAPER REL0041

The SECV supports the current RERT arrangements on the basis that;

1. Reserve capacity is only procured by AEMO when there is a legitimate, and reasonable likelihood of requiring Reserve (and hence comes at minimal cost compared to a normal insurance contract which requires the payment of a premium irrespective of whether or not the contract is invoked),
2. It is procured below an acceptable cost as determined by the relevant jurisdictional coordinators, and
3. AEMO ensure that only 'non-market' capacity is procured.

In response to the Issues Paper and the relevance of the current RERT arrangements and market distortion we would like to highlight the following:

1. Some demand side participants can be described as being energy limited resource (i.e. the 1st MWh of demand side energy costs less to provide than the 2nd MWh of demand side energy etc.). One such example of an energy limited demand-side resource is an aluminium smelter.

It is commercially attractive for an aluminium smelter to allow some load curtailment in the market, however there is a threshold at which the load curtailment impacts the smelting process to such an extent that the marginal cost of curtailment exceeds the benefit that can be extracted from the market.

That is to say, that the marginal cost of providing an energy limited resource such as this effectively increases exponentially over time. To elaborate on this relationship, the worst possible outcome for an aluminium smelter is the total loss of supply for an extended period of time, whereby molten aluminium solidifies causing damage at an enormous financial cost (potentially well in excess of \$100M).

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2. Market price signals also fail at times. Consider the activation of the Administered Price Cap when the Cumulative Price Threshold is exceeded. In this scenario, there are no price signals to the market to attract the response of demand side participants.

Given the examples presented above, the existing RERT arrangements provide an effective vehicle for non-market capacity to be contracted to facilitate power system security.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'D. Garwoli', with a stylized, cursive script.

David Garwoli
Manager Contracts