

3 September 2009

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted on line

Dear Dr Tamblyn,

ERC0094: Improved RERT Flexibility and Short-notice Reserve Contracts

The NGF and ERAA are pleased to comment on the proposal by the AEMC to handle this rule change under the “urgent provision” of the rules. The NGF and ERAA oppose this rule change being handled under the urgent provisions.

The Reliability Panel are proposing that this rule change should be handled as urgent for 2 reasons. These are:

- Providing for AEMO’s procurement of reserves at short notice could be critical in managing a projected shortfall of reserves when there is only short notice period; and
- It will be necessary to have the amended rule, interim amendments to the RERT Guidelines and AEMO Procedures in place by about October 2009 to ensure that AEMO has sufficient time to form a RERT panel to manage the short notice RERT process

The NGF and ERAA oppose this rule change being handled under the urgent provisions for the following reasons:

- There is no urgency to implement this change prior to the summer of 2009/10 for several reasons including the relatively high level of reserves in the market
- The major concerns raised by the NGF in its previous submission have not been addressed in the Reliability Panel proposal
- The proposed Rule introduces an inconsistency in the rules which relates to the implied value of achieving a *secure operating state*
- There is no meaningful analysis of the full costs of this proposal

For these four reasons, each of which is material, we believe the AEMC should reject the urgent process. We believe there is a need for a full consultation on this proposal which represents a major change to the market.

There is no urgency to implement this change

There is currently no urgency in implementing this rule change. There are a number of facts which demonstrate the very low probability of this being required in 2009/10. These include

- The MT PASA (as at 25 August 2009) showed only 11MW of shortfall for the coming summer
- The 2009 ESOO shows significant falls in forecast demand compared with last year
- The 2009 ESOO shows significant reserve increases in all regions
- The CPRS, the original reason for the urgency, has now been delayed by 12 months

When this is combined with the fact that the RERT (and previously the Reserve Trader) have not increased the actual supply reliability in 10 years, making a case that this change is critical is far fetched.

The major concerns raised by the NGF have not been addressed

The NGF raised several concerns in its submission of 5 June 2009. This submission is shown as Attachment 1. The table below shows how the Reliability Panel have addressed these issues.

Issue	Reliability Panel response
Detailed cost/benefit on overall market efficiency required	Ignored – see fourth reason for not treating as urgent
Focus needs to be on improving existing interventions	Ignored
Don't treat rule change as urgent	Rule change treated as urgent
Questions whether an improved RERT is required	Ignored

As the Reliability Panel has not addressed these valid concerns in its consultation, it is not appropriate for the AEMC to treat this change as urgent, which would deny the opportunity for the debate which is required.

The proposed rule introduces an inconsistency in the rules

NGF contends that the proposed Rule should not be treated as urgent because the Reliability Panel has failed to consider an inconsistency within the Rules that would be created if the proposed Rule were made.

This inconsistency relates to the implied value of achieving a *secure operating state*.

Rule 3.8.1(c) requires AEMO to establish procedures to relax constraints to resolve infeasible dispatch solutions in order to determine prices. This implicitly accepts that dispatch at times will not comply with security constraints. In other words load shedding will not be used to avoid a risk of load shedding.

This Rule thus sets a value of achieving a *secure operating state* that is less than the value attributed to load shedding, namely the market price cap.

In contrast, the proposed Rule would allow contracted reserves under the RERT to be used to address a power system security event, in other words these reserves may be used to achieve a *secure operating state*.

The primary effect of the RERT is to provide a role for services that could be in the market, but choose not to deal with the difficulties and costs of market entry given revenue available as restricted by the *market price cap*. Thus the application of

reserves acquired under the RERT implies a willingness to pay more than the *market price cap*.

The proposed Rule would thus introduce an inconsistency, with the achievement of a *secure operating state* valued in one context at up to the *market price cap*, but in the proposed new provision, valued at above the *market price cap*.

We note that the most common departures from a *secure operating state* involve a risk that some load shedding will become necessary in the unlikely event that a critical contingency event occurs. Thus from the perspective of the customers, who are faced with the cost of market intervention, the actual value of achieving a *secure operating state* is, in most cases, very much lower than the value of lost load.

NGF concludes that the existing Rules are a better fit with the National Electricity Objective than is the proposed change. We submit that a consistent approach to the important issue of system security is required under the National Electricity Objective, and that the Reliability Panel has failed to give any consideration to this important issue in formulating the proposed Rule change.

There is no meaningful analysis of the full costs of this proposal

The NGF noted in its 6 June 2009 submission:

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;

This comment addresses the additional investment uncertainty and the possible behaviour of some participants who may withhold capacity from the market in order to take part in the RERT. Some analysis of this impact, which could be a severe detriment, needs to be undertaken. On page x of the Rule Change Proposal, the Reliability Panel do not even acknowledge that there is any possible detriment of this type. An urgent rule change process will not allow time for a reasonable assessment of this issue.

Summary

The NGF and ERAA submit that the AEMC should not use the urgent process for this rule proposal. We have shown that there is no need for urgency and that some significant issues have not been considered by the Reliability Panel.

Please contact me on (03) 8633 6026 or by email to acruicks@agl.com.au if you wish to discuss this submission.

Yours faithfully,



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