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Dr John Tamblyn  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

By email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Dr Tamblyn,

**Extreme Weather Events Review – Consultation Paper: EMO 0010**

As a significant private sector investor in the National Electricity Market, TRUenergy is pleased to have the opportunity to respond to the consultation paper in relation to the Review of the Effectiveness of NEM Security and Reliability Arrangements in light of Extreme Weather Events.

At a general level, we are concerned with some of the directions indicated by the 2<sup>nd</sup> interim report on the review to date. In particular, the proposal to implement different Market Price Caps across regions in the NEM appears not to have fully considered the practical and system security implications of such a reform. Problematic implications of this proposal include:

- Settlement deficits – These can occur when a high MPC region has to export to a low MPC region. While briefly considered by the AEMC – we do not agree that this issue will be able to be worked around easily as suggested in the report.
- Impaired inter-regional trade - Inter-regional trade would be very difficult between regions with the risks created by varying MPC's.
- System security concerns – Participants will face strong incentives to manage their operations in a way that will arbitrage the various price caps potentially creating system security problems. AEMO has already identified this as a significant concern in the gas markets where differing MPC's exist.
- Ancillary services operation – Currently FCAS markets generally trade a common price across the NEM. Further regionalisation and increased FCAS market volatility would be likely with varying MPC's.
- Dispatch system difficulties – It is not clear to us that the AEMO dispatch algorithm would be robust if varying regional MPC's were implemented, given the way that multiples of the MPC are used as constraint violation penalties. Any move to regional MPC's would potentially result in

violations being differently valued between regions – potentially causing dispatch anomalies; or alternatively common violation penalties would be adopted across the NEM which would appear to partially undermine the objectives of varying jurisdictional standards. AEMO should be consulted to fully explore any such implications.

- Objective of single national market – Varying jurisdictional reliability settings is a fundamental step away from a common national energy market – one of the core objectives of the microeconomic reform underpinning the creation of the NEM. Any such move brings into question the political commitment of governments to achieving the microeconomic reforms envisaged from the NEM.

We do not support this recommendation and suggest that differing reliability objectives for different regions is not a viable or desirable proposition.

Our brief comments on questions raised in the consultation paper appear below.

***Q1: Do you have any observations in relation to the interaction between investment regimes (for reliability) between each stage of the electricity supply chain?***

A general ongoing area of concern relates to the disconnect between market facing participants and network operations. This can lead to poor network performance creating significant financial losses for market facing participants which they are unable to manage. Such unmanageable risks increase the cost of capital required for investment in the market facing sectors – at a minimum increasing energy costs, but also potentially deferring generation investment.

A further area that has created some concern in the past is the operation of network controlled under frequency load shedding arrangements. Typically these last resort load shedding schemes tend to disconnect large portions of load – potentially in excess of what would be required to restore supply demand balance. It may be worth exploring a more targeted approach to sizing this load shedding to ensure that the system is protected, while also avoiding the overshoot which has on occasion been experienced, and which can quickly switch from under supply to over supply creating undesirable system instability.

Consideration could also be given to better aligning load shedding tables to commercial load shedding opportunities to ensure the most economic outcome occurs if/when involuntary load shedding is required. An option would be for retailers holding load shedding capacity to be able to indicate a trigger price for use in system load shedding tables which may allow better use of voluntary resources for management of system security events.

***Q2: Do you consider setting the MPC as a ten year trajectory as more appropriate to provide investment certainty in the future?***

There is always a trade off between certainty and flexibility. In principle a stable outlook for the MPC would help clarify the investment environment – however setting a longer term trajectory would be likely to require a significant risk margin to be built into the MPC to ensure that over the outlook period the MPC remained adequate to allow required investment.

It is worth noting that in the two years since the MPC was last reviewed by the reliability panel, demand shapes and plant costs have resulted in a notable variation in the estimated required MPC (ie. from \$12,500 to \$16,000) – demonstrating that over a 10 year period the risk premium required to be built in would need to be quite significant if the MPC was to be guaranteed to deliver adequate investment over

the outlook period. Failure to build in such a margin, would be likely to require options for the MPC outlook to be re-opened – which would undermine the certainty objective.

It is worth considering the existing mechanism, which sets a firm MPC for several years out, and gives observers some indication of where the MPC may move to based on the methodology for setting the MPC adopted by the reliability panel. Particularly if the Panel adopts a consistent approach to setting the MPC over time, this mechanism will provide scope for participants to estimate likely future MPC trajectories.

An alternative approach to dealing with the trade off between certainty and flexibility in outlook could be some form of upper and lower bound of future MPC – similar to the gateway approach proposed in the governments CPRS legislation. This approach may provide a more sustainable outlook methodology than a single MPC path if it is determined that some change in this area is required. However, noting the volatility of MPC experienced to date, the gateway's may need to be very wide and therefore may add little to certainty compared to the current process.

***Q3: Do you consider the current two year reviews of MPC as appropriate or would less frequent reviews provide greater investment certainty?***

The current approach is probably the only feasible approach unless a significant risk premium was to be adopted in the MPC settings. It can be noted that experienced observers can interpolate the key drivers of the Reliability Panels methodology and take their own view on likely future MPC direction under the existing approach. This probably provides as much investment certainty as any alternate approach (assuming that some re-opening option would be likely to be required in any future MPC path).

***Q4: What do you consider are the wider non reliability impacts to the NEM of raising the MPC as a mechanism to achieve reliability, in a future of more frequent extreme weather events?***

The key concern is that the market design currently leaves participants with some risks that cannot be managed by prudent operators. A prime example are constraints due to transmission outages – which leave generators exposed to high market costs, but without any ability to hedge the risk. This has been discussed under Q1 above.

***Q5: Do you consider the current reliability standard as appropriate in the context of more frequent extreme weather events in the future?***

We are comfortable with the existing standard (ie. 0.002% USE). Any variation on this would presumably need to be based on a cost benefit analysis comparing the costs of meeting the standard with the value of load shedding avoided. Such a cost benefit approach would appear consistent with the NEO objective of long term customer benefits.

***Q6: Do you have any specific issues which you consider should be reviewed in a review of technical and performance standards in the NEM?***

We support the proposal to leave detailed consideration of these standards to a future broader review.

Our expectation is that summer de-ratings etc. should be picked up in the AEMO ESOO data gathering processes. We do not see these are relevant to the technical standards. Any high temperature limits on plant (eg. Basslink maximum temperature limits) should be identified and understood in the AEMO data collection and publication process.

***Q7: Do you consider that it is appropriate for the MCE to provide a statement of policy principles regarding the community's expectations and valuation of reliability? If so, what should be the form and the level of that guidance?***

Arguably the MCE has a role to play in articulating community expectations on reliability. However any such input should be restricted to high level policy statements and avoid quantitative comments. Once very high level expectations are outlined, Rules processes under the National Electricity Objective and Reliability Panel should be left to determine detailed implementation using existing industry sector coverage and expertise.

***Q8: Do you consider it more appropriate for the AEMC to make NEM reliability parameter decisions given the energy market framework governance arrangements established through the AEMA & the NEL?***

We do not accept the view put in the consultation papers that the Reliability Panel may be conflicted in making its decisions. On the contrary, the Panel consists of experienced representatives from the full spectrum of industry stakeholder groups, who are bound to act in accordance with the charter of the Panel. The Panel members have specific industry expertise and can ensure all interests and implications are understood and considered. Given its broad inclusive membership, and the fact that it is chaired by an AEMC Commissioner, it is hard to understand how a more balanced and less conflicted group could be established.

On the contrary, a move to have the AEMC as the only decision maker would be a backward step, as the Commission would not have the benefit of current industry experience provided by the Panel. In any case, we note that under the current process, the AEMC gets to consider rule changes developed by the Panel – and to this extent has a final say on Rule changes developed by the Panel in any event.

If a change in model is determined to be necessary, of the models presented, we would prefer model 1, as it ensures strong industry input from all sectors (via the Panel), whilst allowing high level policy input from the MCE, and a role for the AEMC in ensuring overall NEO compliance.

We also do not agree with the stated concern that the current process produces unnecessary uncertainty due to the possibility of unexpected rule change proposals being submitted to change reliability parameters between reviews. The AEMC has the power to reject rule change proposals that do not align with the NEO; and given the extensive process taken by the Reliability Panel in recommending reliability parameters, and the current relatively short two year gap between reviews, we would only expect the AEMC to accept setting changes in between reviews if an exceptionally strong case could be mounted. Because of this, we do not regard the risk of between review changes as high or creating unnecessary uncertainty.

***9. Do you consider that the current tools regarding demand and capacity forecasting/information as appropriate and useful in informing investment and outage timing decisions. Please explain your view including reasoning for any suggested improvements.***

We believe the current approach is adequate. Incremental improvements can be adopted via AEMO processes as they are identified.

If you have any further questions regarding this matter, please do not hesitate to contact me on (03) 8628 1130 ([mark.frewin@truenenergy.com.au](mailto:mark.frewin@truenenergy.com.au)).

Yours Sincerely,

A handwritten signature in blue ink that reads "Mark Frewin". The signature is written in a cursive style with a large initial 'M'.

Mark Frewin  
Manager Wholesale Market Regulation