

# Presentation to the AEMC Reliability Panel on the Reliability Panel Second Interim Report.

John Dick  
President

Energy Action Group

13<sup>th</sup> September 2007

EAG agrees with the some of the directions taken by the Panel in the Second Interim Report. However, given the terms of reference there are some issues that EAG believes to similar to asking whether you want to join the army, navy or air force when your are a pacifist.

EAG is not going to make any comments on market design or on some behaviour by market participants that is within the NER but wish to observe that the outcomes don't help system reliability or security!

EAG is more than aware that the Comprehensive Reliability Review is about ensuring that the system reliability and system security across the NEM and that the market as a whole, has achieved a satisfactory performance even against the proposed standards in the Second Interim Report to date. EAG wishes to raise the following issues with the Panel even though some of the issues we raise are outside the remit and terms of reference of this inquiry. The problems that we raise may flow to generators, retailers and consumers from the adoption of the proposed standards and the associated Rule changes.

# Asymmetric Risk

Market participants and consumers need to see transparent, clear understandable signals on issues relating to system security and reliability standards given the user /causer pay principle underwriting the current market design.

The current reliability standards along with the second draft CRR reliability standards expose market participants particularly generators, retailers (under price caps) and consumers to considerable financial risk.

# Issues around Asymmetric Risk

There appear to be at least two forms of asymmetric risk associated with the NEM gross pool market reliability standards

- 1 Financial risk

- 2 Time weighted risk

# Financial risk

There is a considerable difference in the total \$ value at risk when the Cumulative Price Threshold is evoked in the South Australian and Tasmanian regions compared to New South Wales region.

Therefore a NSW event has greater potential to impact on market participants and consumers financially than an event in SA and Tasmania.

It is not clear to EAG whether the costs associated with Ancillary Service Payments are included in the Cumulative Price Threshold assessment as in our reading of the Rules it seems that the CPT is associated with the energy only market.

If this is the case then the financial risk to market participants and consumers in a region (or even across the NEM) can be further compounded by the costs associated with an un-capped Ancillary Service Payment market and NEMMCo directions.

EAG notes that Ancillary Service Payments in South Australia reached a figure over \$ 35,000/MWh on the 16<sup>th</sup> of January 2007 for a period of time!

There is no significant evidence presented during the CRR and previous VoLL Reviews to show that changing the value of VoLL from \$ 5,000 to \$10,000 /MWh has added significant generation capacity to the market to date. The current high forward prices should be signalling to the generators to build new capacity particularly open cycle gas turbine sets to cover the loss of peaking capacity. Clearly we have a short term phenomena!

MW installed	June 1999 /2002	4419
--------------	-----------------	------

MW installed	June 2002/2006	1035
--------------	----------------	------

MW to be installed	to 2010	3327
--------------------	---------	------

Source Morgan Stanley Report to Owen Inquiry August 31 2007 based on NEMMCo and ESAA data

The Reliability Panel decision making process on the market cap has maintained VoLL at \$ 10,000 /MWH on the basis that too much change sends the wrong signals to the market and investors.

On the opposite side of the coin any change upwards of VoLL will further add to consumer risk and any retailer who has market exposure to price caps and large volume of energy at high market prices in any tightly contracted part of the market.

EAG believes that on the evidence available that that the price of VoLL could be reduced back to \$ 5000/MWh leaving the CTP at \$ 150,000 MW without reducing the levels of investment in the market.

EAG is however of the view that there should be a further restriction on the CPT so that the market moves to an administered price if the CPT is invoked twice in a six month period for at least six months period or until the cause/source of the high prices is addressed.

# Time Weighted Risk

Electricity and gas infrastructure assets are not constructed overnight, a long term contingent or even worse a multiple contingent event has the potential to last for several months. The CRR doesn't appear to have considered this as an issue.

There have been at least four events that have lasted at least a month in the NEM the since 1999

- Transgrids line refurbishment in northern NSW at cost of \$ 160 m to generators and consumers.
- Loy Yang B 3 month unit failure.
- Yallourn W EBA dispute
- The reduction in generation capacity across the NEM due to drought is the latest example

No provision appear to have been made in the CRR recommendations to address a systemic problem that cannot be solved by the current market mechanisms!

# Sorry Energy Assessment Adequacy Projection

- Since market start, consumer members on the Panel have been adversely commenting on the failure by NEMMC to consider fuel availability in preparing (MTPASA/STPASA's) EAAP. This issue continues takes on increasing importance as the market increases its dependence of natural gas as a fuel source. *The current Victorian gas market arrangements around the management of limited transmission system linepac highlight this problem.*
- Water availability is another factor that needs to be included in the (MTPASA/STPASA) EAAP

# A Further (MTPASA/STPASA) EAAP Issue

Further work needs to be done on improving the accuracy of the high temperature day MTPASA/STPASA's EAAP with the inclusion of factors reflecting humidity and wind speed at the major load centres and along transmission routes.

# EAG Comments on Scope of Reliability Standard

EAG is extremely disappointed with the Panels decision to stick the focus of reporting the success or failure of the market reliability and security in terms of single credible contingent events in meeting the 0.002% USE.

Most of the major problems experienced by end users come from multiple credible contingent events and as such the method of reporting multiple contingencies to the market should be vastly improved if the Panel proceed with the current recommendations.

# 10 Years Looking Backwards

This proposal aligns with the NEMMCo 1year in 10 year planning approach used in the SOO and clearly has a reliable data set to base the 0.002% USE standard on.

The NEM (following/leading international trends) has a percentage growth pattern where growth in demand MW is twice the growth in energy consumption GWh.

Setting the 002% USE on historic data doesn't capture the impact of changing load and consumption across the NEM. This approach will set a tighter standard for the market to meet than the use of forward energy consumption projections.

EAG therefore favours this approach

# Reliability Emergency Reserve

## Mechanism (The to little to late mechanism)

The use of the Reserve Trader over the past three years may have given the politicians confidence that system reliability would be maintained, but it doesn't appear to have delivered much in terms of capacity nor much in terms of adequately developing Demand Management or dispatchable load reduction options.

On August 31<sup>st</sup> 2007, the Californian ISO under forecast demand by 1000 MW and the system reliability was maintained by organised demand reduction. In the NEM, STPASA mis-forecasting at high temperatures is not unusual.

EAG believes that the Reliability Panel should indicate in its final report to the AEMC that the market needs to develop a stronger set of incentives under the NER to ensure that demand reduction and Demand Management options are developed to assist in sustaining a reliable and secure system.

# Conclusion

EAG has participated in a number of legislative drafting exercises for both gas and electricity since the market start. The devil is not only in the detail but in how the market participants interpret the requirements and conditions that the proposed changes to the NER impose on them.

Its not an issue of what appears to be supply availability, but **how** the generators use their opportunities.