Reliability Panel
Australian Energy Market Commission
Level 5, 201 Elizabeth Street
Sydney NSW, 2000
Australia

By online submission

Friday 21 June 2013

Dear Reliability Panel members,

Re Issues paper - Reliability Standard and Settings Review 2014 (ref REL0051)

GDF SUEZ Australian Energy (GDFSAE), formerly International Power-GDF SUEZ Australia, appreciates the opportunity to comment on the Reliability Panel's *Reliability Standard and Settings Review 2014 Issues Paper* (Issues Paper). GDFSAE is wholly owned by GDF SUEZ S.A. and is a business line of GDF SUEZ Energy International.

In Australia, the company owns and operates 3,500MW (gross) of renewable, gas-fired and brown coal-fired plants in Victoria, South Australia and Western Australia. GDFSAE also includes the second tier retailer Simply Energy which has more than 300,000 electricity and gas accounts in Victoria, South Australia and New South Wales.

The Issues Paper includes a number of specific questions. GDFSAE have provided responses to each of the Issues Paper questions below.

1. Form of the reliability standard:

The unserved energy (USE) model is now well established and GDFSAE is not aware of any substantial concerns or problems with its application in the NEM. The Issues Paper also refers to previous reviews carried out by the Reliability Panel (Panel), including the comprehensive reliability review (CRR). This previous work by the Panel did not identify any clear driver to suggest that the current USE model should be changed.

GDFSAE therefore suggests that the existing USE model continues to apply in the NEM.

2. Level of the reliability standard:

GDFSAE is not aware of any clear driver which would support a change to the current USE level of 0.002%. Unnecessarily changing the USE level would create regulatory uncertainty for incumbents and potential new investors. The current level is broadly consistent with international experience and appears to be serving the industry well.

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3. Market price cap:

The MPC forms a part of the suite of signals for new investment, which also include forward contract prices, contract liquidity, competitor behaviour, reserve projections and demand forecasts. Although it is recognised that the MPC is not the primary mechanism in the NEM to signal new investment, there is a risk that if it is set too low, it could in fact become a deterrent to new investment. Clearly this outcome needs to be avoided.

The MPC is an important setting in the NEM which must be set sufficiently high to provide a significant contribution to the investment signal. GDFSAE favours the continued indexing of the MPC to an appropriate index.

4. Cumulative price threshold:

The cumulative price threshold (CPT) is essentially a risk management mechanism. In setting the appropriate level for the CPT, there needs to be balance protecting market participants from extended high price periods, and allowing the high price events to provide a sufficient signal to sustain the energy only market. As well as protecting participants from extended periods of high prices, the CPT also prevents over-signalling the market when no further response is available.

GDFSAE notes that given the decline in energy demand while peak demand continues to grow, it is likely that there will be greater price volatility in the NEM. This needs to be considered for both the MPC and the CPT impacts.

On balance, GDFSAE believes that the current CPT level of 15 times the MPC seems to be about the correct balance.

5. Market floor price:

Unlike the MPC, the market floor price (MFP) is not an investment signal, but is does seek to provide a mechanism to achieve orderly offloading of generators during times of supply surplus. A large negative pool price represents a risk to less flexible generators which are online, and unable to substantially reduce their output.

In recent years the increase in the level of wind generation in South Australia has led to an increase in the incidence of negative prices in that state, and has also seen a number of thermal generators mothballed. However during periods of low wind generation, the thermal generation is needed to ensure the reliable supply of South Australian customers.

The risk is that if too much thermal generation is shut down in response to low or negative pool prices, there may be insufficient thermal generation available online when the wind generation diminishes, and power blackouts could result.

The Panel therefore needs to ensure that the negative price signal is sufficiently strong to drive down surplus generation, but not so strong that it results in driving off conventional generation that may be subsequently needed to support intermittent generation.

GDFSAE have not performed detailed analysis on this matter, but believes that it is an area that should be examined more closely in light of recent experience in South Australia. It may be that the current level of -$1000 is not appropriate. GDFSAE therefore urges the Panel to consider the appropriateness of the current MFP in response to the matters raised above.

6. Customer value of reliability:

GDFSAE believe that it is appropriate to consider consistency between the MPC and the value of customer reliability (VCR), although as these are quite different mechanisms, it is not necessarily the cast that they should be at similar levels. GDFSAE would welcome work by the Panel is understanding more clearly, the relationship between MPC and VCR.

Summary

There is little evidence to suggest that the reliability settings have been key drivers for generator investment decisions to date. However, the Panel needs ensure that the settings are not set so low that they become an impediment to new investment.

In undertaking this review of the reliability standard and settings, it is important to consider the changed environment within which the NEM now operates, compared to previous reviews. Of particular relevance are:

- electricity demand significantly lower, with subdued growth potential
- generation investment is occurring manly to deliver the LRET and SRET
- increased price volatility due to higher penetration of intermittent generation
- increased incidence of negative prices in SA

These developments, together with the fact that average spot prices since the start of NEM have been well below new entrant prices, suggest that the Panel needs to re-examine the current trading arrangements more broadly. One key consideration is to ensure incentives are in place to maintain sufficient backup generation as needed to support intermittent generation. This may necessitate the introduction of new ancillary services or capacity arrangement.

I hope that the comments contained in this submission are helpful to the Panel in their deliberations on this matter. Should you have any enquiries regarding this submission please do not hesitate to contact me on 03 9617 8331.

Yours sincerely,

Chris Deague

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