



Australian Energy Market Commission

Level 5 201 Elizabeth Street Sydney NSW 2000
PO Box A2449 Sydney South NSW 1235

P — 02 8296 7800

F — 02 8296 7899

E — aemc@aemc.gov.au

ABN 49 236 270 144

www.aemc.gov.au

Alex Cruickshank
National Generators Forum (NGF)
GPO Box 1301
Canberra ACT 2601

18 September 2009

Our ref: ERC 0094

Dear Alex

Expedited assessment of RERT Flexibility and Short-notice Reserve Contracts Rule change proposal

I refer to your letter of 3 September 2009 ("the NGF/ERAA Letter") objecting to the treatment of the Rule change proposal mentioned above as an urgent Rule and the consequent application of an expedited process for assessing that Rule change proposal.

Commission's decision

The Australian Energy Market Commission ("the Commission") has decided that the Rule change proposal should be treated as a request for an urgent Rule under section 96 of the National Electricity Law ("NEL"). This letter sets out:

- the Commission's reasons for considering the proposed Rule change to be urgent, therefore requiring an expedited assessment process; and
- the Commission's reasons for considering the objections set out in the NGF/ERAA Letter to be misconceived or lacking in substance for the purposes of section 96(4) of the NEL.

Reasons for urgent (and therefore expedited) assessment of the Rule change proposal

The Commission may make a Rule in accordance with section 96 if it considers the Rule to be an urgent Rule. An urgent Rule is defined in section 87 of the NEL to be "a Rule relating to any matter or thing that, if not made as a matter of urgency, will result in that matter or thing imminently prejudicing or threatening ... the safety, security or reliability of the national electricity system".

The Commission considers the proposed Rule change to be an urgent Rule because the proposed RERT amendments (and associated revised RERT guidelines and procedures) are designed to provide the Australian Energy Market Operator (AEMO) with additional mechanisms to manage supply during the coming summer period. Summer is the period of peak demand and is therefore the period most exposed to a short-notice shortfall in capacity, e.g. should there be a major technical failure of existing generation plant. The

RERT amendments will enhance AEMO's ability to maintain reliable supplies and avoid involuntary load shedding in these circumstances.

Consideration of the reasons provided in the NGF/ERAA Letter

The Commission has carefully considered the reasons provided in the NGF/ERAA Letter against treating the proposed Rule change as an urgent Rule, and has found these reasons to be misconceived or lacking in substance.

The Commission's findings in relation to each of the reasons are set out below.

Reason 1 – there is no urgency to implement this change

The Commission considers the reasons under this heading of the NGF/ERAA Letter are misconceived and/or lacking in substance because:

- There is a credible risk that the reliability of the national electricity system will be imminently prejudiced or threatened if AEMO does not have the powers that would be conferred on it by the RERT amendments and there is a short-notice reserve shortfall during the summer period 2009/2010.
- The Commission is not satisfied that the probability that short-notice reserves will be required during the summer period 2009/2010 is so low as to obviate the need for the RERT amendments (and associated revised RERT guidelines and procedures) to be in place for that period. In this regard the Commission considers reliance on the forecasts in the Electricity Statement of Opportunities ("ESOO") and the medium term PASA ("MT PASA") to be misplaced because, while those forecasts provide some indication of the probability of additional reserves being required under specific scenarios, neither the ESOO nor the MT PASA are capable of predicting unanticipated shortfalls, e.g. such as may be caused by the failure of existing plant. The risk of an unanticipated shortfall occurring is considerably greater in summer when the supply/demand balance is typically relatively tight. This risk is demonstrated by the fact that, in 2008, NEMMCO chose not to contract reserves for summer 2008/2009 on the basis of forecasts then available to it, but then faced supply interruptions in January 2009 in part due to the lack of reserves.

The introduction of the CPRS, and the previous performance of the reserve trader and the RERT, are not relevant to the existence of this risk and the need for AEMO to be in a position to respond to short-term reserve shortfalls in the summer of 2009/2010. The CPRS might conceivably exacerbate the risk of a shortfall in the future but it will not come into operation until after the summer of 2009/2010, and the RERT amendments are intended to positively enhance the operation of the reserve trader/RERT mechanism so as to enable it to be used more effectively.

Reason 2 - the major concerns raised by the NGF have not been addressed

The Commission considers the reasons provided in the NGF/ERAA Letter under this heading to be misconceived as the issues raised are relevant to the merits of the Rule change proposal, and not to whether the proposed Rule change is urgent. The expedited assessment process provides an opportunity for consultation on the merits of the Rule change proposal and the Commission will, of course, consider the matters raised in the NGF/ERAA Letter along with any others received in further submissions as part of the Commission's consultation on the Rule change proposal.

The question of the urgency of the Rule change proposal raised in this section of the NGF/ERAA Letter has been dealt with above.

Reason 3 - the proposed Rule introduces an inconsistency in the Rules

The Commission considers this reason provided in the NGF/ERAA Letter to be misconceived as it relates to the merits of the Rule change proposal, when assessed against the National Electricity Objective ("NEO"), rather than to the urgency of the proposed Rule change. Again this is a matter that will be considered as part of the Commission's consultation on the Rule change proposal. In this regard the Commission notes that it may only make the proposed Rule change if it is satisfied that the Rule change will, or is likely to, contribute to the achievement of the NEO.

Reason 4 - there is no meaningful analysis of the full costs of this proposal

The Commission considers that this reason provided in the NGF/ERAA Letter is also misconceived as it is an issue that is relevant to the merits of the Rule change proposal, rather than to whether the proposed Rule change is urgent. However the Commission notes that, if it is not satisfied that the benefit of the Rule change outweighs its costs, then it would be open to the Commission not to make the proposed Rule on the grounds that it is not satisfied that the proposed Rule will, or is likely to, contribute to the achievement of the NEO.

Yours sincerely



Steven Graham
Chief Executive