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23 February 2010

Mr Neville Henderson  
Chairman – Reliability Panel  
Australian Energy Market Commission

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

Dear Mr Henderson,

### **Reliability Standard and Settings Review 2010**

The Reliability Standard and Settings have an important role to play in the NEM market design. In this context, TRUenergy is pleased to have the opportunity to comment on the Reliability Panels draft report on these parameters along with the accompanying Roam report issued for consultation in December 2009.

TRUenergy is a member of various industry associations that have separately commented on the review, and we note that these submissions have canvassed the full spectrum of views on the Roam modelling and the approach taken in the Panel's draft report. In addition, the issues were well discussed at the forum held in Melbourne on the 12<sup>th</sup> of February. On this basis we will restrict this submission to high level perspectives on the preferred approach to determining appropriate levels of the Market Price Cap and Cumulative Price Threshold.

#### **Market Price Cap**

Work to date by the panel, via Roam consulting, seeks to identify a Market Price Cap that will allow sufficient pool revenue to deliver required returns to the marginal open cycle gas turbine required to satisfy the reliability standard.

While this methodology has a role to play in determining an appropriate Price Cap, we also note that investment decisions take a wider set of impacts into account, and that a change in the price cap can also produce other impacts and costs on the market. These include contract market liquidity impacts, perceptions of regulatory risk, increased unhedgable risks related to network constraints/outages, and increases in end user tariffs.

In order to set an optimum Market Price Cap, TRUenergy believes the Panels scope should be broadened to take the wider impacts of any MPC change into consideration. Conceptually, an optimum price cap would deliver the reliability standard, whilst minimising other costs on the market.

## Cumulative Price Threshold

Consistent with some of the discussion at the recent public forum, TRUenergy is of the view that it would be valuable for the Panel to reconfirm the objective of the Cumulative Price Threshold, and derive a value for the Threshold on the basis of that objective. Risk management principles and approaches should form the basis of this approach.

The basis for the draft proposal to maintain a constant ratio between the CPT to MPC is not clearly articulated, and does not appear consistent with such an approach.

A more robust and logical approach to determining the CPT would deliver benefits to the market by presenting a more clearly defined market risk envelope to future investors.

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