

AEMC Reliability Panel
Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

Email: panel@aemc.gov.au

Dear Panel

COMPREHENSIVE RELIABILITY REVIEW

Macquarie Generation welcomes the opportunity to comment on the Reliability Panel's *Comprehensive Reliability Review, Second Interim Report*, released in August 2007.

As a general observation, Macquarie Generation supports, with some qualifications, the majority of the Panel's recommendations relating to the key reliability settings. The Corporation has previously commented on some of the broader issues on market design that the Panel will consider in its Final Report.

Energy adequacy assessment projection

Macquarie Generation does not oppose the introduction of the proposed energy adequacy assessment projection examining the impact of generation input constraints on reliability over a two year period. The publication of information on possible energy constraints in different parts of the market should enable non-constrained participants to adjust production plans, fuel purchases and maintenance schedules, reducing the likelihood of reliability problems.

The projection process should be designed in a way that elicits key information on likely fuel and water constraints without imposing significant new costs for generation businesses in developing and updating the proposed generator energy models. The Reliability Panel should be required to complete a cost-benefit analysis as part of the process of developing the guidelines for the energy assessment process that takes account of the administrative and system costs of implementing the scheme.

The energy assessment should not trigger the operation of the proposed reliability and emergency reserve mechanism. There are too many unknowns in forecasting likely energy reserves in the market many months in advance of a possible shortfall. Any reserve trader mechanism should focus on capacity in the bulk generation and transmission systems as the primary determinant of any possible unserved energy.

Macquarie Generation does not believe there is any value in requiring participants to provide information on a ten year energy outlook. Forecasting over such a timeframe with the inherent uncertainties relating to long term rainfall patterns, investment in new generation plant and developments of new fuel supplies would offer little or no value to the market. Investors must ultimately make their own judgements about the likely demand and supply balance over the longer term and whether they consider the market will provide reasonable returns over this timeframe.

Changing the reliability settings

Macquarie Generation supports the recommendation to undertake a general review of all the reliability settings every three years. A combined review would enable the Reliability Panel to consider the interactions and trade-offs between the various settings and the impact of demand and supply trends over a longer period.

One possible downside to this proposal is that it may be many years before the level of the market price cap is changed, particularly if there is a notice period before increases are implemented. Macquarie Generation supports the proposal to index the level of VoLL on an annual basis (with some rounding rule applied) with the cumulative price threshold set at 15 times the level of VoLL. This is a modest change that would preserve the real value of the market settings and the signals for new investment as part of the move to less frequent reviews.

Demand forecasting in the NEM

Macquarie Generation fully supports the Panel's statements about the importance of accurate load forecasts for NEMMCO's Statement of Opportunities and the forecasting of possible unserved energy in particular regions. Forecasts of demand, particularly peak loads, which are consistently above actual temperature adjusted load levels increases the likelihood of some form of market intervention by governments to address perceived reliability problems.

Macquarie Generation supports the proposal for NEMMCO to provide the Panel with a report on the accuracy of demand forecasts in the most recent SOO and on any improvements made by NEMMCO or the jurisdictional planning bodies to the process. Macquarie Generation considers that this report should be made public to the market to provide a further level of scrutiny of those responsible for preparing load forecasts.

The Reliability Panel should be prepared to commission its own independent review of load forecasting practices if there a pattern of conservative forecasting for a particular region. The Panel should consider assigning full responsibility to NEMMCO for preparing load forecasts if there is no improvement in the accuracy of forecasts prepared by the jurisdictional planning bodies.

Macquarie Generation welcomes the recent improvements to the load forecasting methodologies in Victoria and South Australia.

Administered price cap

Macquarie Generation supports the call for the AEMC to undertake a review of the administered price caps. This review should be completed as soon as practical as there is no need to await the outcomes of the Panel's final report. Macquarie Generation believes that any detailed analysis of the current cap settings would result in a material increase of both the peak and off-peak caps.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Russell Skelton', with a long horizontal line extending to the right.

RUSSELL SKELTON
MANAGER MARKETING & TRADING

26 September 2007