



Victorian Energy Networks Corporation

Office of the Chief Executive Officer  
Victorian Energy Networks Corporation  
Level 2 Yarra Tower  
World Trade Centre  
Siddeley Street  
Melbourne Vic 3005  
Telephone (03) 8664 6500  
Facsimile (03) 8664 6510

Ian C Woodward  
Chairman, Reliability Panel  
Australian Energy Market Commission  
PO Box H166  
AUSTRALIA SQUARE NSW 1215

By Email: [panel@aemc.gov.au](mailto:panel@aemc.gov.au)

30 June 2006

Dear Mr Woodward

**RE: SUBMISSION ON COMPREHENSIVE RELIABILITY REVIEW: ISSUES PAPER**

VENCORP welcomes the opportunity to comment on the Reliability Panel's (the Panel) Comprehensive Reliability Review: Issues Paper (Issues Paper).

The main focus of the Panel's review is on supply reliability, particularly the three main standards:

- an explicit reliability standard for generation and bulk transmission (currently set at 0.002% Un-Served energy (USE) over the long term);
- price mechanisms designed to ensure that the wholesale spot market meets that standard: a price cap (known as the Value of Lost Load or VoLL) with a market floor price and a cap on financial exposure (the Cumulative Price Threshold or CPT); and
- an intervention mechanism known as the reliability safety net, including reserve trader, should the price mechanisms fail to provide adequate investment signals.

As a TNSP, our primary concern is with the reliability of the transmission network, however, we offer the following observations and comments on the three standards.

Firstly, VENCORP understands that the USE standard is not generally used in transmission decision-making in the NEM.

In Victoria, transmission investment decisions are based on an objective assessment, utilising a net benefits test. This test considers a probabilistic assessment of the benefits, calculated by multiplying the expected lost load by a Value of Customer Reliability (VCR), which is presently set at \$29 600, rather than the Value of Lost Load (VoLL) used within the NEM. If an explicit value were used in transmission planning then this may lead to a significant and unwarranted increase in transmission investment in Victoria, leading to higher long-term costs to electricity consumers.

In other NEM states, we understand that transmission planning is usually conducted using N-X reliability criteria and does not require the USE standard.

While the USE standard has been used in market simulations to locate new generators, it is not the only deciding factor. Outcomes of alternative methods, such as market modelling, are also used to determine generator investment decisions.

Secondly, consideration should be given to reviewing the level of VoLL so that it is more reflective of the price customers place on their reliability and to better align the timing of investment decisions with the value of unserved energy. We note that NEMMCO used VENCORP's sector weighted VCR (\$29,600) rather than VoLL in establishing the reserve trader contracts to secure adequate reserves in Victoria for summer 2005-2006.

Thirdly, the reliability safety net provisions, including reserve trader, are in place should the price mechanisms fail to provide adequate generation (or demand side response) investment signals. Clearly, these provisions do not impact the transmission planning process in Victoria.

Lastly, the Issues Paper did not cover a national approach to transmission planning, firm transmission rights and access. VENCORP considers these issues to be important to the overall security and reliability of the NEM and, as such, they should be considered within the comprehensive review process.

Should you have any questions please do not hesitate to contact Mr John Savage, on ☎ (03) 8664 6568.

Yours sincerely



**Matt Zema**  
**Chief Executive Officer**