

Australian Energy Market Commission

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18 December 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Dr Tamblyn,

National Electricity Rules – Request for Rule NEM Reliability Settings: VoLL, CPT and Future Reliability Review

The Reliability Panel (Panel) requests the Australian Energy Market Commission (AEMC) to consider making the enclosed proposed Rule under section 91 of the National Electricity Law (NEL). This Rule change proposal consolidates the second and third such Rule change packages that were foreshadowed in the final report of the Panel's Comprehensive Reliability Review (CRR), which was published in December 2007.

This Rule change proposal is intended to implement the following recommendations from the CRR:

- an increase in the level of VoLL from the existing level of \$10,000/MWh to \$12,500/MWh to be effective from 1 July 2010;
- the CPT be defined in the Rules as 15 times VoLL;
- the term "Value of Lost Load (VoLL)" be changed to the "Market Price Limit (MPL)"; and
- the current annual review of VoLL be replaced with a reliability standards and settings review (i.e. the reliability standard, VoLL, CPT, and the market floor price) which is to take place every two years with two years' notice of any change.

The Panel also published an Exposure Draft on 16 September 2008 which consolidated the second and third Rule change packages foreshadowed in the CRR into a single Rule change package for reasons of efficiency and to streamline the process. The purpose of the Exposure Draft was to develop a Rule change proposal that could implement the policy positions outlined in Rule change packages 2 and 3 (as defined in the CRR Final Report). The Panel sought stakeholder submissions to the Exposure Draft and Proposed Rule and submissions closed on 31 October 2008. While stakeholders raised a number of issues of detail on the Exposure Draft (which have been addressed in this Proposal to the AEMC), there was overall support (with the exception of the AER on some issues) for proceeding with these initiatives in this timeframe.

The Panel's recommendations in this Rule change proposal were also considered following a separate request from the Ministerial Council on Energy (MCE) to the AEMC in June 2007 requesting that the Panel review and provide advice on the effectiveness of current market arrangements in managing generation input constraints.

The Panel also requests that the AEMC reviews this Rule change proposal under section 96A of the NEL. Under this section the AEMC has the power to fast track this proposal as the entity making the request is an electricity market regulating body (which includes the Reliability Panel) that has undertaken a public consultation when developing the proposal, or the proposal is contained in a MCE review.

The enclosed Rule making request contains:

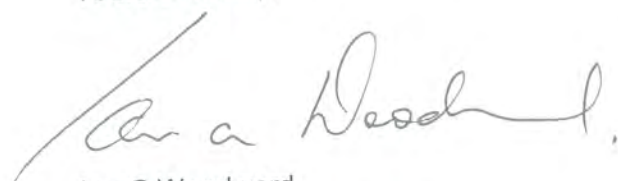
- a statement of the issues being addressed by this proposed Rule and a description of how the proposed Rule would address these issues, including the issues raised by stakeholders in response to the Panel's Exposure Draft;
- a description of Panel's consultation process on the Exposure Draft;
- a description of the proposed Rule;
- an explanation why the Panel considers that the AEMC should fast track the proposed Rule under section 96A of the NEL;
- a description of how the Panel considers that the proposed Rule is likely to advance the national electricity objective;
- the Panel's explanation of the benefits and costs of the proposed change and the potential impacts of the change on those likely to be affected;
- a draft of the proposed Rule; and
- a risk assessment report from Concept Economics the Panel commissioned to better understand the risks the NEM will face if this Rule change proposal is accepted.

Furthermore, the Panel has recently had the modelling from the CRR updated with assumptions that take into account recent policy developments, in particular the Federal Government's proposed CPRS and expanded Mandatory Renewable Energy Target. This modelling was requested of the Panel by the AEMC as an input into the AEMC's climate change review. The Panel believes that this modelling strengthens its own policy position regarding the raising of VoLL as it clearly shows the risk to the market of the reliability standard being breached if VoLL is not raised to \$12,500 / MWh on 1 July 2010.

The Panel may also provide further supplementary material related to the proposal if, through the Panel's work program, any relevant and related matters emerge.

Please do not hesitate to contact Rory Campbell should there be any questions pertaining to this matter.

Yours sincerely,



Ian C Woodward
Chairman, Reliability Panel
Commissioner, AEMC