

The Reliability Panel
Australian Energy Market Commission
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Email: www.aemc.gov.au – Reference: REL0039

Dear Panel

RELIABILITY AND EMERGENCY RESERVE TRADER GUIDELINES

Macquarie Generation appreciates the opportunity to comment on the Reliability Panel's Draft Report, *Consultation on the Amended RERT Guidelines*, released publicly on 1 March 2010.

Macquarie Generation had previously lodged a submission as part of the AEMC's consideration of the National Electricity Amendment (*Improved RERT Flexibility and Short-notice Reserve Contracts*) Rule 2009. The AEMC's Rule Determination indicated that some of the issues raised in our submission could be addressed in the development of the RERT Guidelines. The Panel has not addressed two of our primary concerns, however we believe these issues could be addressed through the AEMO post-event reporting process.

Activating RERT contracts during system security events

The AEMC's Rule Determination extended the coverage of the RERT mechanism to include "actions to maintain power system security" (clause 3.20.2). The Guidelines allow AEMO to dispatch or activate RERT reserves to address a power system security event in a transmission network if there are suitable contracted reserves at an appropriate location and there is sufficient notice of the power system security event.

Macquarie Generation had proposed that the Guidelines should define the circumstances under which the RERT can be used during system security events. The Reliability Panel has indicated that the RERT Guidelines should only contain principles for the use of the RERT and that additional prescription may add complexity to the AEMO decision making process. We are concerned that a lack of clear guidelines may result in the mechanism being used more frequently and less stringently than would otherwise be the case.

Macquarie Generation is also concerned that the development of long, medium and short-term RERT mechanisms to address both reliability and system security problems may weaken the incentives for market participants to invest in new generation and transmission assets and agree commercial contracts with demand side providers. We would hope that AEMO would only ever activate RERT contracts infrequently in response to emergency or extreme circumstances.

Our proposal for greater specification of the system security events was suggested as a way of giving participants confidence that there was a strictly limited set of circumstances

in which the RERT could be triggered. There needs to be some discipline against the pre-emptive use of RERT reserves to avoid security problem that may not be imminent or material.

Clause 3.20.6 sets out the AEMO reporting requirements following the activation of the RERT mechanism. AEMO must publish a report detailing the circumstances giving rise to the need for the dispatch of reserves and on what basis it was determined that a market response would not have avoided the need for dispatch.

Macquarie Generation considers that the reporting process offers the potential for AEMO to provide participants with confidence that it is managing the RERT process appropriately. To achieve this, AEMO would need to provide comprehensive and transparent information on the reliability or system security events that triggered the dispatch of RERT contracts as well as information on alternatives actions that were considered but rejected at the time. The detail on the system security events should as a minimum include information on the critical transmission constraints, sub-regional loads, available generation capacity and the reasons why other actions, such as the use of AEMO's directions powers, were considered inadequate. The report would also need to detail the timing of the events that lead to the decision to activate a RERT contract.

AEMO demand forecasts

In our previous submission, we raised a concern with the accuracy of AEMO demand forecasts that may result in the activation of RERT contracts. We have observed that on numerous occasions forecast pre-dispatch demand levels often vary significantly on the conservative side from actual demand levels during extreme periods in the NEM. Any unnecessary triggering of the RERT would impose costs on market customers and discourage a market-based response from generators and retailers.

We believe that the AEMO post-event reporting should include a separate section on the accuracy of AEMO demand forecasts. For example, AEMO should be required to report whether the actual demand levels fell within a 2% threshold of the 12 hour, 4 hour and 1 hour pre-dispatch demand forecasts in affected regions. This would place some pressure on the AEMO to ensure that pre-dispatch forecasts were accurate and to take steps to improve demand modelling if there was a pattern of RERT events triggered by poor demand forecasts.

Yours faithfully



RUSSELL SKELTON
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