

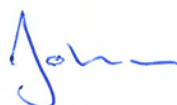
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7 November 2008

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

Dear Dr Tamblyn,



Setting VoLL Following the Shedding of Interruptible Load – Ref ERC0061

This submission sets out the Australian Energy Regulator's (AER's) views on the issue raised by the National Generators Forum (NGF) on the arrangements for setting dispatch prices following the shedding of interruptible load. The AER consider that, for the reasons outlined below:

- the Australian Energy Market Commission (the Commission) should not adopt the NGF's proposed amendment, on grounds that it adds very little to the text as set out in the Draft Rule; and
- the demand offset facility should not form the basis for a reversal of the Commission's draft decision, on grounds that it does not confer any additional discretion on NEMMCO.

NGF's proposed amendment

Under the NGF's proposed amendment, clause 3.9.2(e)(1) of the National Electricity Rules would be amended with the objective of ensuring that dispatch prices are set to equal VoLL in circumstances where the load restoration process is halted due to inadequate supply.

This situation was considered on pages 5-6 of the AER's Rule change proposal. We concluded that special arrangements were unnecessary because market-determined prices are likely to be high anyway and if the situation persisted NEMMCO would issue instructions to shed load, thus activating clause 3.9.2(e)(1).

We are concerned that the NGF's proposed amendment imposes an additional burden for NEMMCO during an emergency situation. It would entail an additional dimension for NEMMCO's consideration when directing the load restoration process.

The risks identified by the NGF need to be weighed against the risks to system security and market outcomes if the Rules require NEMMCO operational staff to assess whether the preconditions for pricing intervention are met whilst simultaneously dealing with the restoration of load. On balance, the AER considers that the risks associated with additional complexity are greater than the risks associated with an unduly low market-determined price in these circumstances.


Demand offset facility

The NGF's second round submission emphasises the "wide and unfettered discretion" of NEMMCO as a result of the demand offset facility, and suggests that, for this reason, the Commission should reconsider its position. The demand offset facility does not confer any additional discretion on NEMMCO. It is simply a tool used by NEMMCO to enable it to fulfil existing Rules obligations to produce demand forecasts. Accordingly, we do not believe that NEMMCO's discretion when applying the demand offset facility should be taken into account by the Commission in reaching its decision.

NEMMCO has already provided the AER with a formal undertaking that will see significant improvements regarding the effective operation of NEMMCO's processes and procedures in the management of load restoration and pricing during the restoration period. In particular, improvements will be made to ensure that interrupted load that is capable of being restored is accurately reflected in the market systems, and that intervention pricing is appropriately applied when NEMMCO issues directions. These improvements should mitigate the problems identified by the NGF.

For these reasons, the AER believes that the text of the Draft Rule is satisfactory. If you would like to discuss this matter further, please do not hesitate to contact Peter Adams on (08) 8213 3408.

Yours sincerely



Michelle Groves
CEO