

3 November 2008

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

By email: submissions@aemc.gov.au

Dear John,

Submission on a Specific issue - Setting of VoLL Following Shedding of Interruptible Load

I refer to the AEMC's explanatory note regarding a specific issue raised by the National Generators Forum (**NGF**) in relation to the above Rule change proposal. NEMMCO makes the following submission for the AEMC's consideration.

The NGF's first round submission proposed that NEMMCO should set dispatch price equal to VoLL following the shedding of interruptible load where it determines that no restoration of load should occur in the dispatch interval because restoration would lead to a departure from a secure operating state. NEMMCO understands the NGF intends this Rule to apply only when there is inadequate supply of available generation, although NEMMCO interprets the proposed drafting to apply generally and the proposal does not achieve its stated intent.

Consequently, NEMMCO considers it would be obliged to set the dispatch price to VoLL where restoration of load might be halted temporarily for reasons not related to a lack of generation capacity. For instance, there might be widespread difficulties in controlling the voltage and NEMMCO may decide to temporarily halt restoration until the issue had been addressed. In such a case, setting the dispatch price to VoLL might trigger an unnecessary demand side response which may interfere with the overall restoration process.

In relation to the other points noted by the AEMC:

- NEMMCO agrees with the AEMC that the proposed Rule affords NEMMCO a degree of discretion on when to invoke VoLL;
- NEMMCO agrees with the AEMC's inference that the Rule may not materially change price outcomes in practice because prices will tend to be very high if there is insufficient generation; and

- NEMMCO confirms it has observed 'dis-orderly' bidding behaviours when it has set VoLL in the past. In addition, NEMMCO has observed other behaviours such as short term non-conformance with dispatch instructions that can cause difficulties in managing power system security.

The NGF's supplementary submission also comments on the "demand offset" process. NEMMCO disagrees with the NGF's statement "...that this process leaves NEMMCO with a wide and unfettered discretion in relation to the chosen component of any unmet demand that is introduced into dispatch". The process, which is described in NEMMCO's investigation report into the events of 16 January 2007, has been implemented so that NEMMCO meets its obligations to dispatch the market to meet non-scheduled load requirements during periods of widespread interruptions to supply.

The value for the demand offset is set based on the best estimate at that time of the expected rate of load restoration taking into account rate of change limitations of spare generating capacity and advice on load restoration capability from the affected Network Service Providers. This will be determined without any reference to possible pricing outcomes.

We look forward to the AEMC's consideration of our supplementary submission. If you have any queries on any of the matters raised in this submission please contact Taryn Maroney on (02) 8884 5609.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Brian Nelson', with a long horizontal flourish extending to the right.

Brian Nelson
Head of Regulatory Affairs and Compliance