



9 December 2010

John Pierce  
Chairman  
Australian Energy Market Commission  
Level 5  
201 Elizabeth Street  
Sydney NSW 2000

Dear Mr Pierce,

**ERC0115 - National Electricity Amendment (Reliability Settings from 1 July 2012)  
Rule 2010**

Origin Energy Limited (Origin) welcomes the opportunity to provide a submission to the Australian Energy Market Commission's (AEMC's) consultation paper on the Rule change proposal in relation to the indexation of specified Reliability Settings and the process of review of the Reliability Standard and Reliability Settings, to be applied from 1 July 2012.

Origin supports the principle of setting the Reliability Standard and Reliability Settings at a level that serves the long-term interests of market participants by promoting efficient investment in the National Electricity Market while simultaneously minimising the potential for perverse and costly outcomes arising from increased price volatility. It is important that the Reliability Standard and Settings framework provides regulatory certainty, transparency and predictability to market participants. To that effect, Origin broadly supports the Rule change proposal. We note, however, that there are areas where further development would improve the efficacy of the proposal. These issues are discussed in more detail below.

**Setting and Indexing the MPC and CPT**

Origin supports the proposal that the Market Price Cap (MPC) and Cumulative Price Threshold (CPT) be fixed at their 1 July 2010 levels and indexed annually. The current values of the MPC and CPT deliver efficient market signals that have and will continue to provide new generation investment incentives to meet growing demand. We consider the current values strike the right balance between being an investment signal without creating unmanageable wholesale risk. Origin also supports the values of the MPC and CPT being rounded to the nearest \$100/MWh and not decreasing from the previous year. We consider this minimises operational complexity while improving certainty, transparency and predictability of the values for market participants.

Origin supports the use of the Intermediate (Stage 2) Producer Price Index (PPI) as the appropriate index to determine the MPC and CPT values each year. From our own analysis, we agree that the Stage 2 PPI appears more relevant than a broad-based index like the Consumer Price Index and more suitable compared with the Stage 1 and Stage 3 PPI.

**Annual Review Process**

We note the importance of a review process that considers whether or not the indexation of the MPC and CPT remains appropriate. Indexing is a simpler process to adjust the MPC and CPT when compared with the current comprehensive biennial review process. We



note that the AEMC retains its power to direct the Reliability Panel to undertake detailed analysis on any of the Reliability Standard and Reliability Settings should the need arise.

A simplified process is likely to reduce the Reliability Panel's administrative costs. However, in order to assess the merits of the review process completely, Origin considers further detail on the scope and process of the review is critical. This is particularly important as the new arrangements represent a change in the emphasis, direction and timing of the current review process. The Rule change proposal provides few specifics about what the review process would involve or the decision-making criteria the Reliability Panel may consider. The lack of detail makes it difficult to identify whether there are any potential problems with the new review structure. For example, the new process limits the opportunity for stakeholder consultation given the shorter timeframe under which the annual review must take place. This is a significant change compared to the comprehensive consultation process associated with the current biennial review.

There is also no default process should the Reliability Panel determine that the particular index or indexation in general is no longer appropriate. There is little flexibility for the Reliability Panel to determine alternative MPC and CPT values under the proposed timetable, which requires:

- publication of the revised MPC and CPT values to apply from 1 July within 10 business days of 30 March; and
- completion of the index review report by 30 April.

We would presume that if the Reliability Panel determined that the index or indexation was no longer appropriate, a further comprehensive review would be necessary. This is likely to extend beyond 1 July, leaving the market uncertain about what MPC and CPT values would apply. We consider the Rules need to anticipate and make provisions for this scenario.

We look forward to engaging with the AEMC as it develops the detail around the annual review process. Should you have any questions or would like to discuss this submission further, please call me on (02) 8345 5250 or Hannah Cole on (02) 8345 5500.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Tim O'Grady", with a long, sweeping horizontal stroke at the end.

Tim O'Grady  
Head of Public Policy  
Corporate Affairs