



## Department of Primary Industries

Mr John Pierce  
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Australian Energy Markets Commission  
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Dear Mr Pierce

### **Proposed Rule Determination: National Electricity Amendment (Reliability Settings from 1 July 2012 Rule 2011 (Project Ref: ERC0115))**

The Victorian Department of Primary Industries (DPI) as the portfolio agency responsible for energy policy in Victoria makes the following submission in relation to this proposal rule change.

Any queries in relation to this submission should be directed to Mr Mark Feather, Director National Energy Development by email at [mark.feather@dpi.vic.gov.au](mailto:mark.feather@dpi.vic.gov.au) or on telephone (03) 9658 4793.

The fundamental assumption that underlies this draft Rule determination is that the current Reliability Settings are correct in the sense that they will consistently deliver the Reliability Standard in all regions of the National Electricity Market (NEM). On this basis we do not believe it is appropriate for the AEMC to take the view that this matter is outside of the scope of this draft Rule determination. In particular, this Rule determination should only be accepted if there is a very high degree of certainty that the current values of the MPC and CPT are "correct".

In our view there is significant uncertainty about whether the current Market Price Cap can consistently deliver the Reliability Standard across the NEM as we set out in our previous submission on this rule change of 8 December 2010. Based on the modelling conducted for the AEMC Reliability Panel a Market Price Cap of approximately \$20,000 per Megawatt hour would be required to maintain the Reliability Standard across the NEM. We therefore cannot support the proposed Rule determination.

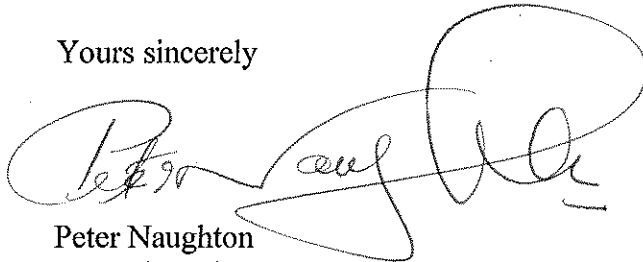
To the extent that the AEMC considers it appropriate to retain the existing Reliability Settings, DPI considers that it is important that they be reviewed regularly. In this respect, DPI supports the retention of a review process as set out in the Draft Rule and Draft Rule Determination. Four yearly reviews of the Reliability Standard and Settings, together with annual indexation of the Market Price Cap (MPC) and Cumulative Price Threshold (CTP) should ultimately help to ensure that the settings are correct and promoting security of supply.



DPI would however note that given the deficiencies in the existing Reliability Settings it would be preferable for a review to occur on a more frequent basis given the security of supply implications. In this respect it is useful to consider the consequences that would follow from the making of this Rule if these key market settings are "incorrect". The values of the MPC and CPT would increase in line with the proposed indexation arrangements each year, but the first comprehensive review of NEM Reliability Settings would not be completed by the Reliability Panel until 30 April 2014 and any changes arising from that review would apply from 1 July 2016.

The risk therefore is that incentives for new generation are inadequate for a period of five years during which there will need to be major new investment in new generation to meet plant retirement and growing demand, as well as the consequences of the possible introduction of a price on carbon. Given the very high priority that consumers place on a reliable electricity we believe that this is an unacceptable risk.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Peter Naughton', written over a large, loopy scribble.

Peter Naughton  
Executive Director  
Energy Sector Development Division

5 /05/2011