



**Government  
of South Australia**

1436779

Mr I Woodward  
Chairman, Reliability Panel  
Australian Energy Market Commission  
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Dear Mr Woodward

Thank you for the opportunity to comment on the Australian Energy Market Commission Reliability Panel's Issues Paper associated with the Comprehensive Reliability Review.

The State Government is strongly committed to ensuring that South Australian consumers receive a reliable supply of electricity, and is, therefore, keen to ensure that the reliability settings in place in the National Electricity Market (NEM) are robust.

The State Government considers that the market is generally working well and is providing incentives to encourage new investment to meet the reliability standards. This was evident following the summer of 2000/2001, during which South Australia experienced high prices due to record demand levels, resulting in a significant amount of additional investment being undertaken in generation and transmission.

The State Government considers that the current reliability standard, the level of Value of Lost Load and the Cumulative Price Threshold are appropriate and that any adjustments to the current settings would only be relatively minor in nature.

In its submission to your Issues Paper, the Electricity Supply Industry Planning Council (Planning Council) indicated that its modelling has shown that the current market settings will deliver a significant amount of investment to meet reliability standards. The modelling also suggests that there exists the possibility that the current settings may lead to a potential shortfall in investment required to deliver sufficient capacity to meet reserve requirements, on a one in ten year extreme weather event basis.

If it is considered there exists a need to provide stronger investment signals, to provide additional reserve capacity, the State Government suggests that this could be best achieved by transforming the Reserve Trader into a permanent standing reserve capacity offer. The additional capacity created would be bid into the market to maintain reliability. A mechanism such as a standing reserve offer would allow those customers with a high value on supply to compensate others to curtail their load first, while providing a clear and stable capacity signal. I understand that such schemes operate in some overseas markets.

The Issues Paper highlights the potential for the removal of the Reserve Trader. Given the Planning Council's modelling and the fact that Reserve Trader has had to be implemented over the last two summers in Victoria and South Australia due to forecast shortfalls in reserve margins, the State Government considers there is strong case for its retention, albeit with enhancements designed to promote broader capacity options than just demand side responses.

If you would like to discuss these issues in more detail, please contact Mr. Vince Duffy of the Energy Division, the Department of Transport Energy and Infrastructure on (08) 8204 1724.

Yours sincerely



**HON PATRICK CONLON MP**  
**MINISTER FOR ENERGY**

2 September 2006