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The Reliability Panel
Australian Energy Market Commission
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COMPREHENSIVE RELIABILITY REVIEW

Country Energy welcomes the opportunity to provide comment in response to the AEMC Issues paper "Comprehensive Reliability Review". Country Energy is a leading Australian energy services corporation owned by the New South Wales Government. We manage Australia's largest power supply network across 95 per cent of New South Wales' land mass, employ 3,800 staff and provide services to over 800,000 customers. Country Energy offer retail electricity in five states and territories, and natural gas in New South Wales and the Australian Capital Territory with a product range that includes bottled gas, internet services and energy efficiency advice.

Central to Country Energy's position on regulatory change is the strong contention that the long term interests of the community are best served by a comprehensive, national policy approach in determining energy distribution and retail regulation. Such a policy would establish a national framework for creating a clear, long term signal across the industry. This incentive is essential to achieving an appropriate balance between the economic benefits of energy and its regulatory costs. Ultimately, all segments of the community will bear the longer term consequences of policy response today which can be fragmented and at times does not fully utilise market-based solutions where possible. Therefore the efforts of the AEMC in having a comprehensive reliability review are strongly supported by Country Energy.

In response to the issues paper Country Energy has provided a summary submission to the key overarching questions: ***"Is there now, or is there likely to be in the future a problem with supply reliability in the NEM? Otherwise what changes to the reliability setting should be contemplated that would be beneficial?"***

Country Energy is of the view that supply reliability has been adequate to date with only two major exceptions. These include Victoria in the year 2000 where industrial action produced major outages (this could be ignored as an exogenous matter) and the South Coast area in December 2004 where 70,000 Integral Energy customers had their power cut off on the first day of summer because of a lack of generation capacity following a generation failure in the Hunter Valley. Therefore it could be argued that if these are the only two major incidents since 1998 that the supply reliability has met growing customer demand. However for this reliability to be continued into the future there are several key factors that must be borne in mind that could increase transparency and certainty in the market. These are detailed below.

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1. The reliability standard needs to be continued on a NEM wide basis rather than separately for each region. Having different reliability standards and reserve margins in each region could lead to non economic outcomes for the National Electricity Market and undermine the development of an efficient interconnected electricity bulk supply system.
2. The value of consumer reliability needs to be determined on a user willingness to pay basis. That is, a mine will have a vastly different value of its reliability needs compared to residential customers. Rather than "gold plating" for a specific customer, customers need to take increased ownership of the value of energy reliability, when it is critical to their operations, and take alternative supply measures to ensure their supply reliability.
3. The Cumulative Price Threshold (CPT) should not change however it is recognised that there is a disjoint between the treatment of various counterparties under a CPT event. Whilst generators are able to seek compensation, market participants with hedge positions may not receive the true value of their hedging during this CPT event and rewards those market participants who have not managed risk by undertaking effective hedging levels. An alternative to the CPT could be Demand Side Management responses with a firm load shed amount and firm payments that are recognised by the market. This would create greater certainty in the market with Retailers nominating an exact volume in a timely manner with a guaranteed strike price.
4. Exogenous matters such as industrial action that are outside of the market control need to be excluded and have no impact on the reliability standard for reporting.
5. The level of Value of Lost Load (VoLL) would appear to be adequate in attracting new investment to the market. However the current regular review of the VoLL level creates uncertainty in the financial market. Country Energy is of the view that VoLL levels should be maintained for the long term to ensure consistency and avoid uncertainty for both financial markets and investment.
6. Network operators need an effective signal to show that there is a financial incentive when completing planned network outages. For example, on a hot day with peaking prices a planned network outage could be moved to another day to avoid losses by the market.
7. At this point in time in the review it may be opportune for the AEMC to revisit the need for the ancillary services market. This market effectively acts as a secondary market and it could be argued that it may not be justified going forward with the volatility levels associated with ancillary service fees being historically low with little financial risk.

If you have any questions in relation to this matter or require further information, please contact Gerard Lang on (02) 6338 3410.

Yours sincerely



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