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Mark Wilson
Manager Market Monitoring
National Electricity Code Administrator
Level 5, 41 Currie St
ADELAIDE SA 5000

Dear Mark

Re: Reliability Panel Review of VoLL – draft report

AGL agrees with the Reliability Panel (the Panel) recommendation to retain the National Electricity Market price cap (VoLL) at its current level of \$10,000 Mwh as the current level of investment in the market does not support an increase at this stage. We also agree that no change to the market price floor is warranted since the present floor is not distorting the market.

We are concerned, however, that the Panel has again elected not to review the Cumulative Price Threshold and Administered Price Cap mechanism (CPT). When the Panel introduced the CPT it foreshadowed an increase in the level of the Administered Price Cap to \$300. Later, in its 2003 report on VoLL, the Panel foreshadowed a broader review of the CPT. Despite support for such a review by the ERAA and other participants including AGL¹, the Panel has again elected to not conduct the review.

While we consider that the actual level of the threshold is satisfactory, we believe the current compensation provisions for generators and the simple trigger mechanism expose prudent retailers like AGL to risk. AGL considers that generators compensation during administered prices should be based on actual costs incurred rather than offer prices since the significant period of high prices required to trigger the CPT will already have allowed peaking generators to recoup their fixed costs. We also consider that a simple price based trigger may not allow appropriate protection for prudent retailers.

AGL therefore recommends that the Panel should undertake a review of the CPT during 2005 to ensure it is likely to protect prudent retailers from unpredictable market events.

Kind regards,

Mike Bailey
General Manager Wholesale Energy

¹ Tavis Consulting (for the Panel) and Creative Consulting (for the ERAA) both provided proposed lines of inquiry for a review of the CPT.