



Tel: 03 9201 7694
Fax: 03 9201 7771

AGL Electricity Limited
ABN 82 064 651 083

Melbourne
Level 2, 333 Collins Street
Melbourne VIC 3000

Locked Bag 14120 MCMC
Melbourne VIC 8001
www.agl.com.au

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Anthony Englund
Director
Australian Energy Market Commission
PO Box H166
Australia Square, NSW 1215

By email: Anthony.englund@aemc.gov.au

Dear Mr Englund,

RE: DRAFT GUIDELINES FOR INTERVENTION BY NEMMCO FOR RELIABILITY.

AGL appreciates this opportunity to comment upon the Reliability Panel (the Panel) guidelines governing NEMMCO's arrangements for contracting for reserve capacity in the National Electricity Market (NEM). AGL has been concerned for some time that the current approach risks increasing the cost of energy to customers for little real benefit.

Cost effective purchase of reserves.

AGL supports NEMMCO's decision in the 2004/05 reserve trader process to only purchase reserves where the cost of the reserves is less than the value of those reserves to customers. This approach limits the costs to a sensible level and provides some competitive discipline on tenderers. We therefore support the inclusion of a requirement within the guidelines that NEMMCO use this approach in the future.

Ensuring the eligibility of tenders.

The intention of the Reliability Safety Net is to provide additional capacity to the market to prevent supply shortfall. AGL has consistently maintained that much of the reserve capacity offered to NEMMCO for Reserve Trading is not actually new capacity. We therefore submit that any capacity (whether supply or demand side) that has been offered to the market directly or via a demand side contract with a retailer is ineligible to tender for Reliability Safety Net contracts. The proposed requirement that NEMMCO ensure that the reserves are actually new is therefore supported.

We would suggest that the NEMMCO tender document require tenderers to verify that the capacity they are offering is new to the market and that it has not previously been:

- offered to the energy market;
- offered to the ancillary services market;
- subject to a contract with a retailer for demand side response; or
- subject to a contract with a retailer for embedded or other generation for use during peak periods.

In addition, any capacity that has been considered "committed" within the meaning of the National Electricity Rules for planning purposes should be excluded.

Six month contracting horizon.

AGL maintains that the existing 6 month contracting horizon for reserve trading should be reviewed to assess whether it inhibits the effective operation of the Reliability Safety Net. In the immediate term, however, AGL supports the proposed change to allow NEMMCO to contract six months ahead of the reserve requirement.

Conclusion

AGL supports the provision of system reliability at least cost to the consumer. While we consider that the competitive wholesale market will achieve this aim, establishing a set of well-considered reserve trading guidelines for operation of the Reliability Safety Net is important.

AGL believes a more fundamental review of the Reliability Safety Net and the Reserve Trading Guidelines is required. We are, however, content for the proposed changes to proceed ahead of a full review so that they can be incorporated into the guidelines for the coming summer.

Please contact Alex Cruickshank, Manager NEM Development, on (03) 9201 7694 or by email to acruicks@agl.com.au if you have any queries on this submission.

Yours sincerely,

Mike Bailey
General Manager Wholesale Energy