



D00/38875



Monday, 15th November 1999

Michael Rawstron
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Delivered by email to electricity.group@acc.gov.au

RE: Loy Yang Powers Response to NEC Authorisations A90671, A90672, A90673

Dear Michael,

Loy Yang Power welcomes the opportunity to comment on the above authorisation's and is pleased to see the reviews on VoLL and Capacity Mechanisms nearing completion.

Loy Yang Power has submitted comments to all three NECA reviews and we are assuming that we do not need to repeat them here. Although the comments raised in those papers remain valid, we still wish to comment on the final reports issued by NECA.

1. Capacity Mechanisms in the NEM

Loy Yang Power supports the following NECA recommendations,

- the existing energy-only design of the national electricity market should be retained (However, if further restrictions are placed on rebidding, then in order for generators to be able to obtain the required market return and to ensure that the required energy is available to the market, some form of capacity payment may be required);
- VoLL to be set at a level consistent with allowing appropriate supply and demand-side responses to be used to achieve consistent voluntary market clearing,
- Appropriate risk management (and other mechanisms) be given time to fully develop,
- Compensation for reliability directions be based on the higher of the prevailing compensation methods, and
- the reliability safety net could replace the existing reserve trader provisions in the Code.

Loy Yang Power, as stated in its NECA submission, believes that the beneficiaries in the use of the safety net are customers, so the net costs should be allocated on an energy *user* basis in benefiting regions in times of application. NECA did not make it clear in the final report as to who would be paying for the safety net.

Loy Yang Power still believes that the nine main points raised in its response to NECA are major impediments to a properly functioning energy only market, hence



these arguments are still relevant in any discussion on capacity mechanisms within the NEM.

2. *Review of VoLL*

With respect to VoLL, Loy Yang Power endorses the final recommendations of the Reliability Panel and further supports the proposed implementation for the increase of VoLL over the next few years. This will give adequate time for market development and for risk management products to be developed.

3. *Negative Spot Prices*

Loy Yang Power does not agree with the -\$1,000 MW/h spot floor. We believe that the appropriate negative price should be set by market conditions at the time, and so the size of the price would be determined by the bids/ offers lodged. Negative prices caused by constraint or IT issues would be capped at the greatest negative bid price of available generation. This seems the most equitable approach as it allows a realistic price that will give the correct behaviour signals to the market participants. Under this approach, constraints or IT limits will not cause absurdly large figures and neither will an artificial cap distort the true market outcomes.

I would be more than happy to discuss any of the above comments should you see fit.

Yours faithfully,

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