



Ref: 379/168/3  
Letter No. MT062

12 November 1999

Attention: Mr Michael Rawstron  
General Manager Regulatory Affairs - Electricity  
Australian Competition & Consumer Commission  
PO Box 1199  
DICKSON ACT 2602

Dear Sir

**NATIONAL ELECTRICITY CODE CHANGES - VOLL REQUEST FOR SUBMISSIONS.**

Thank you for the opportunity to comment on the proposed code changes relating to the VoLL for the National Electricity Market.

CS Energy do not believe an increase in the value of VoLL is in the best interests of the market in the next 3 years. Attached is the submission we made to NECA which still represents our view on this issue.

Additional factors which have arisen since the NECA review are the large number of reviews in progress such as; Integration of the Energy market with Transmission Services, Time Varying Loss Factors, Rebidding Options for change, 5min/30min Settlement, Ancillary Services and Transmission Pricing. The number and potential consequences of these reviews are creating considerable uncertainty and unmanageable risks in the market. Often decisions are made on the basis of opinion without any quantitative market evidence to support the outcomes. A market consolidation period where changes are limited is considered necessary to allow it to function unhindered and to compile evidence on its functioning upon which changes can be based. An increase in VoLL over the next 3 years will further compound these risks and uncertainties.

Finally CS Energy wish to iterate our comment in the attached submission that the current level of VoLL provides sufficient incentives for development of risk management solutions without subjecting participants to a substantial increase in risk.

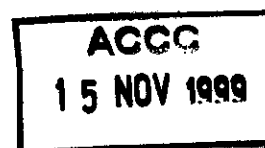
Yours sincerely



*for* Richard Cottee  
CHIEF EXECUTIVE

Encl

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Ref: 379/168/1

4 June 1999

Attention: Greg Thorpe

NECA

## **Reliability Panel Review of VoLL in the National Electricity Market Submission by CS Energy**

Dear Greg

### **Introduction**

CS Energy is pleased for the opportunity to make a submission on VoLL in the National Electricity Market. The issues of Capacity Mechanisms and VoLL are closely related and we have attached our submission on Capacity Mechanisms which is to be considered as part of this submission

### **Summary**

CS Energy believe that a increase in the level of VoLL not appropriate. Therefore we support Option 1, the do nothing approach. We note that an option to decrease the value of VoLL was not included. Consequently no discussion on the benefits of reducing VoLL where included.

### **Purpose of VoLL**

CS Energy believes that VoLL should not be considered to be a demand side bid representing the "Value of Lost Load". We believe it should be viewed as a price cap with the additional outcome of being a method of controlling risk.

### **Voluntary Clearing**

It is our view that the current level of VoLL consistently allows the market to clear on a voluntary basis. This is evidenced by the minimal occasions where intervention has been necessary or involuntary load shedding has occurred.

In the short term it is our observation that incidents of VoLL have occurred because of genuine supply demand imbalances, not due to insufficient incentive for generator's commit plant. In the medium to long term the committed plans for new generation and transmission investment combined with further development of demand side response will further reduce the requirement for involuntary load shedding. In future more Retailers will

have their end use customers exposed to the spot market price and technological advances will enable more demand side response. These factors should ensure voluntary clearing of the market well below the current VoLL in all cases.

Generally only a small portion of the system demand needs to be shed to allow voluntary clearing. Experience in Queensland suggests that this response is clearly available from \$100 per MWh and sufficient should be available at \$5000 per MWh. There seems to be no necessity to raise the level of VoLL to achieve this response.

The analysis of VoLL for peaking plant is flawed. Building plant which is only forecast to run for say 5 hours per year would not be justified as downside volume risk would far outweigh chance of high revenues regardless of the level of VoLL.

### **Risk Management**

Most large Customers are not able to shut down production for short term price spikes as their production facilities may not have the flexibility to reduce consumption immediately. Also after one dispatch interval of high prices there is also no certainty of future prices which further complicates the decision to shut down. For these customers voluntary clearing is not achievable. The incidence of VoLL in only one dispatch interval will cause a trading price of over \$1000 per MWh. For these reasons it is important that a price cap or safety net exists.

Firm access or compensation for network outages does not appear to be available to generators in the foreseeable future. This represents a revenue risk to generators that cannot be managed and any increase in VoLL would exacerbate this situation.

CS Energy consider that increasing the level of VoLL will considerably increase exposure to risk. Most parties agree with the WM Mercer report in concluding that more robust risk management solutions are required and they will take a number of years to develop. CS Energy believe that the current level of VoLL provides sufficient incentive to develop solutions and that the only impediments are jurisdictional transitional arrangements and time for the appropriate instruments to be developed and implemented.

### **Framework For Reviews**

CS Energy agrees with the proposed framework for 3 year rolling reviews.

### **Force Majeure Proposal**

CS Energy agrees with the proposed changes to the force majeure arrangements.

### **Inappropriate Incentives**

Although a higher level of VoLL can provide strong incentives for a supply response, it can also provide a dis-incentive for Demand response. This would occur if a Retailer became over-contracted as a result of load shedding. In this case the Retailer would receive large difference payments without having make payments in the energy market for the over-contracted portion and not have an incentive to reduce demand to relieve the VoLL condition.

## **Conclusions**

The current level of VoLL provides sufficient incentive for supply side responses and new investment.

Inadequacy of demand side response or risk management tools is related to jurisdictional transitional issues, the requirement for technological development and immaturity of financial instrument development. Time and not the level of VoLL is required to resolve these issues.

Yours sincerely

Richard Cottee  
CHIEF EXECUTIVE  
CS Energy

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