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13 November 2009

Mark Wakeham  
Campaigns Director  
Environment Australia  
PO Box 12575, A'Beckett Street  
MELBOURNE VIC 8006

Phil Freeman  
Climate Change Campaigner  
Australian Conservation Foundation  
First Floor, Leicester Street  
CARLTON VIC 3053

Dear Mr Wakeham and Mr Freeman,

Thank you for your letter dated 10 November 2009, regarding compensation to generators under the proposed Carbon Pollution Reduction Scheme (CPRS) and the reliability of electricity supply to Victoria.

The Australian Energy Regulator (AER) is responsible for monitoring compliance by registered participants and other persons with the National Electricity Law, the associated Regulations and National Electricity Rules.

The Electricity Rules include an extensive range of performance standards that generators are required to meet. Our ongoing compliance programs include conducting audits of generators, with respect to these performance standards, targeting specific provisions of the Electricity Rules by asking participants to demonstrate compliance and investigating if there is evidence of a Rule breach. These processes aim to ensure that all generators have systems in place to comply with the relevant performance obligations.

Since the inception of the National Electricity Market (NEM) in 1998, generators have generally been compliant, with very few actions being taken for breaches. This is, however, an ongoing process and we will continue to actively monitor compliance by all registered participants, including generators with the Electricity Rules.

In regard, to security of supply concerns, under the current electricity market framework, the Australian Energy Market Operator (AEMO) is responsible for ensuring the security of the electricity supply system and the operation of the NEM.

Whilst AEMO has statutory responsibility for these issues, it is worth noting that much of the information you requested AEMO provide is already publicly available. There are several ways that AEMO collates and publishes this information, with all information available on the AEMO website.

Firstly, AEMO publishes an annual “Statement of Opportunities”, which provides a demand and supply analysis for the next 10 years. Secondly, every week AEMO publishes a two-year supply and demand forecast, known as the “Medium Term Projected Assessment of System Adequacy.” AEMO also publishes information on a short term basis that forecasts supply and demand for the coming seven days.

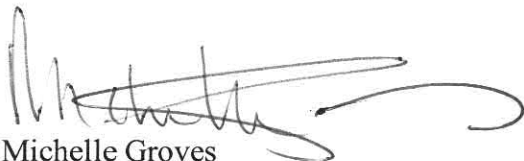
AEMO uses this information to monitor supply, demand and reserves of electricity. As you have noted, this information is used by AEMO in forming its ‘reasonable opinion’ under clause 4.7.2(c) of the Electricity Rules as to whether the system is in a reliable operating state. Market participants, including generators, are obliged under the National Electricity Rules to provide timely and accurate information regarding the operational availability of their facilities across all of these time horizons.

In the event that the medium term outlook shows a shortfall in reserves, AEMO will publish market notices declaring a lack of reserves. These notices give the market the opportunity to respond to the lack of reserve conditions by bringing forward more generation capacity. If insufficient capacity is brought forward, AEMO has the power to contract for additional reserves.

As AEMO has ultimate responsibility for supply and demand forecasting matters, if you have any further questions they are more appropriately addressed directly to AEMO.

I trust that this information is of assistance.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Michelle Groves', with a large, sweeping flourish extending to the right.

Michelle Groves  
Chief Executive Officer