
November 25th 2021

AEMC

Via website

Iberdrola Australia thanks the AEMC for the opportunity to comment on the proposed rule National Electricity Amendment (Extension of time and reduction of scope of the 2022 Reliability Standard and Settings Review) Rule 2021.

The Reliability Panel provides direct representation of those impacted by market settings

The Reliability Panel is tasked with regularly reviewing market reliability settings such as the Market Price Cap (MPC) and Cumulative Price Threshold (CPT). In line with the NEO, the Reliability Panel must balance the short- and long-term costs and benefits to consumers.

The NEM design recognises that the interest of consumers is best served by direct representation from key stakeholders, including consumer representatives (who ultimately bear many of the risks and benefits) but also generators, network providers, and other market experts.

Critically, the ESB has not provided any justification for why this should change.

Market Settings are distinct from market design

Capacity market settings (capacity price caps, ex ante capacity credit weightings for different technologies, flexibility weightings, etc.) are independent of the market *design* considerations. For example, the market settings in the NEM’s energy only market can be adjusted to meet new reliability standards without changing the market design. Alternatively, new mechanisms such as an Operating Reserves framework (proposed by Iberdrola Australia) can be introduced, after which market standards and settings may require further review.

Market standards and settings, however, *are* closely interlinked. Both require careful consideration (and modelling) of the costs and benefits. For example, we note the Discussion paper refers particularly to the interaction with MPC, but the CPT is equally important – the Reliability Panel has the experience necessary to carefully weigh these issues. (Note this doesn’t preclude realistic settings being considered when weighing up alternative market designs.)

This change is not consistent with the NEO

Ultimately, any change to the Rules must be consistent with the NEO. Specifically, they must be in the long-term interest of consumers. It does not seem credible that the interests of consumers will be better represented by the ESB instead of the continued involvement of the Reliability Panel.

The process for engaging with consumer groups and other key stakeholders has not been established, but this rule would be a departure from the direct representation implied in the Reliability Panel model. Indeed, the ESB proposes a “streamlined” engagement process, which implies less consultation

rather than more. The ESB's proposal that this change be treated as non-controversial further suggests that the ESB may not yet be treating this review with the seriousness it requires.

The ESB has not provided any evidence for why it would be in the interest of consumers for the ESB to take responsibility for the settings, or the benefits of the Reliability Panel being excluded. Furthermore, as noted above, separating the standards review and the settings reviews (as proposed by the ESB) is inherently inefficient given their close relationship.

In contrast, the ESB has previously provided explicit support for the Reliability Panel to retain this role:

The ESB considers the current process whereby the Reliability Panel has responsibility to regularly review and (where relevant) recommend changes to the Reliability Standard and settings remains appropriate.” (October 2020)

We acknowledge that there is a risk of duplicated work if the ESB undertakes to determine standards and settings that conflict with those of the Reliability Panel. However, the actual direct costs involved are likely small compared to the resulting risks identified (and electricity consumers should not be penalised for the independent costs incurred by the ESB). As noted below, there are more preferable ways of managing these workstreams.

Most critically, the ESB should be cognisant of history and the costs associated with placing excessive considerations on perceived (and not real) reliability concerns. In the 2000s, governments reacted to *perceived* reliability issues and introduced deterministic (rather than probabilistic) standards that substantially increased distribution charges in NSW and QLD. This resulted in material increases in electricity prices. It is critical that the ESB provide measured advice to Ministers and governments about reliability to avoid this situation repeating.

Finally, this rule would be a significant shift in governance. This rule would make the heads of the AEMC, AEMO, and AER directly responsible for determining critical market settings, bypassing the independent advice of the Reliability Panel. There is a potential conflict between the ESB's recommendations and the AEMC's role in progressing this rule change, given the AEMC chairs the ESB, and would also play a key role in any subsequent design phase. It would therefore be prudent to retain a role for independent experts independent of government.¹

More preferable rule: The Reliability Panel should determine market settings under current and future market designs

A more preferable rule would be to extend the time horizon and scope of the Reliability Panel's review to align with the ESB's workstream. The ESB could then leverage the Reliability Panel's expertise to inform relevant settings including, if appropriate, funding additional scenarios in any modelling undertaken by the Reliability Panel.

Alternatively, the Panel could be required to revisit the Standards and Settings in 2022 or 2023 subsequent to or in parallel with any implementation of a capacity market (which we note is not supported by all governments). This would address the ESB's concerns while still retaining the benefits of the Reliability Panel model.

¹ It should be noted that the ESB cannot be completely independent of government given its reporting obligations and funding. This can be contrasted with the RBA, for example, which is genuinely independent given it does not report to government or receive government funding.

In any case, the Reliability Panel should be explicitly tasked with reviewing and endorsing any market settings under a capacity market before they are presented to Ministers for consideration (if any explicit settings are presented).

Conclusion

We support changes to the timeline of the Reliability Panel's role, but not to any derogation of their responsibilities. If you would like to discuss this submission, please contact Dr Joel Gilmore (GM Energy Policy & Planning on joel.gilmore@iberdrola.com.au).

Yours Sincerely,

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