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Australian Energy Market Commission
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Governance Arrangements and Implementation of the Reliability and Settings Rule Change

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) on the Governance Arrangements and Implementation of the Reliability and Settings Rule Change.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 36 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 51,000 people and contribute \$16.5 billion directly to the nation's Gross Domestic Product.

Opening Comments

The responses in this consultation should be seen in the context of the rule change submitted by the NGF and PGG. The thrust of those rule changes was to make full use of the Reliability Panel and reduce the discretion which the Australian Energy Market Operator (AEMO) has in relation to procuring System Restart Ancillary Services (SRAS).

There are interesting parallels in this rule change. The first part of this rule change makes the AEMC the decision maker in respect of reliability with the Reliability Panel relegated to adviser. We believe the Reliability Panel needs to be central to the reliability framework. The second part of this change is requiring guidelines to be produced and consequently enhancing transparency for AEMO's actions, which is very attuned to the NGF/PGG rule change.

Noting that the esaa does not believe there is a major issue with the governance to be resolved, if a single body is preferred by the AEMC, we propose that the Reliability Panel should be responsible for all aspects of the reliability framework, excluding the operational implementation which would be done by AEMO. The Reliability Panel would have the ability to change parameters directly after following a rules consultation process. The Reliability Panel is a very representative, independent body. The industry values their contribution to these key market decisions. The Panel can bring direct knowledge to the issue from their diverse backgrounds, whereas AEMC must rely solely on submissions which it receives.

To further improve transparency around the Reliability Panel, one possibility is to introduce a formal process where agendas are published prior to each meeting and outcomes are made public through a Communique.

We are broadly comfortable with the proposed changes to the operationalisation of the standards.

The Extreme Weather Review

The genesis of this rule change is the AEMC's Extreme Weather review. The AEMC Consultation paper for this rule change quotes three bases for the recommendations. We have quoted them below and provide comment on them.

- the current governance arrangements, with separate decision-making bodies for the reliability standard and reliability settings, may restrict the ability of the National Electricity Market (NEM) to respond efficiently and in a timely manner to a possible increase in the frequency and/or severity of extreme weather events;

Commentary: This appears to not recognise the difference in time frames between the time to make a decision and the increase in climate related weather events. The former will be measured in months whereas the latter is measured in decades. Whilst we believe there are strong reasons for having a single body do both, we do not believe responsiveness to extreme weather events is a valid reason.

- maintaining consistency and allowing for a single decision-maker would reduce complexity of the existing processes and ensure that there is appropriate alignment between the reliability standard and reliability settings; and

Commentary: This recommendation is strongly supported.

- a lack of high level guidance in the National Electricity Rules (NER) for setting the reliability standard and reliability settings can lead to inefficiencies and restrictions on what information can be taken into account as part of the decision-making process.

Commentary: The rule change does not appear to change the level of guidance provided by the NER. It is more concerned with changing the body which undertakes the work. The esaa does not see a need for additional prescription in this area.

Responses to Specific Questions

The AEMC, in their consultation paper, raised specific questions which they requested respondents to answer. The answers to those specific questions are shown below.

Box 5.1: The issues as proposed

1. **Considering the issues raised in the rule change request, do you consider there is a problem with the NER that needs to be addressed through a rule change or may be addressed in some other way?**

Answer: The current governance is not a major issue in this area, but the current arrangements may be perceived to be somewhat cumbersome. However, the esaa does not think there is a major governance issue to resolve.

The esaa advocates to:

Keep the Reliability Panel and its role, and

Simplify the process by allowing the AEMC to consult on the reliability settings recommended by the Reliability Panel through a shortened (i.e. expedited rule change process). However, if a significant proportion of the industry objected to an expedited process the AEMC should retain the ability to run the full rule change process. The esaa supports the proposed changes to the implementation approach as we believe it will add transparency. In both cases a rule change is the appropriate method for implementation.

Box 5.2: The proposed changes to the governance arrangements

1. **Do you consider the proposed solutions are a proportionate response to the issues identified by the proponent? If not, do you think there is a more preferable solution(s) to the issues raised by the proponent?**

Answer: We do not believe the proposed solutions are proportionate responses as we have outlined that the industry is broadly satisfied with the current governance arrangements around the Reliability Standard and Settings. However, if the Commission is drawn to a single entity we have proposed the Reliability Panel as the appropriate body.

2. **Given the inter-linkages between the reliability standard and the reliability settings, would it contribute to the promotion of the NEO, or otherwise, to require a single decision-maker to determine both aspects of the reliability framework? Alternatively, are there any benefits to having the reliability standard and reliability settings determined by different entities?**

Answer: The default position should have been to have a single body make both decisions. This should only have been separated out if there was some conflict of interest. It is clear that there is none, so a single body should be used and that body should be the Reliability Panel. The Panel brings independence and strong industry and customer knowledge to its deliberations. However, as outlined earlier the esaa does not see a material issue with the current arrangements.

The AEMC has chosen to co-ordinate this rule change with the SRAS rule changes. It is worth highlighting that although the governance issues around Reliability Settings and System Restart are similar there are important differences. AEMO implements Reliability Settings through coming up with appropriate measures on unserved energy etc. With System Restart, AEMO not only has to implement the System Restart Standard but it is also the Central (Monopoly) Purchaser of these services. It hence has a possible conflict of interest to minimise short term direct costs and trade this off against long term economic costs if there is a major supply disruption. It is important to recognise that any governance changes which may come out of this rule change may not be directly transferable to the System Restart arrangements given these important differences.

3. Given the nature of the governance arrangements, role and decision-making processes of the AEMC and the Reliability Panel, which entity is better placed to decide on the reliability standard and the reliability settings?

Answer: The Reliability Panel is better placed.

The proponent has noted its preference is that the AEMC should make decisions on the Reliability Standard and Settings. We note the difficult position that this puts the AEMC in assessing the rule change, as they are a direct “beneficiary” if the proposal is accepted.

esaa believes that the decisions to be made around the Reliability Standard and Settings are much more complex than economic or market framework decisions. We believe that the diverse and representational makeup of the Reliability Panel, and the market experience of its members make them ideally suited to make these judgements in consultation with participants and policy makers more widely.

The Reliability Panel has shown a strong degree of independence and the esaa views the Panel as an essential body in the NEM governance arrangements. Implementation of this proposal would largely remove the Reliability Panel from any meaningful role in reliability which is undesirable.

4. Is it more appropriate for the reliability standard and/or the reliability settings to be set under a rules-based process or some other process?

Answer: It is most appropriate for the process to be one that participants are familiar with. esaa proposes the Reliability Panel's recommended changes to the reliability settings proceed through an expedited Rule change process conducted by the AEMC. However, if the AEMC finds that there are strong grounds for a single entity to set both the Reliability Standard and Reliability Settings, the esaa believes that body should be the Reliability Panel.

5. How would each of the alternative governance arrangements affect investor confidence in the NEM?

Answer: As all alternative Governance arrangements are reasonable arrangements, it is expected that the impact on investors would be very marginal.

6. How might alternative governance arrangements affect other market participants and, ultimately, consumers?

Answer: As for question 5

7. What costs and benefits, both direct and indirect, might arise from changes to the governance arrangements?

Answer: If there is a major change to current arrangements the esaa prefers the Reliability Panel to have responsibility for determining both the Standard and Settings. This would see a removal of duplicate consultation. It would also lead to more direct accountability as there would only be a single body involved in reliability framework settings.

Box 5.3: The proposed changes to implementing the reliability standard

1. Would increased flexibility in the way in which AEMO implements the reliability standard improve investment, security, and reliability outcomes in the NEM?

Answer: Given the NEM has been operating at an order of magnitude more reliably than the target for many years (and looks like continuing to do so), the outcome of a more defined process could be to decrease reliability to bring it closer to the target.

We believe there would be only a marginal impact on investment as there is not widely perceived to be a problem today.

In principle we support allowing AEMO sufficient flexibility to explore other more appropriate measures for measuring whether or not there are sufficient reserves to meet the NEM reliability standard. However, it is vital that the Reliability Panel must be the final body that monitors whether the Reliability Standard is met and if not what changes to the

Reliability Standard and Reliability Settings are required. This separates accountability into two separate bodies, which will minimise any potential conflicts of interest.

2. **Would transparency and certainty be increased, or otherwise affected, by the proposed AEMO-developed guidelines (RSIG) and parameters (RAR) that would guide and describe the techniques used by AEMO to implement the reliability standard?**

Answer: We believe that transparency and certainty would be increased at the price of some additional administrative costs.

3. **Would the proposed changes affect investor confidence in the NEM? If so, please characterise.**

Answer: Given the stability in this area, we would only expect a very marginal impact on investor confidence.

Any questions about our submission should be addressed to David Bowker, by email to david.bowker@hydro.com.au or by telephone on 0418136493.

Yours sincerely

A handwritten signature in blue ink that reads 'Kieran Donoghue'.

Kieran Donoghue
General Manager Policy