3 May 2013

Mr John Pierce
Commissioner
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted online: www.aemc.gov.au

Dear Mr Pierce

EPR0028 – Review of the national framework for transmission reliability

Origin Energy (Origin) appreciates the opportunity to provide comments to the Australian Energy Markets Commission (AEMC) Review of the national framework for transmission reliability. Origin recognises the Review forms part of a broader workstream, in particular its link to the Australian Energy Market Operator (AEMO) Review of the value of customer reliability (VCR). We support the intent of both Reviews, which is to provide a nationally consistent approach to reliability standards; we recognise this does not necessarily equate to a single reliability standard nationally and different standards may apply to different regions.[1]

Origin supports a national framework developed on the basis of reliability standards that are economically derived and expressed deterministically, as recommended by the AEMC.[2] We note Grid Australia has provided additional detail on a proposal in a submission to the Productivity Commission inquiry on *Electricity Network Regulation*. This includes how to incorporate an economically derived deterministic standard and increase the level of flexibility under a national framework.[3]

While we support the AEMC's approach, we consider there are limitations to using economically derived reliability standards alone. An economically justified reliability standard, informed by a VCR, could allow for flexibility in the timing of network augmentation or upgrade. However, we consider a minimum reliability standard, determined on the basis of redundancy, could serve as a safety net where an investment would otherwise not be economically justified.

Origin considers the AEMC Reliability Panel (RP) is the appropriate body to determine reliability standards where a jurisdiction has transferred this function to the national level. The RP would enable the standards to be set independently of Network Service Providers (NSPs) while allowing for input from consumers and other stakeholders. The RP would also be ideally placed to report on the standard each NSP is required to meet and the level of reliability that has been provided.

[1] AEMC, 2013, *Review of the national framework for transmission reliability,* Issues Paper, 28 March 2013, Sydney. p. 14.
[2] AEMC, 2013. p. 26.
[3] Grid Australia 2012, Electricity Network Regulation, Submission in response to the Productivity Commission Draft Report, November 2012, Adelaide.

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Methodology for setting standards

Origin supports a nationally consistent approach to determining reliability standards, which incorporates an economic assessment to balance the trade-off between the cost of investing and maintaining networks and the value consumers place on the reliability of supply. We consider, however, there can be limitations to an economic approach. This can occur where standards are derived based on the highest identified net benefit but ignore subjective considerations involving social and community expectations.

Origin's preferred methodology is the economic redundancy approach, currently used in South Australia. Supported by both the AEMC and Grid Australia, this methodology determines economic reliability standards but expresses them deterministically. Origin considers, however, that where the cost of maintaining a level of reliability is greater than the economic net benefit to consumers, a minimum or safety net standard should be maintained, which reflects community expectations.

This preferred method enhances flexibility by allowing each connection point to assess the costs and benefits of an investment on a regular basis prior to each regulatory control period. This could be further enhanced and deliver greater efficiency gains through the use of contingency projects under clause 6A.8 of the National Electricity Rules; adjusting for assumed load growth or identification of major projects proceeding through a regulatory control period. A more accurate demand forecast and clear pre-determined reliability standard could enable the AER to determine more accurately an ex-ante revenue allowance for NSPs. This could provide incentives for NSPs that minimise overall costs and balance trade-offs between networks and projects.

The AEMC has sought comment on whether cost benefit analysis should include consideration of "low probability but high impact" events.[4] As noted above, we consider community expectations should be incorporated into any cost-benefit analysis determining a reliability standard. In addition, we agree with Grid Australia that "the risk of pre-contingent load shedding and high impact, low probability events…warrant consideration…to ensure that consumers are not exposed to excessive risk."[5]

Institutional and governance arrangements

Origin considers the AEMC RP is an appropriate body to set reliability standards where jurisdictions have transferred the function to the national level. We note the AEMC previously recommended the AEMC RP to be the body to set reliability standards.[6] Since this recommendation, the national transmission planner function has been established for AEMO and the Council of Australian Governments determined that jurisdictions should have an option to transfer the reliability function to the AER.[7]

We contend that conferring the function to set reliability standards on either the AER or AEMO is not appropriate. It is important to maintain functional separation of administrative and policy development powers. For example, entities that operate the market or enforce the market rules should not also have responsibility for setting the market's reliability standards. This separation in the National Electricity Market (NEM) is fundamental to the integrity of the NEM.

[4] AEMC, 2013. p. 36
[5] Grid Australia, 2012. p. 27.
[6] AEMC, 2013. p. 6.
[7] AEMC, 2013. p. 41.

We consider any national body tasked with setting reliability standards needs to be: (1) independent, with no vested interests; and (2) able to consult with relevant stakeholders to incorporate community and broader social expectations. In our view, the AEMC RP is well positioned to make decisions on appropriate reliability standards. Its composition represents a broad range of industry stakeholders, which connects parties across the supply chain. It also has relevant experience as it determines the NEM reliability settings and standards and the system restart standards. As such, we suggest the AEMC consider recommending that the AEMC RP to take on this role.

Conclusion

Origin supports a nationally consistent approach for determining reliability standards. We consider an economically derived deterministic standard with a minimum safety net balances economic efficiency with minimum acceptable levels of network redundancy. This approach enhances transparency and flexibility for both the AER and NSPs during regulatory control periods.

The institutional and governance arrangements are important to the ongoing success of any national approach to reliability standards. We consider a functional separation of powers is critical to maintain the integrity of the NEM. The AEMC RP is well suited to use a nationally consistent approach for setting reliability standards as it is independent and comprises a broad range of qualified industry representatives.

Should you have any questions or wish to discuss this information further, please contact Hannah Heath (Manager, Wholesale Regulatory Policy) on (02) 9503 5500 or hannah.heath@originenergy.com.au.

Yours sincerely,

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