

5 February 2015

Mr Paul Smith  
Chief Executive Officer  
Australian Energy Market Commission

Online lodgement at [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Smith

**RE: Draft Rule Determination on Governance Arrangements and Implementation of the Reliability Standard and Settings (Ref ERC0160)**

GDF SUEZ Australian Energy (GDFSAE) appreciates the opportunity to respond to the Australian Energy Market Commission's (AEMC) Draft Determination on Governance Arrangements and Implementation of the Reliability Standard and Settings (the Draft Determination).

The Council of Australian Governments Energy Council (the COAG Energy Council) rule change proposal aims to improve the governance framework of the reliability standard and settings to reduce complexity, increase transparency and accountability of the decision making process, and mitigate the potential for perceptions of conflicts of interest.

GDFSAE supports the AEMC determination to make a more preferable rule that achieves the COAG Energy Council's goal of improved governance and transparency, whilst maintaining the role of the Reliability Panel in providing expert advice on establishing reliability standards and settings to the AEMC.

The more preferable rule contains four key components which are discussed briefly below.

**1. Reliability Standard incorporated in the National Electricity Rules (NER)**

The existing governance arrangements for the reliability standard and settings are mixed, with the Reliability Standard administered by the Reliability Panel, the Administered Price Cap (APC) contained in a NER schedule outside of the rule change process, and the remaining reliability settings<sup>1</sup> prescribed in the NER and subject to the rule change process.

The more preferable rule incorporates the reliability standard into the NER so that any proposed change to the reliability standard will be subject to a rule change process. The AEMC have indicated that it will take advice from the Reliability Panel in consideration of any proposed change to the Reliability Standard.

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<sup>1</sup> Market Price Cap, Cumulative Price Threshold, Market Floor Price and Administered Floor Price.

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GDFSAE supports this approach as it provides improved governance and transparency, and achieves better consistency with the other reliability settings which are already contained within the rules.

The draft determination indicates that the Reliability Panel will continue to be required to carry out regular four yearly reviews of the reliability standard, and provide recommendations to the AEMC on any proposed change. This is also supported by GDFSAE; however, a question arises as to how the AEMC would manage any rule change proposal for a change to the reliability standard coming from other parties outside of the Reliability Panel's four yearly cycle.

GDFSAE believes that where reliability settings are rigorously and appropriately assessed during regular review processes the need for outside cycle reviews is likely to be low. Nevertheless, the recent departure from assessing the Market Price Cap in the context of the value of lost load, the inappropriate assessment of uncertainties in costing peaking generation, confusing energy and reliability signals, and the reliance on "cap defender" modelling points to the need to consider a further review prior to the next review cycle.

## **2. Reliability Guidelines**

The more preferable rule includes a requirement for the Reliability Panel to establish guidelines that it will follow when conducting reliability standard and settings reviews. GDFSAE supports this initiative, as it will provide greater clarity and transparency for participants and interested stakeholders on how the reviews will be carried out. The guidelines should strive for transparency as well as sufficient flexibility for the Reliability Panel, to ensure that reliability assessments can be carried out periodically, taking account of all relevant developments in the dynamic energy sector.

GDFSAE does have a concern that the guidelines may be used as an instrument to prevent or block attempts to review the reliability settings and notes the view that there has been a general bias away from changes to some reliability settings for reasons that go beyond market efficiency. Regardless of the guidelines, whenever there is a strong case made that the Market Price Cap is insufficient to reward peaking generation, cover investment and capital costs or does not match the value of lost load, then appropriate consideration should be given to a further review. Likewise, where there is a sufficiently formed view that the Cumulative Price Threshold needs to be better developed to manage abnormal market risk, then that should occur. It is arguable further work is needed in both cases.

## **3. Implementation Guidelines**

The more preferable rule includes a requirement for the Australian Energy Market Operator (AEMO) to develop and publish Reliability Standard Implementation Guidelines using consultation processes. These guidelines are to provide a level of transparency on how AEMO will implement the reliability standard into its operational process, and must also provide an explanation of the approach used and assumptions made in relation to the treatment of extreme weather events.

Similar to the comments for the Reliability Guidelines, GDFSAE supports this initiative to improve transparency, subject to ensuring that AEMO are able to maintain an appropriate level of flexibility to apply fit-for-purpose approaches to assessing reliability across various timeframes.

**4. Administered Price Cap**

The proposed inclusion of the APC in the scope of the reliability standard and settings reviews is supported by GDFSAE as the APC is an integral component of the overall management of reliability in the electricity market.

GDFSAE trusts that the comments provided in this response are of assistance to the AEMC in its deliberations. Should you wish to discuss any aspects of this submission, please do not hesitate to contact Chris Deague on, telephone, 03 9617 8331.

Yours sincerely,



**Chris Deague**

Wholesale Regulations Manager