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Governance Arrangements and Implementation of the Reliability Standard and Settings Rule 2014

Snowy Hydro appreciates the opportunity to comment on the Consultation Paper.

It is important to acknowledge that the NEM has delivered a steady stream of investments to meet the reliability standard. These investments have been predicated on a stable regulatory environment where any relevant changes to the Reliability Standard and Reliability Settings have been done through a rigorous and transparent process. This process and the governance arrangements which underpin the current arrangements have ensured investors are provided sufficient confidence to invest in long lived assets with 40+ years of economic life.

Snowy Hydro advocates that current governance arrangements are satisfactory and does not believe that there is a problem to be addressed. We acknowledge that the consultation processes can be perceived as being long and involve a degree of duplication but the current process ensures that any changes ultimately made to the Reliability Standard and Settings are thoroughly considered and robust.

Snowy Hydro believes the Reliability Panel with its diverse composition of AEMC, AEMO, and senior persons representing industry and consumers has provided the right structure and process for robust discussion and debate on the Reliability Standard and Settings. We therefore don't support the proposed rule changing the Panel's role with respect to the Reliability Standard from being a determinative one to an advisory one.

With respect to the Reliability Settings the Panel conducts a review in accordance with the Rules consultation procedures and through this process recommends relevant changes to parameters that make the Reliability Settings. The Panel can make a rule change request to amend the Reliability Settings if it finds the current Reliability Settings are set such that the Reliability Standard in the NEM will likely not be met.

Snowy Hydro points out that in reviewing the Reliability Settings the Panel uses the Rules consultation procedures and historically these reviews have resulted in robust industry debate and discussion on these parameters. As highlighted earlier we don't see an issue with current governance arrangements. However, if the AEMC believes that the current governance processes can be streamlined then we recommend the following:

1. The Panel to review all the parameters in the Reliability Settings including the Administered price cap and the Administered floor price; and

2. The AEMC by default uses an expedited rule change process to formalise any recommendations made by the Panel to the parameters that make up the Reliability Settings.

To improve confidence in the Reliability Panel and its processes Snowy Hydro suggests that the transparency around the Reliability Panel agendas and outcomes are increased through a formal process where agendas are published prior to each meeting and outcomes are made public through a Communique shortly after each meeting of the Panel.

In principle Snowy Hydro supports 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 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 may be required. This separates accountability to separate bodies thereby minimising any potential conflicts of interest.

Finally, it would be worth highlighting that although the governance issues around the Reliability Standard and Settings and System Restart Ancillary Services are similar there are important differences. For instance, with the Reliability Standard, AEMO monitors whether the Standard is met by coming up with appropriate measures to monitor unserved energy. With System Restart, AEMO not only has to implement and meet the System Restart Standard BUT it is also the Central (Monopoly) Purchaser of these system restart services and hence has a potential conflict of interest to minimise the short term direct costs of procuring these services and trade this cost off with the potential long term economic costs of a major supply disruption. Hence governance changes which may come out of this rule change may not be directly transferable to the System restart ancillary service arrangements given these important differences.

In summary, Snowy Hydro believes the current governance arrangements are both satisfactory and robust. The current Reliability Standard and Settings have provided strong incentives for investments and for Market Participants to implement prudent risk management practices. Snowy Hydro does not support the proposed Rule change which would: (1) diminish the role of the Panel, (2) would have the effect of reducing the high calibre of representatives on the Panel and (3) remove the robustness of the current process to change the parameters that make up the Reliability Settings.

Snowy Hydro appreciates the opportunity to respond to this consultation. Please contact me on (02) 9278 1862 if you would like to discuss any issue associated with this submission.

Yours sincerely,



Kevin Ly
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