



3 May 2013

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

Lodged via www.aemc.gov.au

Dear Chairman

Review of the national framework for transmission reliability

Alinta Energy appreciates the opportunity to respond to the abovementioned review and is supportive of the Standing Council on Energy and Resources progressing a national framework for transmission reliability.

Alinta Energy notes the Australian Energy Market Commission (AEMC) review is being undertaken at a time when the Australian Energy Market Operator (AEMO) is receiving submissions in response to its value of customer reliability, issues paper. Alinta Energy believes it is entirely appropriate these matters are addressed concurrently

Expression of standards and methodology for setting standards

Alinta Energy shares the view that a common approach to reliability standard setting would better support investments across the National Electricity Market being optimised to deliver competition and efficiency benefits.

Nevertheless, it is not considered necessary that standards are identical across regions, but that each region's approach conforms to a common framework to deliver certainty of outcomes while accounting for regional differences. This is considered preferable to the current mixed arrangements.

In practise, this would mean that there is likely not to be a nationally consistent reliability standard, but that standards would be determined and expressed in a consistent manner. Alinta Energy agrees that the approach proposed by the AEMC, an economically derived but deterministically expressed standard, represents a desirable hybrid model.

This approach is referred to in the review as the economic redundancy approach which is supported by both the AEMC and Grid Australia. Alinta Energy has previously endorsed this approach and does so again here.

Some participants may support a purely economic approach to determine reliability standards through a trade-off between network investment costs and the value of customer reliability measure. This approach is attractive on paper but is not without its limitations.

Specifically, it relies on undue faith in the methodology for determining value of customer reliability. For instance, stated preferences and revealed preferences differ which ensures customers misstate their willingness to pay in many instances.

This implies that in some circumstances the community's expectations may not be met by application of the value of customer reliability measure. While Alinta Energy is very supportive of work to update and refine the value of customer reliability it would be inappropriate to consider it sufficiently developed to ignore the risk of undervaluation of reliability expectations.

This does not suggest that subjective judgements should explicitly override economic assessments. In fact, a strong economic case is necessary to proceed with any network augmentation, but that at the margins, where there is a small degree of difference between building or not building, that there is room for a balance of probabilities approach, based on known community experience currently reflected in deterministic standards.

This in part reflects the tension between fixed standards which provide greater certainty and transparency but seemingly reduce economic efficiency through misaligning build with community expectations on one hand. Whilst on the other hand, project by project assessment provides potentially the optimum efficiency but are less transparent, driven by ever changing assumptions that can themselves be disputed, are difficult to keep track off, and are open to lobbying.

For these reasons, the use of an economic redundancy approach is an appropriate compromise as the level of reliability is defined for a set period of time ahead of a constraint arising. Alinta Energy acknowledges between the assessment date and the constraint arising conditions may have altered; however, the value of certainty justifies use of the least cost approach to delivering the level of reliability assessed as necessary for that connection point.

This is beneficial as reliance on the integrity and reliability of the network for energy producers and users is in part derived from expectations around transmission network service providers' willingness to maintain the network. Expectations differ markedly between jurisdictions and in part are a catalyst for this review.

While this issue has been unpacked as part of the Transmission Framework's Review and reveals a number of issues that require attention in their own right as part of that process to prevent overbuild, for the purposes of this review the relevant point is a degree of predictability in each region and for each connection point is desirable for both users and producers.

This does not imply uneconomic build should be approved or suggest the optional firm access model will not deliver effective certainty in due course for producers. What it does suggest is that a level of known redundancy for a set period of time is appropriate as it provides certainty to producers and users. This occurs by fixing reliability standards for each connection point for a defined period.

In some jurisdictions the current level of redundancy may be excessive and therefore above the standard required; however, in others the transmission network planners' willingness to build may be seen as below requirements leaving participants uncertain of future network development and less confident about the reliability at their connection point in the face of constraints.

The benefit of such an approach in Alinta Energy's view is that the foundation of the transmission system is an economic approach that incorporates the flexibility to meet known community expectations, deliver economy of scale benefits, and take timing decisions which may lead to building a project in a manner not entirely consistent with a pure economic assessment at a point in time but that is suitable over the defined period during which a standard will be in place.

While this lacks the theoretic purity of the economic approach, it delivers, via the economic redundancy method, a more workable solution.

Institutional and governance arrangements

Alinta Energy considers the use of a common methodology and consistent expression of standards is the critical outcome associated with this review. A secondary, and significantly less important issue, is the governance arrangements.

Alinta Energy would like to sound a note of caution. There have been a variety of recommendations regarding governance arrangements in recent times that involve shifting jurisdictional responsibilities to potentially ill-equipped national bodies.

Alinta Energy suggests the temptation to make recommendations in this area be resisted in the absence of clear benefits for two reasons. First, an ill-equipped national entity will ultimately remain reliant on jurisdictional bodies and transmission network service providers. Second, retention of accountability at the State level is politically appropriate and a dilution of that accountability through transfer may be undesirable. Combining the two would seem to further undermine the case for change in governance at this time.

Potential institutional options

Alinta Energy supports, in-principle, the setting of standards by bodies independent of the asset owner. There are a number of entities that could potentially fill this role within jurisdictions, or nationally.

Potential standard setting entities include, amongst others, the Australian Energy Regulator (AER), the Reliability Panel of the AEMC, AEMO, State governments agencies or jurisdictional planners, and the National Transmission Planner (NTP).

In Alinta Energy's view, the AER and AEMO already have specific established roles and it may not be desirable to extend those to include a reliability function. This is in contrast to AEMO's current role in Victoria which many stakeholders have repeatedly determined is undesirable, and a recent recommendation that jurisdictions have the option to transfer their reliability planning arrangements to the AER.

The Reliability Panel, another option, if provided with this functional responsibility would be in the same position as the AER in the context of the existing recommendations that it determine standards: both would be very reliant on information provided by jurisdictional entities.

In this context, it is hard to see how divorcing the role from jurisdictional entities to non-planning bodies is ideal. While it achieves separation at one level it may not be desirable at another and is likely to create inefficiency and duplication.

In Alinta Energy's view, the NTP would be one entity capable of fulfilling this role appropriately outside of independent jurisdictional planners; however, as it sits within AEMO, and AEMO has clear preferences which contrast with other recommendations in this area, such an outcome would not be considered ideal at present.

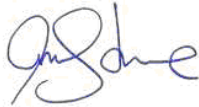
Should the NTP be separated from AEMO, a position Alinta Energy has previously espoused, the potential for the NTP to fulfil the reliability function should be revisited.

Reporting requirements

Alinta Energy supports reporting on the level of reliability that is provided in practice each year as well as for each connection point. Alinta Energy's view that reporting obligations can be developed in a manner which are not onerous, are readily useable and are not overly costly for transmission network service providers.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 03 9372 2633.

Yours sincerely



Jamie Lowe
Manager, Market Regulation