



23 October 2014

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

Submitted online: www.aemc.gov.au

Dear Mr Pierce

ERC0160 - Governance Arrangements and Implementation of the Reliability Standard and Settings

Origin Energy (Origin) appreciates the opportunity to provide comments to the Australian Energy Market Commission (AEMC) Consultation Paper on governance arrangements and implementation of the Reliability Standard and Settings.

The existing governance arrangements have worked well in delivering a reliability standard and settings that have incentivised the timely entry of new investment in the market. This is evidenced by the reliability standard being breached on only two occasions in the summer of 2008/2009 in South Australia and Victoria. Given this, Origin considers that there must be a high threshold if there is to be a significant change to the current governance framework. We do agree, however, that there is a case for incremental improvements to allow for a more timely and transparent process.

With the above reasoning in mind, Origin does not support the fundamental component of the proposed Rule change which calls for a shifting of all responsibility in determining the reliability parameters to the AEMC. There is no compelling evidence to suggest that this is warranted, and we are concerned that such a move would undermine a key strength of the current framework which is the check and balance offered by the split in responsibility between the Reliability Panel (Panel) and AEMC. We expand on these issues further by examining the rationale for the proposed Rule set out in the Consultation Paper:

1. Extreme weather events

The Consultation Paper states that having separate decision making bodies for the reliability standard and settings could restrict the timely response to extreme weather events. Origin does not agree with this reasoning. The reliability standard is a long term measure that stipulates the level of unserved energy that is acceptable in the market. It is not intended (or suited) as a tool that can be used to mitigate the impacts of an extreme weather event. Given this, it is unlikely that a decision to change the standard would be contemplated as part of the response to such events. This in our view indicates that the governance arrangements for the reliability standard are not a pertinent factor in dealing with the impact of extreme weather events.

Any questions around the adequacy of the reliability parameters in responding to extreme weather are likely to be around the reliability settings. However it is impractical that alterations to the settings could be used as a means of addressing the impacts of an extreme weather event in the immediate/short term. Rather, where questions regarding the level of the settings could arise is if for example there is an increasing trend of

extreme weather such as heat waves, which resulted in continual breaches of the reliability standard. There is no evidence of this in the market or suggestion that the current governance arrangements would preclude the timely revision of the reliability settings to correct for, or safeguard against such an occurrence. The high level of reliability and the continued resilience to extreme weather supports this conclusion.

It is also important to bear in mind that issues arising as a result of extreme weather (such as a supply interruption) are more likely to be due to security events as opposed to reliability, as noted by the AEMC in its Final Report into the Extreme Weather Review¹. This again reinforces that a change to the current governance arrangements for the reliability parameters is not a primary driver in ensuring a more timely market response to extreme weather.

A single decision making body

The Consultation paper states that the proposed Rule would reduce the complexity of the current process. Origin agrees that there is room for a more streamlined process, but considers that this can be achieved under the current framework.

The proposed Rule seemingly implies that there is complete separation between the AEMC and the Panel and that this has (or will) result in inefficient outcomes. It should be noted, however, that the Panel's work is not conducted in isolation or without AEMC oversight. An AEMC Commissioner chairs the Panel, and AEMC staffers also provide secretarial support to the Panel. This minimises any disconnect between the Panel and the AEMC, and discounts the notion that any such disconnect could undermine the reliability framework.

The diversity in the membership and the expertise within the reliability Panel means that it is well placed to determine the standard and settings, taking into consideration a broad spectrum of views across key stakeholders. Origin supports the current approach whereby an expert body (Panel) determines the key reliability parameters which are then given a sanity check (via the Rule making test/adherence with the NEO) administered by the AEMC. This in our view is a strength of the current framework whereby the split in responsibility allows for a valuable check and balance. The proposed Rule would strip the Panel of any real powers and responsibilities and would undermine a key feature of the current regime. There is also a question as to whether there would be much interest from stakeholders in wanting to be members of the Panel if its role was diminished as set out in the proposed Rule. A sole reliance on the AEMC in determining the reliability parameters would be a suboptimal outcome and would effectively mean that the market would not benefit from the wisdom and guidance of the Reliability Panel.

Origin supports the use of an expedited Rule change process by the AEMC (once the Panel has put forward its recommendations) as this would allow for a more streamlined process in determining the reliability parameters. Essentially this would reduce duplication and ensure that a final determination on the parameters is made as soon as practicable. An expedited process is appropriate given that the AEMC would be well informed of the Panel's work programme and analysis, and thus would not need to undertake all the preliminary steps that would normally constitute the Rule making test. The right to undergo the full Rule making process could still be maintained in instances where the Reliability Panel's recommendations were deemed to be controversial.

¹ AEMC 2010: *Final Report Review of the Effectiveness of NEM Security and Reliability Arrangements in light of Extreme Weather Events, Executive Summary* pg i

Lack of high level guidance

Origin agrees that the development of high level guidelines would allow for improved transparency and greater efficiency in determining the reliability parameters. For example clearer guidance on the incorporation of modelling results into the analysis would be useful and provide greater clarity to stakeholders.

Should you have any questions or wish to discuss this information further, please contact Ashley Kemp on (02) 9503 5061 or ashley.kemp@originenergy.com.au.

Yours sincerely,

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