



Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

via e-mail: aemc@aemc.gov.au

23rd October, 2014

Dear Mr Pierce,

National Electricity Amendment (Governance Arrangements and Implementation of the Reliability Standard and Settings) Rule 2014
Your Reference: ERC0160

I refer to the Australian Energy Market Commission's ("AEMC") Consultation Paper dated 25th September 2014 in respect of the abovementioned rule change.

After considering the issues raised in the proposed rule change request, AGL disputes whether there is a problem with the National Electricity Rules which needs addressing.

Under Section 29 of the National Electricity Law, the AEMC's functions are to make the National Electricity Rules ("**the Rules**"), paying heed to the national electricity objective. The Reliability Panel, established under Section 38, and commissioned under Clause 8.8 of the Rules, is responsible for monitoring, reviewing & reporting on the safety, security & reliability of the national electricity system.

The Reliability Panel comprises between five and eight independent members who have direct industry experience and are appointed in consultation with the class of registered market participants they represent. Removing the Reliability Panel's responsibility for setting the reliability standard in favour of the AEMC will substitute the direct industry knowledge of the Panel members with the AEMC's assessment of the submissions it receives (and only the submissions it receives). Furthermore, the rule change request changes little in regards to the Reliability Standard Review and Reliability Settings Review therefore the proposed change is little more than structural in nature – a removal of expertise and industry representation.

The justification for the rule change is cited as the AEMC's "Review of the Effectiveness of NEM Security and Reliability Arrangements in light of Extreme Weather Events" dated 31st May 2010. The three issues identified, and AGL's comments, are summarised as follows:

- (a) Issue: Separate decision-making bodies may restrict the ability of the NEM to respond efficiently to a possible increase in the frequency and/or severity of extreme weather events.

- > Being selected as a member of the Dow Jones Sustainability Index 2006/07
- > Gaining accreditation under the National GreenPower Accreditation Program for AGL Green Energy®, AGL Green Living® and AGL Green Spirit
- > Being selected as a constituent of the FTSE4Good Index Series

Response: While it is acknowledged that extreme weather events are likely to increase in frequency and severity, current scientific thinking considers the timeframe to be over coming decades, whereas decisions made by the Reliability Panel affect investment and operations over a period of, at best, years. On that basis, AGL sees no restriction in the NEM's ability to respond in good time.

- (b) Issue: A lack of high-level guidance in the Rules for setting the Reliability Standard and Reliability Settings can lead to inefficiencies and restrictions on what information can be taken into account as part of the decision making process.

Response: AGL disagrees, and believes that the strength of the current process lies in the expertise of the Reliability Panel and the commission accorded to it by Rules 3.9.3A and 3.9.3B. In fact, the breadth of the Rules facilitates the Reliability Panel including additional information and using it to form its views.

- (c) Issue: The presence of existing market participants on the Reliability Panel may give rise to perceived or actual conflicts of interest leading to outcomes which favour incumbent parties.

Response: AGL disputes this issue, and does not believe it is reflective of the significant impartial contribution which industry representatives make, and have made, to the good governance of the National Electricity Market.

While AGL does see value in having a single decision-maker determine the Reliability Standard and the Reliability Settings, AGL believes such decisions best sit with the Reliability Panel. AGL also harbours reservations that increasing the prescription of how such standards and settings are determined will lead to lower reliability in the electricity system, closer to the minimum required reliability standard, than is currently experienced.

Finally, the objective of the National Electricity Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.

AGL believes that this objective is best served by the Reliability Panel, which has broad industry representation, maintaining its current responsibilities.

If you require any further information on this submission, please contact the writer at dmackinn@agl.com.au or 03 8633 6198.

Yours sincerely,



Duncan MacKinnon
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