

31 July 2020



Owen Pascoe  
Director  
Australian Energy Market Commission

*Submitted via email.*

Dear Mr Pascoe,

### **Submission on ERC0289 and ERC0291 draft rules**

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to two draft rules concerning changes to intervention mechanisms (ERC0289) and removal of intervention hierarchy (ERC0291).

PIAC supports improving the consistency, transparency, predictability and efficiency of intervention mechanisms so that they deliver system security and reliability at lowest cost to consumers.

Any compensation process should be transparent, consistent, reduce unnecessary costs to consumers, allocate risks to those best placed to manage them, recover costs from those who benefit, and not discourage the provision of necessary market services.

We recommend a review of intervention mechanisms and intervention hierarchies no more than 2 years after the implementation of this rule change. This review should be public, transparent and allow input from stakeholders, including consumer representatives.

### **ERC0289 – Changes to Intervention Mechanisms**

PIAC supports removing barriers to efficient market signals that encourage low-cost alternatives to interventions, particularly as the market evolves. We also support removing specific elements of frameworks if they impose material risk or cost and are unlikely to be used or provide commensurate benefit to consumers.

Minimising costs should guide decisions around interventions rather than minimising disruption to the market, the number of affected participants and impact on interconnector flows. PIAC, therefore, considers it preferable to remove the counteraction requirement in favour of using NEMDE to automatically optimise dispatch targets at least cost.

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Both the removal of the mandatory restrictions framework and changes to affected participant compensation following Reliability and Emergency Reserve Trader (RERT) activation may result in a reallocation of costs more widely across the NEM. We recommend these costs be recovered under a 'beneficiary-pays' principle:

- Where there are multiple beneficiaries, the costs should be recovered proportionally to their share of the benefits.
- Where it is not practical and transparent to identify the beneficiaries and measure the benefits, a causer-pays approach should be used.
- Cross-subsidies should only be permitted where they are accepted by informed preferences of the providers of that subsidy, or where they are immaterially small.

Cost recovery processes for affected participant compensation should be transparent, consistent and clear with respect to how costs are apportioned between regions and participants.

### **ERC0291 – Intervention hierarchies**

While the AEMC's draft determination may result in lower overall costs of interventions to consumers, PIAC is concerned that removing the hierarchy of interventions may reduce accountability and oversight of the Australian Energy Market Operator's (AEMO) decisions. We support removing the hierarchy if:

- mechanisms are in place to allow parties to dispute AEMO's choice of intervention; and
- there is a review of the impact of the change after two years.

The dispute mechanism should be efficient, robust, and not overly burdensome for AEMO or disputing parties.

We consider transparency around the costs and effects of interventions should be a guiding principle in developing this rule. Relevant information should be made public as a means of ensuring accountability for intervention and compensation frameworks and their applications.

We support the transparency and accountability measures proposed by the AEMC in the draft rule and consider they will limit the need for, and improve the efficiency and effectiveness of, any dispute mechanism.

We strongly support the proposed requirements for AEMO to report on the basis for its intervention decisions and to consult with stakeholders on its methods and assumptions for determining effective and lowest cost intervention mechanisms.

We welcome the opportunity to discuss this matter further with the AEMC.

Yours sincerely

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