

# Reliability Panel AEMC

**Australian Energy Market Commission**  
Reliability Panel

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Dr Kerry Schott AO  
Chair  
Energy Security Board  
Level 6, 201 Elizabeth Street  
Sydney NSW 2000

**By email:** [info@esb.org.au](mailto:info@esb.org.au)

Dear Dr Schott

## **Reliability Panel feedback on the Energy Security Board's draft Detailed Design for the National Energy Guarantee**

The Reliability Panel (Panel) thanks the Energy Security Board (ESB) for the opportunity to provide a submission on the ESB's draft Detailed Design for the National Energy Guarantee.

The National Electricity Law sets out the key responsibilities of the Panel. The Panel forms part of the AEMC's institutional arrangements and reviews and reports on the safety, security and reliability of the national electricity system. We are comprised of members who are selected from a range of participants in the national electricity market, including end-use consumers, large energy users, generators (including a range of different technology types), network businesses, retailers and AEMO.

### **The proposed National Energy Guarantee**

The Panel is supportive of the proposed Guarantee, and commends the ESB – and its seconded staff – for the work that it is doing in developing the detailed design of the Guarantee.

The Guarantee presents a unique opportunity to integrate energy and an emissions reduction mechanism in a way that delivers the certainty and investor confidence needed for long-term investment decisions, in a flexible and resilient way, while allowing the electricity system to continue to operate reliably. Providing this long-term policy confidence is critical to lowering investment risks in the National Electricity Market and ultimately bringing down electricity prices.

As noted above, the Panel has statutory functions in relation to the safety, security and reliability of the national electricity sector, and it is in this context that it makes some relevant remarks on the reliability requirement of the Guarantee.

## Reliability requirement

The Panel is pleased that the ESB has adopted the approach of building on the existing spot and financial market arrangements in developing the reliability requirement. In particular, the Panel has the following comments on the eight high-level steps to the reliability requirement:

1. *Forecasting the reliability requirement* – Given that forecasts will be used to underpin a (potential) regulatory obligation on participants, it is important that the forecasts are prepared under an appropriate accountability framework. The Panel supports the preparation of an accountability framework that will support and improve the development of these forecasts, including rules pertaining to transparency and stakeholder consultation. The Panel notes that it prepares the reliability standards and settings (which also could be considered akin to imposing obligations on participants) through the existing rules consultation procedures.
2. *Updating the reliability requirement* – The Panel considers that inspiration for whether AEMO should update the forecasts more frequently than annually could be taken from the arrangements for updating the Energy Adequacy Assessment Projections (EAAP). Here, AEMO is required to produce an additional EAAP if new information becomes apparent that would materially change the most recent EAAP.
3. *Triggering the requirement* – The Panel notes that in earlier versions of the Guarantee the Panel itself was contemplated as being the party that performed the independent review of the trigger for the reliability obligation. In the latest version the ESB is of the view that this should be the AER given the Panel's potential conflicts. In this regard, the Panel would like to note that any decisions that the Panel makes are made by the Panel as a whole, not any individual member. The Panel is established under the National Electricity Law and NER and as such the Panel considerations are independent from AEMO, the AEMC and the AER. The Panel is deliberately designed to have members selected from the broad electricity sector. This enables the Panel to independently balance the competing requirements to increase the reliability of supply either through investment or operational decisions and the costs this imposes on consumers against the value that customers place on reliability of supply and risks to the market. The Panel considers it has much to offer in assessing such a decision as to whether to trigger the reliability requirement, and hopes that the AER will seek advice from and consult with the Panel when it undertakes this task.
4. *Liable entities* – The Panel has no comment on this aspect.
5. *Qualifying contracts* – The Panel supports the approach taken by the ESB to define qualifying contracts as being any contract (including demand response) with a direct link to the electricity market, which a liable entity uses to reduce exposure to high spot prices.
6. *Procurer of last resort* – The Panel considers that the procurer of last resort function will use the existing RERT mechanism that is currently being considered by the AEMC in AEMO's enhancement to the RERT rule change request.
7. *Compliance* – The Panel has no comment on this aspect.
8. *Penalties* – The Panel notes that the technical working group paper notes that in relation to cost recovery of penalties, the cost recovery should be based on a multiplier of the capital cost of the capacity. And that the capital cost could be determined by the Panel. The Panel would support this function being assigned to it – the Panel considers such issues and assumptions every four years through its Reliability Standards and Settings Review and so would be well placed to carry out this function.

The Panel is aware of a proposal put forward by Vince Duffy from the South Australian Government, to remove step 3 i.e. there would be no trigger of the reliability requirement. The Panel has a number of questions that it considers would need to be worked through if this option was to be considered:

1. The removal of the trigger would have the effect of applying the reliability requirement to all liable entities all the time and effectively prescribing risk management for participants. Would having the obligation apply all the time and so removing the “safety net” aspect of the Guarantee:
  - a. minimise its ability to signal to the market the importance of meeting any material gap
  - b. otherwise dilute its impact with stakeholders?
2. How would this interact with the other market-based aspects of the reliability framework in the NEM? This raises queries about the effectiveness of regulatory-based approaches (i.e. the Guarantee applying all the time) versus market-based approaches (the current reliability framework).

Removal of the trigger is also likely to have implications for the other aspects of the requirements.

### **Impact on the reliability standards and settings**

As the ESB would be aware, the Panel has recently concluded its 2018 review of the reliability standards and settings. The Panel recommended that the reliability standard (0.002 per cent expected unserved energy in a financial year) and settings remain unchanged for the period from 1 July 2020 to 1 July 2024.

We noted in our final report that we were considering these factors in a time of uncertainty. We also noted that if the Guarantee was adopted, then it may have a significant bearing on the effectiveness of the reliability standard and settings. We noted that we would be willing to consider the impacts of the Guarantee on the reliability standard and settings in an interim review.

The Panel considers that the Guarantee will just be one aspect of the reliability framework in the NEM – but there are others (e.g. the reliability standards and settings, information provision, RERT). The Panel has a role in some of these other, more operational, reliability tools and so is keen to make sure that the Guarantee adds to the overall outcome of the suite of reliability mechanisms and doesn't improperly undermine these tools. If there are to be implications from the Guarantee for these other tools, then the Panel needs to be made aware of these.

In addition, the Panel notes that the ESB considers that AEMO should continue to work with the Reliability Panel on the appropriateness of the current reliability standard in the face of an increasingly uncertain and 'peaky' supply-demand balance. The Panel has welcomed earlier discussions with AEMO on this matter, and looks forward to these discussions continuing. The Panel will also be providing advice to the AEMC on this matter, to feed into the Commission's consideration of the *Enhancement to the RERT* rule change request.

The Panel thanks you for your consideration of its views. If you would like to discuss this matter further, please contact me on 0417 275 339 or at [brian.spalding@aemc.gov.au](mailto:brian.spalding@aemc.gov.au).

Yours sincerely

Dr Brian Spalding  
**Chair, Reliability Panel**

Cc Clare Savage, Deputy Chair of the ESB  
Paula Conboy, Chair AER  
John Pierce AO, Chairman AEMC  
Audrey Zibelman, Chief Executive of AEMO  
Reliability Panel Members