



17 February 2016

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Dear Simon,

**Position Paper: Proposed Design of a Reliability Advisory Committee – 3 February 2016**

Alinta Energy (Alinta) appreciates the opportunity to comment on the Public Utilities Office's (PUO) Position Paper: Proposed Design of a Reliability Advisory Committee (RAC). The Position Paper (Paper), amongst other things, sets out a proposed approach for assigning power system reliability in the South West Interconnected System (SWIS). It also provides an overview of governance of certain reliability functions defined in Chapter 5 of the National Electricity Rules, as well for the Network Quality and Reliability of Supply Code.

***Key issues and summary response***

Alinta is generally supportive of adopting an approach for assigning reliability and security functions in the SWIS that:

- ensures no conflicts of interest arise (or minimises conflicts);
- minimises regulatory and administrative burden;
- establishes a robust governance framework with respect to considering reliability matters; and
- provides a least cost option to the market.

Alinta therefore supports the Economic Regulation Authority (ERA) being conferred the core responsibility for determining and reviewing reliability matters relating to generation adequacy and wholesale electricity market reliability and security issues. We also support the establishment of a local reliability advisory body, consistent with the views of the Commonwealth Government and Electricity Market Review (EMR).

However Alinta considers that the Paper represents a high level overview of the option to be recommended to the Steering Committee rather than a detailed design document. As a result of a more definitive document not being available at this stage Alinta has some concerns that the proposed arrangements may not result in the optimal arrangement being implemented.

To address these Alinta has identified some potential refinements to ensure a robust and transparent governance arrangement for consideration of reliability matters is implemented. These refinements are outlined in the following sections along with Alinta's views on the design criteria.

### ***Design Criteria – need to be expanded to cover all the principles that underpin a good governance framework***

Alinta is generally supportive of the design criteria outlined in the Paper and considers it provides a good starting point for reform in this area. However we consider that given the nature of the reforms proposed the design criteria needs to be further expanded to encapsulate those broader considerations required to achieve “good governance”.

#### ***Characteristics of good governance***

As outlined in previous submissions to the EMR, Alinta believes the following seven principles provide an essential reference point for defining a good governance framework. Each principle holds equal importance.

1. ***Efficient*** – A governance framework should produce results that meet the market’s needs while making the best use of resources.
2. ***Effective*** – A governance framework should enable institutions to successfully complete their defined tasks, resolve identified issues and develop a long term perspective of what is needed in the market.
3. ***Fair*** – The legal and procedural frameworks that form part of the overall governance framework should be fair and enforced impartially; this is especially true when there are commercial outcomes.
4. ***Transparent*** – The institutions within the governance framework should operate in a transparent manner and make information directly accessible to interested parties so they can understand decision making and enable external monitoring to occur.
5. ***Consultative*** – The governance framework should encourage diverse and meaningful public contributions to allow decision makers to consider different issues, perspectives and options when defining and seeking solutions to a problem. Good consultation mediates effectively between different interests to reach a broad consensus.
6. ***Responsive*** – The governance framework should ensure that governance institutions and their processes seek to serve all stakeholders in a timely fashion.
7. ***Accountable*** – The governance framework should ensure governance institutions are accountable to stakeholders. When mistakes have been made, these should be admitted so future mistakes can be avoided.

Alinta recommends that the criteria applied by the EMR (as presented in section 3 of the Paper) is expanded to expressly require that any proposed arrangements for assigning reliability functions in the SWIS are consistent with a good governance framework as embodied by the principles outlined above.

Ensuring that the arrangements result in good regulatory practice being achieved, including appropriate oversight of any decision making, will result in a transparent and robust arrangement being implemented that can stand the test of time.



***Ensuring Accountability – support all methodology, processes and value settings related to reliability and security standards being included in the Market Rules***

Alinta's understanding of the proposed arrangements is that the ERA will be conferred a number of functions relating to reviewing, recommending and determining various system reliability and security standards as listed in Appendix A of the Paper<sup>1</sup>. In regard to system reliability and security standards this can broadly be categorised as follows:

- (i) Methodologies and processes underpinning the system reliability and security standards, such as the Planning Criterion designed to ensure sufficient capacity is available, are proposed to be retained within the Market Rules; and
- (i) Value settings for relevant methodologies, such as the Planning Criterion (e.g. percentage of forecast peak demand and the percentage of unserved energy), are proposed to be listed in an ERA controlled document external to the Market Rules.

As Alinta understands it, the ERA will be charged with the periodic review and determination of various methodologies and processes related to system reliability and security standards and be required to follow its normal consultation process, as set out in section 26 of the ERA Act 2003 when undertaking reviews resulting in recommendations or determinations. Any proposed changes to methodologies as a result of a review would be progressed via the rule change process.

This is appropriate as any significant changes, particularly with respect to the Planning Criterion methodology to be applied by AEMO in preparing forecasts of the Reserve Capacity Target, could have a potentially significant financial impact on market participants and so should be subject to the rule change process so as to ensure appropriate accountability in decision making is established.

In regard to value settings resident within the methodologies, Alinta understands it is proposed the ERA will determine their quanta by again following its statutory consultation processes and list the resultant value settings in a determination document retained on the ERA website which will be referenced in the Market Rules such that AEMO can apply the methodologies as required by the Market Rules and Procedures.

Alinta does not support the value settings being retained outside the Market Rules. They are an integral part of methodologies and should be embedded in the methodologies as is currently the case. This ensures that changes in the value settings are also subject to the rule change process and thus tested against the Wholesale Market Objectives.

However, Alinta recognises that changes to the methodologies and processes or the value settings would then be subject to two consultation processes; one conducted by the ERA under section 26 of its Act and one conducted by the Rule Change Body. This could be considered excessive and an unnecessary regulatory burden that increases market administrative costs.

Nevertheless it remains Alinta's view that subjecting ERA recommended changes to methodologies, processes and value settings to the rule change process has merit: it ensures recommended changes are properly tested against the Wholesale Market Objectives and provides the protection inherent in the Procedural Review, Protected Provision and Reviewable Decision clauses of the Market Rules. However, in recognition of keeping the regulatory burden to a minimum, Alinta offers the following suggestion for the PUO to consider.

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<sup>1</sup> Alinta's comments on the functions proposed to be conferred on the ERA are set out in an attachment.



Where the ERA after conducting reviews and determinations in SWIS reliability and security standards resolves that changes in methodologies, processes or value settings are required:

- (i) the changes would be submitted by the ERA as a rule change proposal to the Rule Change Body; and
- (ii) the Rule Change Body would inform the market of the rule change proposal and advise it will proceed as a fast track rule change<sup>2</sup> unless substantive requests are received from no less than two Rule Participants that the standard rule change process apply.

Alinta views this more streamlined two stage approach as providing an appropriate level of protection to participants while at the same time providing for regulatory burden to be reduced. Participants particularly concerned about the ERA's proposals, either from dissatisfaction with ERA consultative processes, lack of consideration of the Wholesale Market Objectives or the resultant recommended changes, would have the opportunity to argue that the more extensive standard rule change process apply.

However, if this two stage approach is still considered to represent an unacceptable regulatory burden, then a potential alternative approach may be for both the methodologies and processes, and attendant value settings, to be removed from the Market Rules and maintained in an ERA controlled documents. Under this alternative approach the ERA, in undertaking reviews, would be required to have express regard for the Wholesale Market Objectives and be proscribed from making any determinations in regard to its conferred functions related to the Wholesale Electricity Market reliability and security standards unless it was satisfied that they would be consistent with the Wholesale Market Objectives.

Alinta does not support this alternative approach; it is a second best option compared with Alinta's recommended two stage approach. This is because it circumvents all the prescriptive requirements of the rule change process which have proved to be workable and deprives the Market Advisory Committee of its role in providing advice on rule change proposals that may significantly impact market participants. Furthermore, the decision-making safeguards inherent in the Procedural Review, Protected Provision and Reviewable Decision clauses of the Market Rules would not apply to determinations made by the ERA.

### ***Reliability Advisory Committee – support establishing a local advisory resource***

Alinta notes the National Electricity Rules (NER) provide for a Reliability Panel to conduct reviews, present reports and make recommendations or determinations, as the case may be, on a range of system reliability, security and operating matters. The NER specifies both the constitution (chairmanship, member classes, appointment/removal and decision-making) and the Reliability Panel review process.

The Paper proposes that the ERA establish and take advice from a Reliability Advisory Committee (RAC) in respect of system reliability and security functions conferred on the ERA as set out in Appendix A of the Paper. It is noted, however, that unlike the Reliability Panel which is empowered to make some determinations in its own right, such as system security standards and the system restart standard, the RAC will only have an advisory role: the ERA will be responsible and accountable for conducting and making recommendations and determinations in respect of the conferred functions. Alinta supports this approach as the system reliability and security standards are technically complex, interrelated and can have profound operational and financial impact on

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<sup>2</sup> Alinta notes that section 96A of the National Electricity (South Australia) Act 1996 provides for a Fast track rule process where public consultation has been effected by an electricity market regulatory body or through an AEMC review.

market participants - it is appropriate that the ERA receive advice from a properly constituted WEM based committee.

Alinta is concerned, however, about the lack of prescriptive detail in the Paper about the proposed RAC in regard to chairmanship<sup>3</sup>, member numbers/classes, appointment/removal, consultation and decision-making processes and indeed the extent to which the ERA in performing its functions must take account of advice received from the RAC. For example, there no indication in the Paper of the transparency of the RAC's consultation and decision-making processes resulting in recommendations to the ERA.

In Alinta's view, given the importance of the matters to be conferred on the ERA, it is vital for participants to fully understand the proposed workings of the RAC and its relationship with the ERA. This is consistent with the principles of good governance.

Accordingly, Alinta requests the PUO to further consult on this matter. An option for the PUO to consider is to invite submissions in relation to a "straw man" that contains sufficient detail in respect of the RAC, perhaps not unlike that in the NER in relation to the Reliability Panel, which provides a sufficient basis for participants to consider and provide useful and material feedback.

However, as a matter of principle Alinta supports the proposed adoption of a statement of independence by RAC members as a minimum requirement to reduce the potential for conflicts of interest to arise, particularly given some members may have commercial interests in particular amendments to the reliability settings being adopted due to their implications on the Reserve Capacity Mechanism.

If you would like to discuss this submission please don't hesitate to contact myself on 9486 3762 or John Rhodes on 9486 3306.

Yours sincerely

**Michelle Shepherd**  
General Manager Regulatory and Government Affairs

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<sup>3</sup> Chairmanship of the RAC is important; Alinta would be concerned if an ERA member or ERA Secretariat staff member were mandated to this position. Alinta's view is the chair, in the interests of good governance, should be independent of the ERA.



## Attachment

#	Functions to be conferred (Appendix A of the Paper)	Alinta comments
1	Review and, having regard to the market information provided by the Australian Energy Market Operator, report and make recommendations annually on the performance of the market in terms of: <ul style="list-style-type: none"> <li>- the reliability standards (reliable operating states);</li> <li>- power system incidents; and</li> <li>- any other matters or rule changes related to power system performance and reliability and which the Reliability Advisory Committee (<b>RAC</b>) considers necessary</li> </ul>	Support ERA annually reporting and, where appropriate, making efficiency improvement recommendations in regard to these matters. Unclear if benefit outweighs the cost of additional indicated reporting functions: <ul style="list-style-type: none"> <li>(i) Capacity Factors</li> <li>(ii) Forced Outage Rate</li> <li>(iii) Large scale Vs small scale load shedding {already captured as part of power system incident reporting}</li> </ul>
2	Having regard to the market information provided by the Australian Energy Market Operator, determine the system restart standard. <ul style="list-style-type: none"> <li>- Conduct [at least] 5 yearly reviews of the system restart standard</li> </ul>	Support ERA undertaking 5 yearly review of system restart standard.
3	Having regard to the market information provided by the Australian Energy Market Operator, determine the system frequency operating standards. <ul style="list-style-type: none"> <li>- Conduct [at least] 5 yearly reviews of the system frequency operating</li> </ul>	Support ERA undertaking 5 yearly reviews of system frequency operating standard or earlier on advice from RAC to address material emerging issues identified by Rule Participants.
4	Review and make recommendations on the Planning Criterion (reliability standard) and reliability setting: <ul style="list-style-type: none"> <li>- Conduct [at least] 5-yearly reviews of the long term capacity 'Planning Criterion' methodology and settings</li> <li>- Conduct [at least] 5-yearly reviews of the reserve capacity price methodology</li> <li>- Determine and conduct [at least] 5-yearly reviews of the forecasting methodology for capacity procurement</li> <li>- Make recommendations into the 5-yearly reviews of the energy price caps and price floor</li> </ul>	Support ERA undertaking 5 yearly reviews of: <ul style="list-style-type: none"> <li>- Planning Criterion methodology and values</li> <li>- Maximum Reserve Capacity Price methodology</li> <li>- Reserve Capacity Price adjustment methodology</li> <li>- Forecasting methodology for capacity procurement and</li> <li>- Energy price caps and price floor;</li> </ul> or earlier on advice from the Market Advisory Committee where such advice identifies material inefficiencies arising from current methodologies and parameter values.
5	Review and, having regard to the market information provided by the Australian Energy Market Operator, make recommendations [as required] on the value of lost load for use in planning decisions.	Unless there is an express regulatory requirement to estimate Value of Lost Load (VoLL) for an element of the SWIS, <u>do not support</u> a requirement

#	Functions to be conferred (Appendix A of the Paper)	Alinta comments
		for the ERA to make recommendations in regard to VoLL. Alinta notes VoLL is no longer used in the NER as part of reliability settings (replaced by Maximum Price Cap – refer ERC0080).
6	While the Australian Energy Market Operator has power to enter into contracts for the provision of reserves, determine policies and guidelines governing Australian Energy Market Operator's exercise of that power.	Support ERA having oversight of AEMO's power to enter into contracts for the purpose of procuring reserve capacity or capability if projected shortfalls would very likely result in the material non-achievement of the reliability standard are identified by the AEMO.
7	Review Ancillary Service Requirements Process and Ancillary Service Standards [at least] every 5 years.	Support ERA undertaking 5 yearly reviews of changes to the Ancillary Service Requirements Process and Standards or earlier on advice of the RAC to address material emerging issues identified by Rule Participants.
8	Conduct a 5-yearly review (with the assistance of the Australian Energy Market Operator) of the outage planning process against the Wholesale Market Objectives.	Support ERA undertaking 5 yearly reviews of the outage planning process for inconsistency with the achievement of the Wholesale Market Objectives.
9	Conduct [at least] 3-yearly reviews of the Relevant Level Methodology.	Support ERA undertaking 5 yearly review of the RL methodology or earlier on advice from the MAC where such advice has identified the current methodology and settings results in a material undervaluation of existing or new technologies' contribution to managing the system peak.
10	Review and make recommendations on standards within the Network Quality and Reliability Supply Code and any network reliability impacts on overall power system reliability	Support ERA overview and approval of the Network Quality and Reliability Supply Code.
11 12 13	<i>The frequency operating standards are system standards and are as determined by the Reliability Panel and published by the AEMC.</i>	Support ERA determining Frequency Operating Standards through its normal consultation processes (section 26 ERA Act) and on advice from Reliability Advisory Committee.  Support Frequency Operating Standards being domiciled in the WEM Rules as an appendix.

