

Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

24th April 2019

Submitted via e-mail to: RRO@aer.gov.au

Dear Sir/Madam,

Draft Interim Reliability Instrument Guideline
Reference: 64872 / D19/21562

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the Australian Energy Regulator’s (“**AER**’s”) *Draft Interim Reliability Instrument Guideline Consultation Paper*.

The Energy Council is the industry body representing 23 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Introduction

The Energy Council appreciates the limited time the AER has to implement the Draft Guideline and appreciates the consultation being conducted, although it does note that by issuing individual guidelines over a period of time, it is difficult for industry to obtain a holistic view of the guidelines, and identify any interrelationships and conflicts which require detailed comment. In particular, much of the detail contained within the Draft Guideline is dependent upon information contained within the Forecast Best Practice Guideline, which is not yet available for review.

Discussion

Materiality

The fundamental issue which needs to be addressed within the Draft Guideline is the issue of materiality. The proposed National Electricity Rule 4A.C.11 (AER decision making criteria) requires the AER to only have regard to the three criteria listed. In its submission to the Energy Security Board’s Retailer Reliability Obligation Draft Rules Consultation Paper,¹ the Energy Council reiterated its position that while testing against the reliability standard is the appropriate measure for deciding whether a Reliability Instrument should be made, the AER should have the discretion to assess whether the expected breach of the reliability standard is a trivial excursion, not warranting a Reliability Instrument. In this way major compliance costs, ultimately borne by consumers, will not be triggered by a reliability forecast showing the reliability standard to be breached, but within the bounds of the precision of the forecast. The Energy Council appreciates that as the Rules are currently drafted there appears to be no discretion afforded to the AER about whether to make a Reliability Instrument, but recommends the AER considers the promulgated version of the Rules before it finalises its Draft Guideline.

However the Draft Guideline does suggest that the AER is considering materiality (and its related topic, sensitivity) by requiring the Australian Energy Market Operator (“**AEMO**”) to provide a sensitivity matrix and/or sensitivity analysis as part of a Reliability Instrument request.² Further, the Energy Council notes that Clause 14K(3) of the National Electricity (South Australia) (Retailer Reliability Obligation) Amendment Bill 2019

¹ Available at <http://www.coagenergycouncil.gov.au/publications/energy-security-board-%E2%80%93-retailer-reliability-obligation-draft-rules-consultation-paper>

² Consultation Paper, p.9

states that, “The AER may decide to make a reliability instrument only if the AER is satisfied ... *it is appropriate in the circumstances*, [emphasis added] having regard to the criteria stated in the Rules ...”. The Energy Council therefore believes that despite the obligations set out in the Rules, the legislation, once made, will allow the AER to perform such a materiality test, and it is appropriate that the AER includes in its Draft Guideline the steps involved in making its determination, and its assessment as to whether a minor excursion warrants a Reliability Instrument being made.

Verification of Calculations

The review of AEMO’s calculations is predominantly an administrative review, assessing whether AEMO has adhered to the relevant methodologies and guidelines, determining whether its assumptions are appropriate, and whether any material errors have been made. While the Consultation Paper indicates that “[t]he AER’s role is not to re-create AEMO’s reliability forecast, nor is it to duplicate the methodology or modelling used in the reliability forecast”,³ the Energy Council submits that given the magnitude of the costs imposed on industry should the Reliability Instrument be inappropriately triggered, more scrutiny of AEMO’s request is warranted. While it is appreciated that the AER will not wish to duplicate AEMO’s calculations, it would seem reasonable that the AER could engage an independent, competent consultant to take the feedback from the stakeholder consultations and conduct a brief review within the AER’s two month timeframe to provide the AER with assurance that the Reliability Instrument Request is justified.

Conclusion

In conclusion, the Energy Council believes the AER should strongly consider incorporating a measure of discretion into its Draft Guideline, by including a materiality test. Doing so will ensure that trivial forecast reliability gaps will not trigger undue compliance burdens on market participants, with its concomitant increase in consumer costs. In addition, independent verification of AEMO’s request is suggested to ensure that a Reliability Instrument is not triggered unnecessarily.

Any questions about this submission should be addressed to the writer, by e-mail to Duncan.MacKinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,



Duncan MacKinnon
Wholesale Policy Manager
Australian Energy Council

³ Consultation Paper, p.8