

Western Power

Submission on the Electricity Market Review Position Paper: Proposed Design of a Reliability Advisory Committee in Western Australia

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Executive Summary

Western Power has considered the 'Position Paper on the Proposed Design of a Reliability Advisory Committee in Western Australia' (Position Paper), published by the Public Utilities Office (PUO) on 3 February 2016. The Position Paper sets out a proposed approach for assigning system reliability functions in the South West Interconnected System (SWIS), including monitoring, review and reporting on the reliability of the Wholesale Electricity Market (WEM). It also outlines governance of the reliability functions defined in Chapter 5 of the *National Electricity Rules* (NER) and the *Electricity Industry (Network Quality and Reliability of Supply) Code* (NQRS Code).

Under the National Electricity Law, the Australian Energy Market Commission (AEMC) is required to establish a Reliability Panel. Its work program is set by requirements in various chapters in the NER. The Electricity Market Review (EMR) considers that the National Electricity Market (NEM) approach to system performance and reliability matters from a generation adequacy perspective is inconsistent with the capacity oriented WEM structure in the SWIS. As a consequence, the reliability matters related to generation adequacy in the WEM have no equivalents in the national framework.

Given the need to account for local circumstances and market design, the EMR proposed that an independent local entity be conferred responsibility to undertake several functions relating to system performance and reliability, and the determination of relevant reliability standards.

Table 1 summarises Western Power's views on the key issues raised in the Position Paper.

Table 1 - Summary of submission

Respondent	Proposed design	Role of ERA			Reliability Advisory Committee	
	Generally supportive	Appoint Committee members	Must consult RAC when undertaking functions	Sufficient decision making guidance	Independent committee of experts	AEMC officer on Committee
Western Power	✓	✓*	✓	✓	✓	✓

* Western Power proposes that, as a major network service provider in the Western Australian electricity market, a Western Power representative be a core member of the Reliability Advisory Committee (RAC) and that the committee consist of between five and nine members to ensure there is sufficient representation on issues discussed.

1 Introduction

The power system security and reliability standards in Western Australia are currently outlined within the *Wholesale Electricity Market Rules* (WEM Rules), NQRS Code, Western Power's Technical Rules and its Access Arrangement, and the *Electricity Networks Access Code*. The last three documents will cease to apply from 1 July 2018.

As part of the EMR, it is proposed to confer reliability functions on the Economic Regulation Authority (ERA), and establish the RAC and a WEM Rules Change Body. In the context of system performance and reliability and the determination of relevant reliability standards, the Position Paper sets out:

- the rationale for the ERA to be responsible for the review and reporting of power system performance and reliability standards and guidelines;
- a preferred high level approach to power system reliability matters;
- how the preferred approach interacts with the national network regulatory framework;
- how the preferred approach interacts with the reliability provisions of the Reserve Capacity Mechanism in the determination of the Reserve Capacity Requirement; and
- implementation and timing considerations.

This submission details Western Power's response to the Position Paper.

2 Proposed Design

Western Power is supportive of the proposed design criteria for the reliability functions in the SWIS as outlined in the Position Paper. Specifically, Western Power agrees with the importance of ensuring that the design:

- minimises conflicts of interest;
- promotes the ability to leverage existing expertise and efficiencies;
- ensures flexibility and powers to consider matters outside of the WEM Rules; and
- provides a least cost option to customers whilst achieving the required level of performance.

Further, Western Power supports delegating decision making authority for reliability standards to the ERA. It is intended that the ERA will have the responsibility to review and make recommendations and determinations on power system reliability matters relating to generation adequacy and WEM reliability. Given that the ERA may not always have the requisite expertise on reliability matters, Western Power also endorses the creation of the RAC to provide technical support and advice to the ERA.

In addition, in Western Power's view, the design criteria guiding principles of simplicity and ease of implementation should result in minimal regulatory and administrative burden for the market. The PUO's expectation that the ongoing reliability functions of the ERA and the RAC are to be cost neutral in comparison to the existing market operations is encouraging. Further, the recovery of any costs incurred by the ERA in the performance of its new network reliability function would be permitted through fees from market participants; this approach would be aligned with the current recovery of cost associated with the ERA's licensing and compliance monitoring functions.

Western Power notes that whilst the ERA would act as the decision maker for any determination of reliability standards, it would still be required to submit rule amendment proposals and procedure changes with regards to reliability methodologies or processes in the WEM Rules to the new Rule Change Body. This would ensure that any potential conflict between the proposed WEM Rules and the existing requirements under the NER is avoided. This approach is fully supported by Western Power.

Western Power proposes that, until the Western Australian electricity market fully transitions to the NEM, Western Power and the AEMC have representation on the Rule Change Body.

3 Role of the Economic Regulation Authority

3.1 Appoint members of the Reliability Advisory Committee

Due to the uniqueness of the Western Australian energy market, Western Power deems the formation of a single, local and independent committee providing guidance to the ERA on the reliability issues as appropriate. Western Power agrees that the core responsibilities of the RAC would include providing advice on:

- Power system reliability standards
- Frequency operating standards
- System restart standard (following a major blackout event)

- Jurisdictional standards relating to network reliability (within the NQRS Code).

Western Power considers that, due to its key role in the Western Australian electricity market, a Western Power representative should be a core member of the RAC. The addition of AEMC or AER representatives on the RAC would also be beneficial to minimise the risk of the SWIS reliability standards diverging from those in the NEM.

3.2 **Economic Regulation Authority to consult the Reliability Advisory Committee when undertaking its functions**

It is proposed that the ERA act as the decision maker for any determinations of reliability standards but it will be required to consult the RAC's panel of technical experts with regards to technical and reliability issues. The RAC would not have the authority to commission analysis or commit resources and expenditure in its own right but it will be able to recommend the services of external experts for specific, highly specialised technical input. Western Power is fully supportive of the proposed approach.

The RAC will also review and make recommendations on standards contained within the NQRS Code. Western Power fully supports the proposal that any amendments to the NQRS Code be subject to a public consultation process.

3.3 **Sufficient decision making guidance**

Western Power notes that the ERA, in receipt of any advice from the RAC, would need to have regard to the following objectives:

- promoting regulatory outcomes which are in the public interest;
- long-term interests of consumers in relation to the price, quality and reliability of goods and services provided in the relevant markets;
- encouraging investment in relevant markets;
- the legitimate business interests of investors and service providers in the relevant markets;
- promoting fair and competitive market conduct;
- preventing abuse of monopoly and market power; and
- promoting transparent decision making that involves public consultation.

In Western Power's view, another objective should be added to the above list. Specifically, the requirement for the ERA to ensure that, where applicable, any changes to or new reliability requirements are in alignment with similar standards across the NEM.

It would also be beneficial if, as a general principle, the RAC objectives were aligned with the objectives of the equivalent body in the NEM. Allowances should also be made with regards to future additions or alterations to the above objectives.

4 **Reliability Advisory Committee**

4.1 **Independent Committee of Experts**

Western Power is supportive of the proposed approach to the general membership of the RAC, including the appointment of 'observers' to compliment the role of formal members. Western Power also supports the development of the RAC terms of reference and the three-year tenure (with re-appointment permitted) for RAC membership. Western Power proposes that the ERA should undertake public consultation when establishing RAC's initial terms of reference and any other documents governing the committee's function.

However, Western Power believes that RAC membership should consist of between five (rather than three) and nine participating members including a chairperson. Western Power's rationale for suggesting an increase in the minimum number of RAC participants is based on the RAC's role and responsibilities, which would be properly discharged by the key stakeholders having representation on the committee. These key stakeholders include individuals with appropriate knowledge and experience in the electricity industry such as customer representatives, the network operator, the system operator, the AEMC or AER and other market participants. The diverse membership of the RAC would ensure that any proposed changes to the reliability standards in Western Australia are not at odds with reliability standards in the NEM and they will not compromise the network or the system operator's capacity to operate in compliance with the laws, regulations and rules it is subject to.

In addition, in Western Power's view, the RAC chairperson should be selected by its members and formally appointed by the ERA. Further, ensuring that the chairmanship is on a rotating basis and the chairperson is not the ERA's representative would capitalise on the significant industry knowledge and experience of the committee members, and would avoid any perception of a conflict of interest.

4.2 **Implementation and timing**

Western Power supports the proposed timing of establishing the RAC of mid-2016. Western Power understands that this timeframe will align with the PUO's activities regarding the revision of the NQRS Code therefore, if required, enabling the RAC to contribute to that revision.