Hydro Tasmania

5 February 2018

John Pierce
Chairman
Australian Energy Market Commission (AEMC)
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Reliability Frameworks Review Interim Report – EPR0060

Hydro Tasmania appreciates the opportunity to provide comment on the AEMC's Interim Report for the Reliability Frameworks Review.

The energy sector is undergoing a period of significant transformation which is bringing a number of challenges for the National Electricity Market (NEM). This review is a timely opportunity to consider the changing market and to broadly assess the ability of the NEM's reliability framework to meet and maintain reliability in the long-term and in a manner that is in the interest of customers. Since the start of this review, the Energy Security Board has commenced its consideration of a National Energy Guarantee. The design of the National Energy Guarantee will likely have significant implications for reliability frameworks in the NEM, and must be considered alongside the AEMC's review.

Hydro Tasmania supports the majority of the AEMC's views expressed in the Interim Report, and would encourage further consideration of the following:

- Hydro Tasmania supports the AEMC's preliminary view that **further work is required to ensure the concepts of 'dispatchability' and 'flexibility' are appropriately defined**. Hydro Tasmania also agrees with the AEMC that defining these concepts appropriately will be important to identify, value and reward energy services in the NEM as the proportion of variable renewable energy increases in the years ahead. It is likely to be difficult to appropriately develop these definitions without knowing how they will be applied under future policy settings, such as the National Energy Guarantee. As such, Hydro Tasmania believes that these definitions should be informed by, and carefully developed alongside NEG design and the Australian Energy Market Operator (AEMO) Integrated System Plan processes.
- To the extent that definition is possible, Hydro Tasmania believes that the concepts of 'dispatchability' and 'flexibility' must: reward generation that contributes to reliability outcomes; incentivise investment in new or existing plant that contribute to reliability and low emission outcomes; ensure system security settings and outcomes are not adversely

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affected; and minimise reliance on market intervention mechanisms, such as the Reliability and Emergency Reserve Trader (RERT). Consideration should also be given to the characteristics of different energy technology types and their ability to provide reliability services. For example, demand response, distributed energy and batteries will be components of balancing future NEM supply/demand requirements but will not be sufficient on their own to provide hours of stored energy as needed. Other technologies, including hydropower and interconnectors, will need to play a key role and therefore must be appropriately incentivised to provide reliability services.

- Hydro Tasmania believes that **market intervention through the RERT or a strategic reserve should be minimised** to avoid distorting efficient, competitive market outcomes and investment signals. As such, we support the AEMC's high-level principle that the RERT (or strategic reserve) be considered a 'last-resort' measure for maintaining reliability in the NEM. The Interim Report also suggests that the RERT could be improved through AEMO providing detail as to how they calculate the level of reserves to be procured. Hydro Tasmania is generally supportive of this improvement to the RERT as this would enhance transparency and provide greater information to the market.
- **A well-functioning and liquid contract market is an essential component of the NEM's reliability framework**, as it provides investments signals to the market for the development of new generation. Analysis conducted by the AEMC found that there are presently no significant issues with contract market liquidity in the NEM. Hydro Tasmania has observed sufficient liquidity in the base (flat) contract market, but relative illiquidity in the peak contract market. Shortage of these financial products may present a failure in the adequacy of the contract market to back long-term investment signals in the NEM. This can result in suboptimal reliability outcomes as it is not adequately incentivising investment in peaking generation. Hydro Tasmania believes that it is important for the AEMC to fully consider all aspects of contract market liquidity in the existing market arrangements, as well as any future market reforms (e.g. National Energy Guarantee design).
- Hydro Tasmania supports the AEMC's preliminary view that **further work is required to identify the problem that a day-ahead market would address**. To the extent that a problem is identified, Hydro Tasmania agrees that a more targeted market reform to that problem may produce better market outcomes. The suitability of a day-ahead market is also difficult to assess without knowing the outcomes of concurrent market reforms under consideration, such as the National Energy Guarantee's Reliability Guarantee. As such, Hydro Tasmania strongly believes that further consideration of a day-ahead market should not occur until the objective of such a reform is clearly identified, and specific characteristics of the National Energy Guarantee are known.

- Hydro Tasmania notes that interconnectors have not been extensively considered in the Interim Report. Hydro Tasmania believes that interconnectors play an important role in transmitting energy between regions, and are likely to play an increasingly valuable role in supporting reliability in the NEM through linking flexible sources of generation to energy storage and demand centres. **Hydro Tasmania encourages ongoing consideration of interconnectors through this review** to ensure that the value of interconnectors in maintaining reliability is appropriately considered.

Hydro Tasmania looks forward to ongoing engagement with the AEMC. If you would like further information on any aspect of this submission, please contact John Cooper (john.cooper@hydro.com.au or (03) 6230 5313).

Yours sincerely

Steve Davy
Chief Executive Officer