Reliability Panel
Australian Energy Market Commission
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REL0082 – 2022 Reliability Standards and Settings Review – Draft Report

The Australian Energy Council welcomes the opportunity to make a submission to the Reliability Panel's *2022 Reliability Standard and Settings Review* - Draft Report (Draft Report).

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

(1) Form of Reliability Standard

The AEC recommends retaining the single Unserved Energy (USE) Standard. As concluded in the 2007 Comprehensive Reliability Review, a hybrid form would introduce conflicting objectives and would, in effect, be as restrictive as their most restrictive element.[1]

Concern about "tail risk" and limiting USE in extreme years has confused Reliability and Security-based load interruption. Reliability interruption only occurs through controlled, rotational load shedding. During this, customers face periods of about 40-60 minutes disconnected before the shedding is moved to another group of customers. A more severe event results in more customers being affected but does not increase the impact on any one customer. This means that the cost of rotational load shedding increases only *linearly* with the size of the event.

Therefore, the customer cost of USE spread evenly over a decade is equal to that which occurs all in one in ten years. The only additional harm of the burden being concentrated in time is reputational as it is more publicly evident. This metric would appear to be outside the economic considerations of the Panel.

(2) Level of Reliability Standard

The AEC welcomes the analysis conducted for the review and considers it to be more thorough than that performed by the ESB for the Interim Reliability Standard and properly incorporates the changing energy system. The result of 0.0015% USE is nevertheless

[1] Draft Report, p112.

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consistent with previous work prior to the ESB and with the existing standard. The AEC considers 0.002% expected USE level of the reliability standard can be retained. The average VCR supporting this analysis resulted from extremely thorough work by the AER. Thus, AEC sees no reason to lower standard to 0.001% on the basis of the high VCR sensitivity.

(3) Market Price Cap (MPC) and Cumulative Price Threshold (CPT)

The AEC's previous submission recommended a moderate real increase in the MPC to ensure that USE remains within the standard.[2] Further, that any increase should be well telegraphed ahead of time. The conclusion of the modelling by IES seems consistent with that and is welcomed. The modelling clearly indicates that the necessary increase in the MPC is quite large and differs between Victoria and NSW (the two modelled regions). In addition to this, batteries require a greater MPC but lower CPT when compared with open cycle gas turbines (OCGTs). The AEC supports an increase in the MPC within the proposed range of $21,000/MWh to $29,000/MWh and believes the Panel should have an eye to encouraging battery investment.

The AEC's previous submission recommended consideration of different CPT forms, however it accepted the review's timeframe did not fully allow this. The intention to provide qualitative views on alternative forms at the final report is welcomed. The AEC notes the intent that these should be studied in detail at the next scheduled review, however the AEC considers this too late and feels this should instead be undertaken within a specific review beginning in the near future. For the current review the AEC recommends that the CPT period should be lengthened and the proposed decision range of the current 7.5 hours to 12 hours of MPC is reasonable.

While the AEC has not provided explicit suggested values for the MPC and CPT it is supportive of the proposed decision ranges and expects market participants with current and direct experience (eg, prudential requirements, contract pricing, etc) to be able to provide more specific guidance to the Panel.

(4) Administered Price Cap (APC)

Recent events indicate the AEC's concern (in its previous submission) that the APC is inconsistently low with current energy prices was prescient. For example, if the APC were to be inflated to the same real value as when it was decided in the mid-1990s it would be more than double its current value. The AEC's calculations indicate that at July 2021 the APC would have been $551/MWh.[3] Based on actual and forecast inflation, by July 2025 the escalated APC would be $643/MWh.[4]

Alternatively, APC could be dynamic in that the prevailing price of diesel and gas are included in the calculation of the APC. For example, the cost of the fuel, the quantity required to

[2] https://www.energycouncil.com.au/media/aeyfue3k/20220303-aec-submission-to-rel0082-2022-reliabilty-standards-and-settings-review-final.pdf
[3] ABS, 6401.0 Consumer Price Index Australia. $300 at 1 July 1995 escalated by CPI.
[4] https://www.rba.gov.au/publications/smp/2022/may/economic-outlook.html. For FY2025 the RBA's FY2023 forecast of 3% is used.

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produce a sent-out MWh and any other standard costs associated with the form of generation (eg, start/stop costs and variable operations and maintenance). A possible approach could reference gas prices (as they are linked with oil prices) which are now easily visible across the NEM through the creation of the short-term trading markets in each state and the Victorian declared wholesale gas market (DWGM). However, this approach would add a level of uncertainty surrounding the APC and possibly adversely impact the contact and derivatives' markets for electricity. Accordingly, the AEC is unsure if this approach is appropriate but would like the Panel to at least give further consideration to this option.

The AEC believes serious consideration needs to be given to increasing the APC to such a level that compensation claims would be unlikely. Recent events have resulted in much time and resources having to be deployed to understand, explain, implement and process compensation claims. An adequately high APC would have avoided this and is also a much more transparent approach because the market would have functioned and produced price solutions based on supply and demand.

Based on the escalation approach outlined above the AEC believes the APC should be increased. For example, at gas prices of $40/GJ an open cycle gas turbine would be likely to be paying approximately $440/MWh just for fuel if sourcing gas from the spot market. Hence, an APC needs to be above this price level to reduce the likelihood of the market failing during administered price periods. The aim of the NEM must be to minimise the need for market intervention and recent events have clearly shown that the current APC is too low to allow a distressed market to function.

With respect to the effect on contract markets, it may add additional risk however at the current level of $300/MWh it is creating a miss pricing of actual risks in the market. For a market to function correctly all risk needs to be accounted for and managed by those that are best placed to perform this function.

(5) Market Floor Price (MFP)

The Panel's draft decision not to change the MFP is consistent with the AEC's submission and is supported.

Conclusion

The AEC is broadly supportive of the Draft Report with the exception of not increasing the APC. To summarise the AEC's position:

- The form of the reliability standard is not changed and the single USE standard is retained;
- The level of the reliability standard is not changed and remains at 0.002% expected USE;
- The MPC is increased and the CPT period is lengthened in line with the modelling results;
- The APC is increased to a level that more accurately represents generation costs in a distressed market to ensure the market will function at the APC; and
- The MFP is not changed.

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Yours sincerely,

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