



Government
of South Australia

Department for
Energy and Mining

Our Ref: DEMC22/00527

Mr Charles Popple
Chair
Reliability Panel
c/- Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Charles

Dear Mr ~~Popple~~

Thank you for the opportunity to make a submission on the *2022 Reliability Standard and Settings Review draft report* (the Report).

As the Reliability Panel develops recommendations for the 2022 Reliability standard and settings review (2022 RSS review), the Energy and Technical Regulation Division (the Division) requests that the Panel consider the events surrounding the Australian Energy Market Operator's recent suspension of the wholesale market under the National Electricity Rules, following the withdrawal of available capacity from the market by generators.

The existing form of the reliability standard

Consumers expect continuity of power supply during increasingly likely, high impact events and the Division considers that the community places a high value on the frequency, duration, and depth of reliability events during these periods, which may be masked by the nature of the existing form of the reliability standard.

South Australia has concerns over the form of the reliability standard using a yearly average value for unserved energy (USE). This appears to result in large USE events being averaged across a year when forecasts are modelled, leading to low reserve conditions being unidentified, and no subsequent actions being taken. Importantly, the inclusion of P50 and P90 weightings significantly understates the importance of meeting system needs during periods of system stress where communities still expect the system to deliver services. Additionally, the Division believes that concept of the reliability standard as reflecting the maximum amount of energy demand that can be unmet in each NEM region in a year is, understandably, not well understood by South Australian consumers.

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The Division also notes the outcomes of the modelling undertaken by IES on the form of the standard conclude that:

- USE expressed as a percentage of demand translates to a higher cost of addressing the reliability standard in smaller regions.
- the risk neutral approach to USE volume means it is most efficient to address short duration events to meet reliability gap but doesn't materially address long-tail events and an alternative may need to be considered.

The Division supports the draft Panel position that identifies a case for changing the form of the reliability standard and supports the Panel's observations that:

- a set of more than one metric may be required to capture both expected and more extreme events,
- the reliability standard should provide additional information to describe acceptable USE, such as augmenting expected value measures with "tail" indicators, and
- the reliability standard could include risk-aware approaches that incorporate consumer and investor risk aversion associated with long-duration high impact tail risk related reliability events.

The Division encourages the Panel to attempt to modify or supplement the existing USE focused reliability standard to reflect a changing reliability risk profile, increasing demand flexibility and energy storage, and a high penetration of variable renewable energy.

In particular, the Division is concerned that, under a USE reliability metric, the fact that governments across multiple jurisdictions have sought voluntary demand response to avoid rotational load shedding during periods of system stress has led to a significant overstating of the level of system reliability in the NEM.

The risk-aware 'straw person' option raised by the Panel in its draft report may be an example of a reliability standard to further pursue. However, we expect that the Panel should investigate non-USE related metrics, including a deterministic approach such as a minimum reserve margin.

The existing market price settings

The Division requests that the Panel closely examine both the levels and alignment between the market price cap (MPC) and the cumulative price threshold (CPT) with the aim of ensuring the energy market will work to protect consumers, maintain competition, reduce systemic financial risks, and promotes investment outcomes.

The Division also considers that the Panel closely reassess its view that the form and level of the administered price cap (APC) of \$300/MWh will be appropriate for the period 1 July 2025 to 30 June 2028 and that the APC compensation mechanism remains fit for purpose and compatible with AEMO's directions compensation process. For example, the Panel could





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consider enabling a more flexible framework that allows for more periodic or temporary adjustments in the APC in the event of unforeseen extreme market disruptions that would otherwise result in the market ceasing to operate as intended. Recent electricity market events demonstrated the impacts on market operation when participants consider the APC or compensation mechanism are insufficient.

The Division also notes an outcome of the modelling undertaken by IES that differing reliability in different regions is a feature of having common price settings across all NEM regions and selecting the optimal MPC and CPT combination that is appropriate for all regions is challenging under the current framework. Additionally, this modelling indicates that a higher cost of addressing the reliability standard is borne by smaller regions. This further reinforces the Division's request that the Panel more fundamentally review the existing reliability framework.

Thank you again for the opportunity to make a submission. If you have any further queries, please contact Mark Pedler on (08) 8429 3361.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Vince Duffy'.

Vince Duffy

EXECUTIVE DIRECTOR, ENERGY AND TECHNICAL REGULATION

11/17/2022

