



7 July 2022

Mr. Charles Popple - Chairperson
Reliability Panel
C/- Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By electronic lodgment: www.aemc.gov.au

2022 Review of the Reliability Standard and Settings (REL0082) – Draft Report

Dear Charles,

Alinta Energy welcomes the opportunity to respond to the Reliability Panel's draft report on the 2022 Reliability Standard and Settings Review, with the standard and settings to apply to the period 1 July 2025 to 30 June 2028.

Alinta Energy, as an active investor in energy markets across Australia with an owned and contracted generation portfolio of over 3,300MW and more than one million electricity and gas customers, has a strong interest in the outcome of the review given its importance to the ongoing reliability of the National Electricity Market as it continues the transition to a lower carbon system.

The NEM is undergoing unprecedented change, which will accelerate over the next decade as the impact of thermal generation retirement, increasing penetration of renewable energy resources connected at both the transmission and distribution levels, augmentation of networks to support the development of Renewable Energy Zones and the implementation of the Australian Energy Market Operator's Integrated System Plan continue to gather pace.

The Panel's review is being undertaken against the backdrop of proposed changes to market design through the Energy Security Board's post 2025 NEM initiatives and recent geopolitical upheaval and local supply challenges resulting in significant impacts on the energy-only market.

Alinta Energy acknowledges the scope and assumptions applied by the Panel and its consultants in preparing the draft report on the RSS to apply over 2025-2028; in particular that the NEM is assumed to be an energy-only market for the purpose of the Review. We support the Panel's engagement with the ESB and the use of the Review's findings in the ESB's work on market design.

The Panel has stated that for the purpose of its draft report, it has chosen to set out several observations and positions on the level and form of the reliability standard and its associated

settings and will consider further stakeholder feedback as it prepares its final report to the Australian Energy Market Commission in September 2022.¹

Given the broader scope of the Panel's 2022 review, this approach is appropriate and will support the making of the RSS for the 2025-28 period.

Alinta Energy acknowledges the scale and complexity of the modelling task undertaken by the Panel and Intelligent Energy Systems, noting the comprehensive nature of the 2022 RSS review modelling relative to previous reviews.

Alinta Energy responds to the Panel's positions and observations further below; however, we consider:

- The existing level of the reliability standard of 0.002% remains appropriate and we conditionally support the consideration of conditional value at risk tails to the standard as variable renewable generation continues to grow as a share of energy (subject to ongoing analysis and assessment).
- If an energy-only market were to remain in place (against the ESB's recommendations), the Market Price Cap and Cumulative Price Threshold would likely need to be increased to maintain the reliability standard as indicated by modelling undertaken for the Panel by IES. The interaction between price gaps in the gas market and the MPC, CPT and APC would also require further consideration.
- While no change to the Administered Price Cap is proposed by the Panel, we consider that it is no longer fit for purpose, as demonstrated by recent market events:
 - In the short to medium term, the current level of \$300/MWh needs urgent adjustment to reflect the reality of marginal costs for open cycle gas generators and other peaking gas plant.
 - In the long term, a more fit for purpose approach to setting the APC is required. Options include a dynamic price cap to reflect the prevailing market conditions, linking the APC to the CPT, or another method deemed appropriate by the Panel. However, to be clear, consideration of a long-term mechanism should not delay the urgent increase of the APC as discussed above.
- No change is required to the Market Price Floor, but its impact on investment and dispatch should continue to be monitored.

We respond to the issues raised in the RSS draft report below and welcome further discussion and engagement with the Panel.

Please contact David Calder (David.Calder@alintaenergy.com.au) in the first instance.

Yours sincerely



Graeme Hamilton
General Manager, Regulatory & Government Affairs

¹ Reliability Panel (2022), 2022 Review of the Reliability Standard and Settings – Draft Report, page i.

1. Form of the Reliability Standard (Part A)

Alinta Energy supports maintaining the form of the reliability standard (unserved energy) and sees merit in considering more sophisticated approaches to setting the standard to capture the impact of growing VRE penetration and associated scenarios involving varying levels of energy produced.

Any changes to the metrics associated with USE (for example applying conditional value at risk to provide information on "tail indicators"), as the generation mix increasingly reflects VRE and storage, will require introduction over time. Long-duration USE events, triggered by sustained weather outcomes impacting VRE, add further complexity to historic triggers associated with breaching the standard (i.e. generation and transmission outages).

In terms of weighting between average USE (neutral risk) and risk aware (contingent value at risk), an optimal approach will require ongoing analysis over time to ensure the reliability standard is providing useful information on the nature of USE as the generation mix changes and storage and transmission investment grows to accommodate greater VRE.

We are not in a position to suggest an optimal weighting between neutral and risk-averse approaches to USE at this time, but welcome analysis that demonstrates additional information and relevance of the reliability standard (even if it is not applied in the medium term but modelled on a 'shadow' basis against the current form).

At this stage, we would support the current form of the standard to be maintained, with economic merit of alternatives based on risk awareness and conditional value at risk to be subject to cost-benefit analysis as the energy transition to VRE continues.

2. Level of the Reliability Standard (Part B)

We maintain the view that the current reliability standard (0.002% USE) remains appropriate for the NEM given the assumptions applied by the Panel. The Panel and IES's modelling indicate that the minimum generation cost and costs associated with USE is associated with a new entrant OCGT and USE of 0.0015%. The reduction in cost associated with tightening the standard to 0.0015% from its current level is \$10 million per annum.²

Alinta Energy does not believe this amount would meet the materiality threshold and that the current level of the reliability standard should therefore be maintained for the period 2025-28.

The Interim Reliability Measure (0.0006% USE) is associated with a high-level sensitivity scenario of the Value of Customer Reliability (in most regions double and in Tasmania almost triple the base case). Alinta Energy does not believe the IRM should override the current standard and it does not reflect the trade off the reliability standard seeks to address. It should sunset at the earliest opportunity, noting it is to be reviewed in 2023.

The impact of growing distributed energy resources, optimisation through storage and behind the meter services, electric vehicles and increasing electrification, the application of the base case at this stage would seem the most reasonable level of VCR to inform the standard.

3. Reliability Settings

3.1. The Market Price Cap and Cumulative Price Threshold

Acknowledging the Panel has assumed the continuation of the energy-only market, in the absence of a capacity mechanism the MPC and by association CPT would likely need to

² Reliability Panel (2022), op. cit., page 59.

be increased by 2025-28 to maintain the reliability standard.

The analysis undertaken by IES indicates a wide range of potential values for the setting of the MPC, at levels that materially exceed the existing MPC. The different MPC levels required to maintain the standard in Victoria and New South Wales regions are also noted, given the shorter duration and peakier nature of Victorian USE events. A single NEM-wide MPC is desirable and this could be achieved by assuming a certain level of reserve sharing between NSW and Victoria approaching a USE event in Victoria, but we also note IES's view that the likelihood of interconnector constraints during USE events limit the value of sharing reserves of capacity.³

We agree that the CPT should not be reduced below its current level. The duration of the CPT may be informed by the level of spot market prices, if sustained at a certain level (not just the MPC). Recent outcomes in the NEM indicate that a longer CPT period may be appropriate (perhaps based on a distribution of expected prices above the Administered Price Cap for example).

At a minimum, the CPT should remain a function of the MPC and as such would increase if the MPC was set above its current level.

3.2. The Administered Price Cap

Alinta Energy is not as confident as the Panel indicated in its draft report that current volatility and elevated fuel prices will be will not persist.⁴ However, we agree these conditions are not structural and are primarily driven by exogenous geopolitical events (and we would add, supply chain challenges) and may dissipate by 2025-28 when the RSS will apply. As such, there is value in assessing alternative approaches to setting the APC to ensure the trade-offs between:

- having a sufficiently low administered price to mitigate the risk of a systemic financial collapse of the electricity industry during an extreme market event,
- having a sufficiently high administered price to incentivise market participants to supply electricity during administered price events, and
- having a sufficiently high administered price to minimise compensation claims by market participants following the administered price period,

can be met in the long-term interests of consumers, should similar market conditions to those being experienced today arise in the 2025-28 period.

In the short to medium term, we consider that the APC needs to be increased with urgency to reflect the actual fuel cost of generators, particularly given high natural gas prices. As such, on 1 June 2022, Alinta Energy submitted a rule change proposal⁵ to the AEMC to increase the APC from \$300/MWh to \$600/MWh in every NEM region, with a sunset period of 12 months (or a suitable period as determined by the AEMC with consideration of other processes underway, such as this 2022 RSS Review).

Over the longer term, we recommend that consideration be given to the benefits of implementing a more fit for purpose APC, which could be:

- A dynamic price cap, which reflects prevailing market conditions (while still balancing the trade-offs listed above). This approach would ensure that the APC is set at appropriate level so that short-term volatilities in the gas market (resulting from

³ Reliability Panel (2022), op. cit., page 86.

⁴ Ibid., pages 89 & 96.

⁵ Refer: [Amending the administered price cap | AEMC](#)

excessive gas prices) do not contribute to unsustainable market intervention.

An approach worth considering is calculating a base APC using a formulaic approach for a benchmark facility. This base APC could then be indexed at relevant intervals against a suitable fuel input price series, such as the ACCC LNG netback price series.

In setting the appropriate indexation timeframe, consideration would need to be given to the impacts that a dynamic APC would have on the financial markets.

- Linking the APC to the CPT; or
- Another method deemed appropriate by the Panel.

Any changes to the methodology for setting the APC will require consideration of the consequential impacts on the contracts markets and, depending on the method chosen, may require an appropriate transition timeframe.

At this stage, the impact of long and short-term storage may not have sufficient impact to be considered material. However, the form of the APC may need to be revisited should any of the ESB's market design reforms be implemented – indeed, the RSS applying to the period 2025-28 generally will likely require review at such a time.

3.3. The Market Price Floor

At this stage, the MPF of $-\$1,000/\text{MWh}$ remains appropriate, and we agree its purpose remains an operational, rather than investment signal.