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By online submission

Review of the interim reliability measure

Alinta Energy welcomes the opportunity to provide feedback to the AEMC's draft report on the 'Review of the interim reliability measure' (IRM) (draft report) which considers whether to extend the expiry date of the IRM from 31 March 2025 to 1 July 2028.

Alinta Energy does not support the extension of the application period of the IRM. This is on the basis that the AEMC's draft recommendation:

- doesn't appear to be based on any economic modelling;
- is inconsistent with the Reliability Panel's 2022 'Reliability Standard and Settings' (RSS) review findings; and
- doesn't meet the AEMC's own assessment criteria.

Background:

The IRM was implemented by the Energy Security Board (ESB) to address concerns about the increased reliability risk following the retirement of several baseload generators and the subsequent increased use of the Reliability and Emergency Reserve Trader mechanism in some regions of the NEM. The justification for supplanting the well-established existing governance for reviewing the reliability standard was that these concerns would not have been able to be addressed in a timely manner by the quadrennial process lead by the Reliability Panel (Panel).

Since then, and with the full benefit of hindsight in respect of those risks identified by the ESB in 2020, the Panel has published its 2022 'Reliability Standard and Settings' (RSS) review which confirms that the level of 0.002% expected unserved energy (USE) remains appropriate. The RSS is based on comprehensive modelling that has been peer-reviewed by industry, ensuring an appropriate balance between affordability and reliability as required by the National Electricity Objective.

By contrast, the draft report finds that the reliability standard should be considerably tighter, implicitly relying on the work done previously by the ESB in 2020 and disclosing no updated economic modelling while ignoring the findings of the Panel's 2022 RSS review.

Addressing the draft report's assessment criteria:

1. Efficiency:
   In the RSS, the Panel found that[1]:
   - *the benefits of tightening the level of the reliability standard are insufficiently material to justify the change;*
   - *The high-VCR scenario* [relating to a still looser standard than the IRM] *does not reasonably reflect consumer willingness to pay; and*
   - *addressing tail risk is more appropriately achieved by changing the form of the standard post-2028.*

   The existence of the need to review the form of the reliability standard does not undermine the Panel's findings with respect of the appropriate level of the reliability standard within the confines of the current market design. Accordingly, Alinta Energy is of the view that the draft recommendation, which is inconsistent with the RSS, does not meet this criterion.

2. Appropriate allocation of risk:
   The inconsistency of the IRM with the reliability standard creates a framework in which market failure is the expected outcome. When considered in light of the mechanism of the Retailer Reliability Obligation (RRO), the IRM is likely to allocate significant risk and cost on retailers who, due to the market failure, may be unable to obtain sufficiently firm supply to meet their obligations.

   As noted in the RSS,

   > '*a reliability standard set at 0.0006% expected USE would require a significantly higher MPC. The MPC required for a 0.0006% expected USE standard is likely to be above a reasonable estimate of customer VCR and inconsistent with maintaining an appropriate level of systemic financial risk in the NEM. Levels of reliability tighter than 0.002% may be better supported by other reliability mechanisms/tools than through the market price settings*.'[2]

   The reliability standard was designed to operate consistently across the NEM. NEM market parameters such as the Market Price Cap (MPC) are based on the standard and set at a level that is intended to allow sufficient price signaling to incentivise the requisite amount of investment to achieve the reliability level enshrined in the standard. The IRM imposes a much tighter standard on two other aspects of the NEM, the replacement mechanism for long-term RERT (the Interim Reliability Reserve, or IRR) and the RRO. This inconsistency of the IRM with the reliability standard creates a framework in which market failure is the expected outcome because the expected level of investment in response to the price signaling under the MPC will be lower than that necessary to achieve the reliability level required under the IRR and the RRO. Consequently, this artificially creates a reliability shortfall and then places the burden of resolving the shortfall on retailers, who must either invest at a level that is not adequately compensated for under the market parameters or be subject to the costs of the exercise of the IRR.

   Alinta Energy is of the view that this is not an appropriate allocation of risk and that the draft recommendation does not meet the criterion.

3. Predictability and Stability:
   The draft recommendation undermines confidence in the established governance around the reliability standard, by partly supplanting the role of the Panel. Further, without adequate economic modelling to support the decision to ignore the analysis done by the Panel as part of the RSS, the draft recommendation risks being perceived as either arbitrary, or political in nature.

4. Simplicity and Transparency:
   The review process relating to the draft report is significantly less transparent than the process followed by the Panel which provided for multiple rounds of stakeholder feedback and based its recommendation on comprehensive, publicly available,

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[1] P.56 of the RSS Final report - [2022 RSS Review Final Report (aemc.gov.au)]

[2] Ibid, p.59.

economic modelling. The IRM also adds complexity to the market, by introducing a competing and inconsistent standard with the reliability standard.

The draft recommendation, which extends the application period of the IRM, does not meet this criterion.

5. Timing and Practicality:
   The option to either extend the application period of the IRM or allow it to expire as prescribed in the original ESB rule change does not raise any particular issues relating to this criterion.

If you would like to discuss this further, please contact me at hugh.ridgway@alintaenergy.com.au.

Yours sincerely,

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