

19 January 2024

John Kim  
Australian Energy Market Commission (AEMC)

Submitted via [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Kim,

### **Review of the form of the reliability standard and APC (REL0086)**

Hydro Tasmania appreciates the opportunity to respond to the Australian Energy Market Commission (AEMC) on the directions paper for the *Review of the form of the reliability standard and APC (REL0086)*.

Maintaining effective and transparent reliability frameworks is an essential component to the efficient management of the National Electricity Market (NEM). As the NEM transitions to a grid dominated by variable renewable energy technologies it is integral that our reliability standards are updated to reflect the changing nature of reliability risk. We appreciate the AEMCs work on this issue so far and we recognise the effort put into the modelling presented in the paper.

### ***Form of the Reliability Standard***

Hydro Tasmania broadly supports the results of the modelling conducted by the AEMC. We agree that future USE events are likely to be longer and deeper and more weather dependent; these results are in line with internal modelling done at Hydro Tasmania and with experience in the NEM so far as we move towards a renewables dominated system.

We also support the AEMC's approach to work closely with the Australia Energy Regulator (AER) on the valuation of customer reliability. As supply shortfall events become less predictable, longer, and deeper, we believe it is vital to understand how consumers value these different types of USE events. Consumer valuation of reliability and their willingness to pay is not static; different types of shortfall events will be valued differently. As the impact and length of low probability 'dark doldrum' events increase, it is essential that this is captured effectively in reliability metrics.

Based on the above point and the modelling results, these 'foreseeable events' will happen and thus Hydro Tasmania believes further investigation into a more specific metric(s) is essential – pursuing a 'tail risk' metric may not be enough. We believe this could either be through a change in the form of

the reliability standard or as a supplementary metric(s) to the existing standard. We encourage the AEMC to do further work on this and look forward to providing feedback on alternative options to better encapsulate increasing 'foreseeable risk' / 'tail risk' when they are presented.

### ***Form of the APC***

As seen in the market events of June 2022, an APC that is too low does not provide appropriate incentive for participants to continue to supply through times of market stress. Considering the speed at which we have already seen an external event impact the market and provide upward pressure to prices, we believe that maintaining the existing form of the APC presents a risk of the figure (if too low) becoming quickly outdated. Instead, Hydro Tasmania supports indexing the APC to CPI at a yearly interval in a similar manner to how the marginal price cap and cumulative price threshold are calculated. This would allow the APC to remain relevant and appropriate without introducing further complexity or uncertainty to the market.

Hydro Tasmania looks forward to continuing to engage with the AEMC throughout the consultation process. If you wish to discuss any of the above in more detail, please contact Dani Williams at [danielle.williams@hydro.com.au](mailto:danielle.williams@hydro.com.au)

Yours sincerely,



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