Your ref: REL0094

17 July 2025

Mr Rainer Korte
Chair, Reliability Panel
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
SYDNEY NSW 2000

Submitted online at: Lodge a submission | AEMC

Dear Mr Korte

Submission: 2026 Reliability Standard and Settings Review Issues Paper

CS Energy welcomes the opportunity to provide a submission to the Reliability Panel in response to its issues paper for the 2026 review of the reliability standard and settings (**the paper**) for the National Electricity Market (**NEM**).

About CS Energy

CS Energy is a Queensland-owned and based energy company that provides power to some of the state's biggest industries and employers. We generate and sell electricity in the wholesale and retail markets, and we employ almost 700 people who live and work in the regions where we operate.

CS Energy owns thermal power generation assets, and we are building a more diverse portfolio that includes renewable energy, battery storage, gas fired generation and pumped hydro. We also have a renewable energy offtakes portfolio of almost 300 megawatts, which we supply to our large commercial and industrial customers in Queensland.

Key recommendations

CS Energy supports the general approach the paper proposes for the review. We also agree the review must answer the questions the paper asks about the implications for the reliability standard and settings of the changing value of customer reliability and supply-side asset-base. Overall, CS Energy considers that:

- the standard and settings levels can and should be adjusted and set consistent with the Value of Customer Reliability (**VCR**) provided that the drivers of the VCR are well-understood; and
- through any technology transition, supply-side investment and operating decisions will remain highly sensitive to the levels of the standard and settings.

On the first point, last year the Australian Energy Regulator (**AER**) reported[1] that the residential customers' VCR had increased since 2019 yet business customers' VCRs had decreased notably. The graphs below are from the AER's report. Business customers were surveyed in two groups: those with peak demand less than 10 MVA and "very large business customers" with peak demand of at least 10 MVA.

Figure 20 Business VCR: comparison to 2019 VCR (nominal) and 2019 VCR (real*)

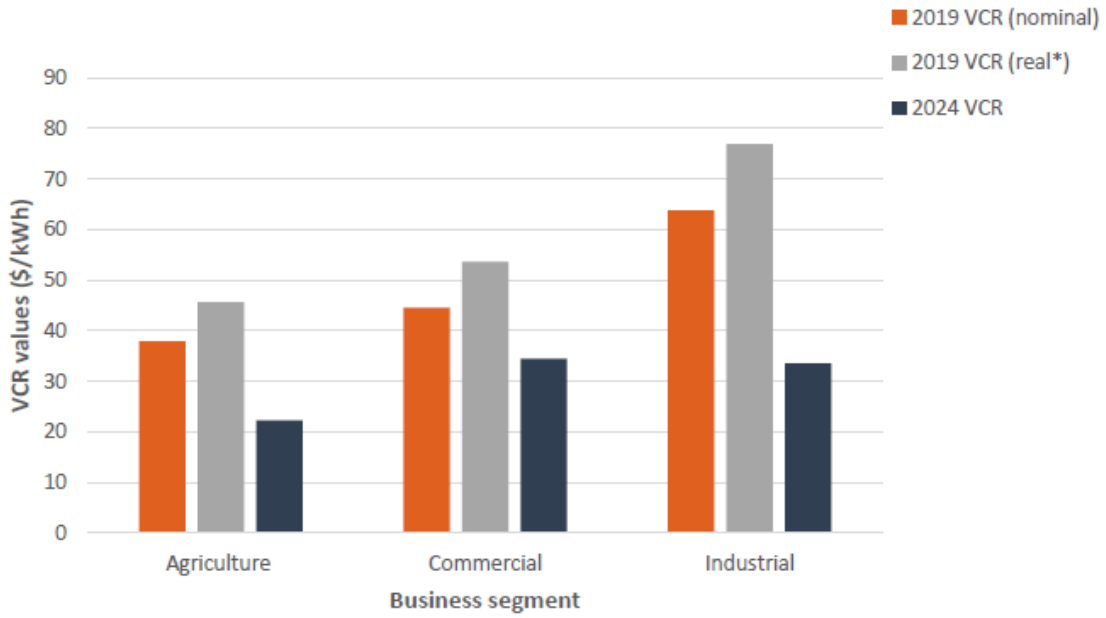
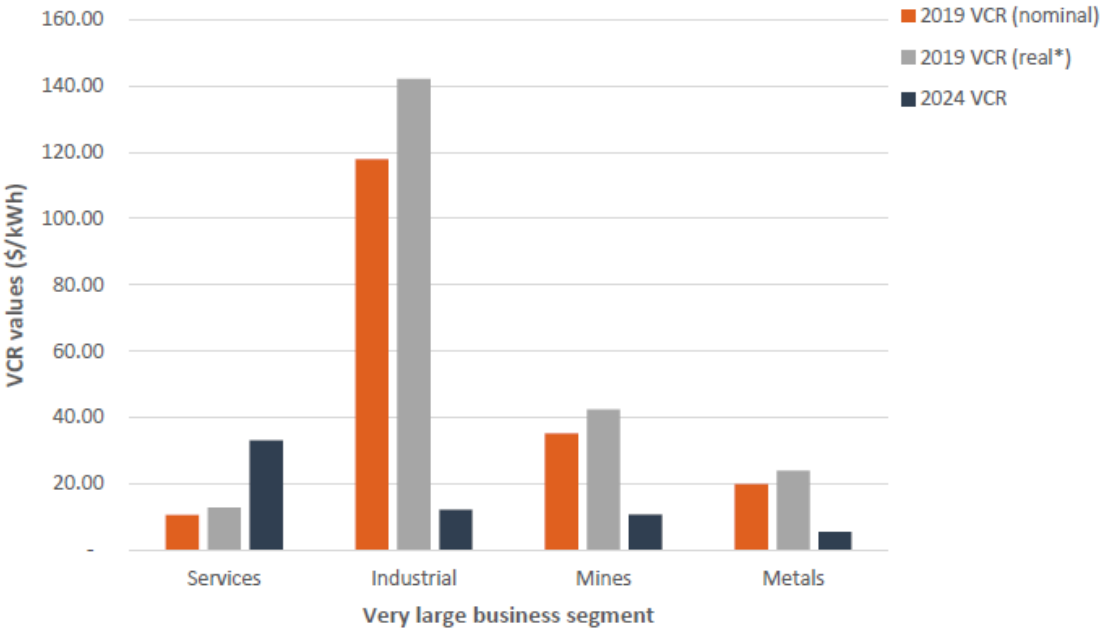


Figure 21 Very large business VCR: comparison to 2019 nominal and VCR 2019 (real*)



[1] Australian Energy Regulator, 2024, *Values of Customer Reliability – Final Report on VCR Values*, December.

These results reflect decreases in the surveyed customer groups' willingness to pay to avoid the AER's baseline outage scenario as a percentage of their bill. The AER's report indicates uncertainty of the reasons for the decline in smaller business customers' VCR:

While we have made some observations on the residential VCR, it is considerably more challenging to make meaningful observations on the business VCR and movements in the underlying components of the business VCR calculation. This is because businesses are not a broadly homogenous group in the nature and amount of their energy needs – businesses undertake a wide range of activities, even within an industry, and vary significantly in their size. This makes it difficult to draw conclusions about drivers of changes in willingness to pay and consumption. It makes the consistency of sampling more difficult as well. However, ***we note the reasons why business willingness to pay as a proportion of a customer bill may have declined between 2019 and 2024 could include shifts in business composition and activities, changes in technology and production processes, additional backup options and other factors such as changing economic conditions and cost pressures*** (emphasis added) (p.54).

The report also comments:

We will consider what further analysis might be undertaken in the future to explore the robustness of the survey results and the potential drivers of the change in the willingness to pay for the business cohort (p.53).

In relation to very large business customers, the report states:

There is significant variation in VCR values across the different segments (services, industrial, metals and mines), given that outage costs and the relative importance of outage duration vary greatly depending on the type of business and their reliance on electricity, and the pattern of supply (p.57).

The AER's findings indicate it would be imprudent to apply the latest VCRs to determining the levels of the reliability standard and settings without a great deal of additional inquiry and analysis to understand the causes of change in the willingness to pay.

This leads to CS Energy's second point about the supply-side's sensitivity to the reliability standard and settings. The NEM faces significant policy-driven growth in the proportion of its energy generated by renewables. In these conditions it is especially important to retain strong incentives for plant investment and operations to remain reliable and secure.

CS Energy understands there may be suggestions the long-term contract model the NEM Wholesale Settings Review Panel is exploring means that the standard's and settings' incentives would be less important. Any such suggestions misunderstand that the long-term contracts would be an additional investment incentive to procure new entrants at a rate exceeding demand growth. Such suggestions also would ignore the vital signals the standard and settings provide operators of existing plant to have it available to maintain reliability and security at times of high demand. A shift from a supply-side dominated by coal-fired plant to one dominated by renewables entails significant transitional risk. Reducing those incentives might well result in the imposition of a greater and less efficient burden on the taxpayer to finance renewables investment while undermining the NEM's signals for efficient operating decisions.

CS Energy therefore considers that limiting those signals by the introduction of a negative Cumulative Price Threshold (**CPT**) would not be in consumers' long-term interests (see section 4.2.4 of the paper). On the one hand, negative prices benefit electricity users. On

the other hand, negative prices signal to supply-side participants they are producing something that has negative value and that either they should stop or reduce their production, or at least time-shift the delivery of their electricity. Shielding supply-side participants from the economic signals they create is the antithesis of an efficient market setting.

Section 4.3.2 of the paper discusses the role of the existing CPT. The CPT has the function of protecting participants from extended periods of high prices without inefficiently muting signals for investment in and operation of plant. A highly weather exposed system, such as the one being built, has inherent energy shortfall risks that are not yet fully understood on a probabilistic or quantitative basis. For example, we know 2011 was a year with heavy clouding and low wind across the NEM yet it is impossible to know when such a year will happen again. It would be imprudent to mute investment and operating signals to plant that will run rarely yet be essential in conditions such as prevailed in 2011. It might be necessary ultimately for new means of compensating such plant to be designed, however that is not the purpose of this review.

Similarly, CS Energy notes the paper's discussion at section 6.1.3 that the value of emissions reduction must be factored into the analysis. The paper states:

In general, including the costs of emissions will lead to a less strict reliability standard, since the cost of emissions is higher at lower levels of USE when more generation is required. The value of emissions reduction is also increasing over time. All else being equal, this will lead to a reliability standard which is less and less strict towards the end of the modelled horizon. The Panel will take into account this dynamic when determining the most appropriate reliability standard (p.47).

The effect of the value of emissions reduction is only one among the range of factors to be considered and its materiality can be determined only by the analysis. CS Energy suggests that the rate of change in the value of emissions reduction, or its application in the review of the standard and settings, should be set with regard to the need to maintain a reliable and secure system through any technology transition. The value is determined administratively, rather than by markets, so its use in determining an efficient standard and settings should be carefully considered.

Conclusions and recommendations

If you would like to discuss this submission, please contact Don Woodrow, Market Policy Manager, on 0407 296 047 or dwoodrow@csenergy.com.au.

Yours sincerely

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Head of Policy and Regulation