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Rainer Korte
Chair, Reliability Panel
Reference: REL0094

Dear Mr Korte,

AEMO submission to issues paper – 2026 Reliability Standards and Settings Review (RSSR)

AEMO appreciates the significant modelling completed for the 2028-32 outlook period, a period which should undergo significant change in the energy supply mix and consumer behaviour. AEMO supports the modelling approach and notes the Draft Report's conclusion that there exists a range of reliability standard levels and market price settings that can be considered economically efficient under the assumptions tested. AEMO notes the existing reliability standard and settings both sit within the range of modelled outcomes.

AEMO acknowledges the economic link between the level of the standard and the settings, and therefore the proposal to retain the current levels of the Market Price Cap (MPC) and Cumulative Price Threshold (CPT).

The Draft Report also recommends the application of the market price floor (MPF) to Minimum System Load (MSL) 3 conditions. AEMO supports this recommendation in principle and agrees with the need to provide clear pricing signals during MSL conditions. AEMO notes the need to undertake further assessment of the operational impacts before implementing pricing arrangements during MSL conditions.

Please see below attachment for further feedback. Should you wish to discuss any aspect of our submission please contact Hannah Heath, Group Manager, Strategic Market Reform (Hannah.Heath@aemo.com.au).

Yours sincerely,

Violette Mouchaileh
Executive General Manager, Policy and Corporate Affairs

ATTACHMENT – Detailed submission

1. Reliability Standard

AEMO acknowledges the Draft Report's modelling and considers the Panel's identification of the range of potentially efficient outcomes for the level of the reliability standard, demonstrates the inherent uncertainty and difficulty in forecasting reliability outcomes.

The Draft Report uses total system cost modelling to determine the minimum point after which the cost of marginal plant to serve USE is more expensive than the value of unserved energy. The flat total cost curve presented in the Draft Report indicates that no single point on the range, delivers a materially superior consumer outcome or can be clearly deemed as the economically efficient level of reliability across all NEM regions. AEMO considers the flatness of the curve demonstrates that uncertainty is the dominant consideration when analysing the modelled results. Changes in technology costs, weather outcomes, demand growth or behavioural response could readily shift any apparent optimal points within the total cost curve. In practice, the reality of actual reliability outcomes and the delivery of resources required to meet reliability needs will inherently differ from modelled forecasts, with reliability increasingly delivered by a portfolio of assets and services. Key areas of variability within the forecast results include:

- **Value of customer reliability -** The Draft Report results, including sensitivity analysis, highlight the difficulty of representing heterogeneous customers preferences with a single VCR value. The base case modelled results use an energy-weighted VCR value which is 18% lower than the previous AER survey. This is driven by decreases in the AER VCR value from business and large business customers, while in contrast the residential VCR increased by approximately 40% from the previous survey.[1] AEMO is mindful of the base case value being significantly driven by the very-large energy users' VCR survey results where both the survey composition and methodology have changed significantly from the 2020 VCR Review[2]. In addition, in AEMO's experience the societal and government tolerance for USE events is often driven by household and critical service impacts, rather than energy volumes alone, and outage impacts are viewed as binary in nature (reliable supply is readily available or not), regardless of the MWh of energy consumed.

- **Marginal new entrant modelling is continuing to evolve to suit BESS -** The Draft Report found that OCGT remains the marginal new entrant across all regions (except for South Australia) for the 2028-32 outlook period. However, as highlighted in the Draft Report, it is important to recognise the limitations of the new entrant modelling and input assumptions particularly of BESS modelling. AEMO is conscious of the difficulty of modelling BESS operating profiles and contribution to resolving USE under the existing methodology, particularly for a period like 2028 to 2032 where assumptions include some remaining thermal plant. The costs and manner in which plant is able to respond to scarcity or serve reliability outcomes will continue to evolve, with reliability increasingly delivered by a portfolio of assets and services, rather than a single plant.

- **The changing distribution of USE outcomes -** Section 4.4 of the Draft Report analyses the distribution of forecast reliability outcomes in terms of their average depth and duration. AEMO broadly agrees with the modelling results and the Panel's observation that the nature of reliability risk is changing, and while average expected USE remains low, the distribution of USE is increasingly skewed towards less frequent, deeper and/or longer events. These findings were also supported by the Panel's findings in the 2024 form of the reliability standard review, which found with increasing penetration of VRE, USE events may become fewer but longer or deeper. While AEMO accepts the Panel's finding to retain the current form of the standard, as USE outcomes become more unevenly distributed, it is important to note average expected USE will becomes less of a proxy for the consumer experience.

[1] AER 2024 Value of Customer Reliability Review – Final Report - https://www.aer.gov.au/system/files/2024-12/2024-12-18%20AER%20-%20Final%20report%20-%202024%20VCR%20review_0.pdf

[2] AER 2019, Value of Customer Reliability Review – Final Decision - https://www.aer.gov.au/industry/registers/resources/reviews/values-customer-reliability/final-decision

1.1. Operational considerations in changing the reliability standard

AEMO's submission to the Issues Paper noted the importance of considering the practical implications of changes to the reliability standard, including as a trigger for reserve procurement. The level of the reliability standard sets the point at which AEMO assess supply adequacy against the reliability standard. While the modelling focuses on expected average USE, operationally the risk and impact felt by consumers is driven by whether there are sufficient, duration-capable reserves that are able to be called upon when reliability events occur. Changes to the standard will impact the procurement of long and medium notice RERT, with short-notice RERT potentially being increasingly relied upon to resolve reliability events that may increasingly be deeper or longer USE events. It should also be noted the AEMO RERT procurement is linked to, and capped by, the VCR.

2. Market Price Settings

In response to the Issues Paper, several stakeholders emphasised the importance of regulatory stability of the market price settings noting it is critical for confidence and long-term investment. The Draft Report indicates that the existing market price settings (increasing through to 2028) broadly align with reliability outcomes across the modelled reliability standard range. AEMO notes stakeholders comments on the value of stability when applied to the market price settings and considers that given the existing standard and settings sit broadly within the Panel's modelled ranges of each other, it is appropriate for the Panel to retain the existing market price settings as well.

The Draft Report found that the CPT does not limit revenue for the marginal new entrant over the outlook period and therefore need not be extended. AEMO notes the Rules require the Panel to retain the existing form of the CPT absent clear evidence to change, and agrees that the modelling results show the nature of reliability risk and system need have not transitioned sufficiently over the outlook period to warrant a change to the form of the CPT. Having said that, AEMO considers the form of the CPT should continue to be reviewed as the market transitions to a high VRE system and the marginal new entrant shifts to energy-limited plant.

3. AEMO supports in principle the application of the MFP to MSL 3 noting further work is required to consider practical outcomes

AEMO supports in principle the application of the MFP during Minimum System Load (MSL) 3 events and the need to provide strong pricing signals during MSL conditions. However, AEMO considers further assessment of the MSL framework, and its operational impacts is required before implementing pricing arrangements during MSL conditions.

As outlined in the Draft Report, AEMO has implemented the MSL framework to manage periods of low demand where system security constraints are binding and normal dispatch is unable to accommodate further generation reduction, such that AEMO is required to intervene. Specifying pricing arrangements during MSL conditions must be developed carefully with consideration of potential bidding and demand behaviour in response to application of the MFP. This includes the potential for bids and prices to shift while the MFP applied and the risk of over-signalling the surplus beyond what is necessary to resolve it, leading to an inefficient withdrawal of generation. The practicality of arrangements also needs to be considered including the ability of NEMDE to quickly lift the MSL condition if system conditions change, and access available supply as required.

Further, it is important to consider the governance of the AEMO-developed MSL framework which is designed to provide the necessary flexibility that is required for operational decision making during such system conditions. The designation of pricing requirements during MSL conditions in the Rules should not come at the expense of the flexibility AEMO requires to continue to refine, update and declare MSL conditions and thresholds. AEMO welcomes the opportunity to further engage with the Panel on this issue.