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Australian Energy Market Commission
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2026 Reliability Standard and Settings Review – Draft Report November 2026

EnergyAustralia is one of Australia's largest energy companies with around 2.2 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

EnergyAustralia welcomes the opportunity to respond to the Panel's 2026 Reliability Standard and Settings Review draft report. We support the modelling approach and agree that adjustments to the reliability standard can promote the long-term interests of consumers, reflecting higher OCGT build costs and lower VCR estimates since the 2022 review. We consider that these outcomes are most effectively delivered through market settings rather than reliance on last-resort interventions.

Market participants respond when scarcity pricing is visible, stable and trusted. This drives decisions to maintain availability during tight system conditions, even when doing so involves higher short-run costs or operational trade-offs. A modest loosening of the USE target is unlikely to be perceptible to customers but can reduce total system costs when paired with strong MPC/CPT settings and transparent minimum-load arrangements.

Our response is guided by three practical considerations that determine whether reliability frameworks function efficiently in practice.

- **Reflecting customer value** – the standard should balance the cost of building and maintaining firming capacity with customers' willingness to pay to avoid involuntary load shedding. The cost of the final increment of reliability should not exceed VCR. Where standards are set above this point, the result is inefficient over-procurement, higher consumer costs and increased reliance on administrative interventions

- **Minimising intervention creep** – a well-functioning energy-only market should be the primary mechanism for delivering reliability. Out-of-market interventions should operate strictly as last-resort measures. Reliability settings should strive to provide the primary reference point for both investment and operational

decisions, with minimal reliance on parallel mechanisms that suppress scarcity pricing, dilute incentives and crowd out private investment

- **Flexibility and price transparency** – reliability settings and price caps must reward performance during periods of system stress and provide clear incentives for energy to be shifted from periods of surplus to periods of scarcity. This requirement is becoming more acute as the market evolves toward a two-sided market and prevalent minimum system load events

Taken together, these considerations argue for stability in the standard and strength in the signals, with measured refinements to reflect two-sided market and minimum system load (MSL) dynamics.

Level of Reliability Standard for 1 July 2028 – 30 June 2032

The draft report suggests that 0.002% to 0.004% USE range is optimal with 0.003% USE corresponding to changes in VCR of approximately 18% on average, while preserving stability in market price settings and delivering a least-cost outcome for consumers. We support adopting 0.003% USE for 1 July 2028–30 June 2032.

We encourage the Panel to explicitly reference the AER's 2024 VCR values (final methodology 30 Aug 2024, values published 18 Dec 2024, with annual CPI adjustments thereafter) when presenting the 0.003% USE case. Doing so would clearly demonstrate that incremental wholesale reliability outcomes remain within consumers revealed willingness to pay.

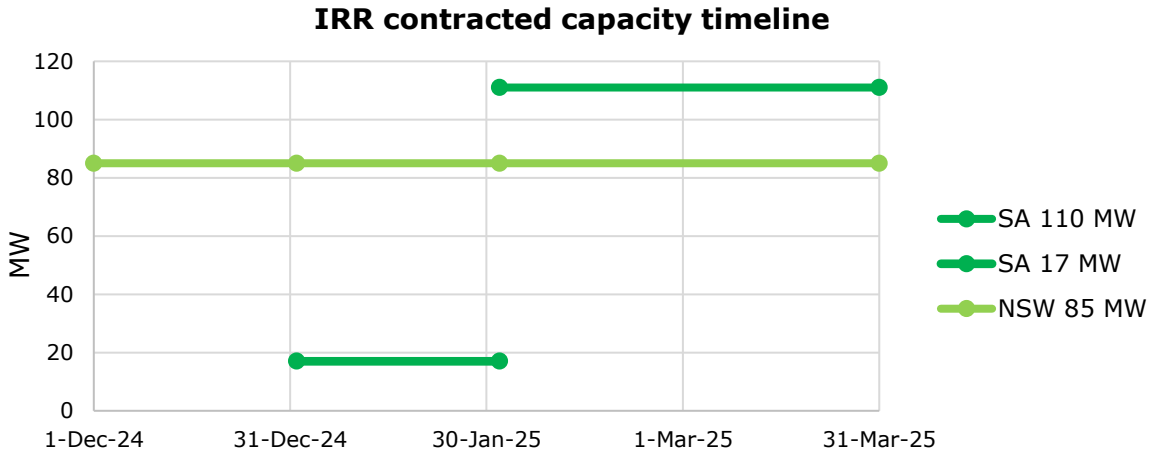
The Panel has reviewed the form of the reliability standard and has determined that USE continues to be fit for purpose in capturing tail-risk events. We consider the level of the reliability standard is a strong tool for regulatory stability, giving investors' confidence against what they are measuring against, which reduces the risk premiums that they might otherwise add to projects to counteract uncertainty.

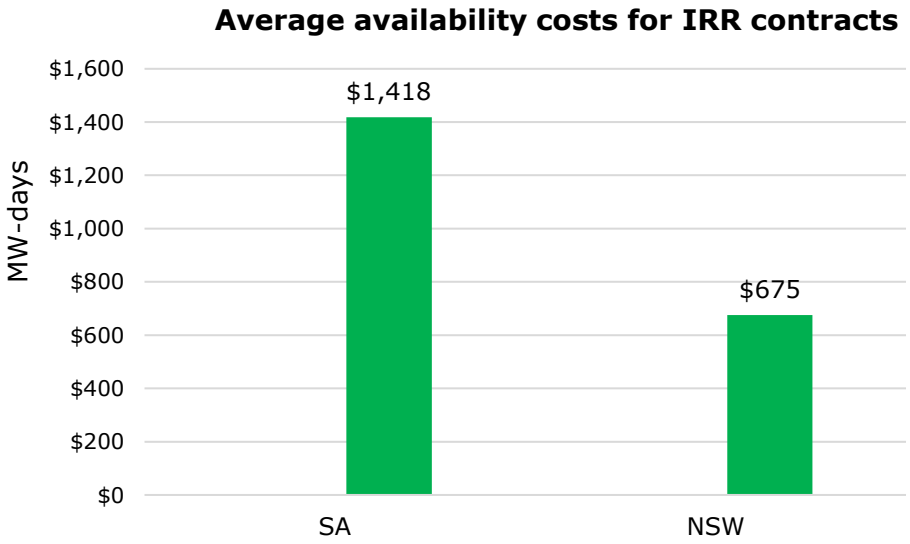
We note that the existing Reliability standard of 0.002% and a revised value of 0.003% materially diverge from the IRM of 0.0006%. The IRM largely reflects risk averse preferences of governments, and we encourage the Panel to highlight the additional cost to consumers of this divergence, such that it can inform further policy debate around reliability settings.

The role of RERT

A lower standard decreases the frequency of Lack of Reserve (LOR) conditions and therefore the use of RERT. When activated, RERT imposes administrative complexity and significant costs recovered from consumers.

in Q1 2025, AEMO contracted 127 MW of IRR in South Australia and starting December to Q1 2025, 85 MW in New South Wales, with $19,089,765 payable over the billing weeks, a tangible burden ultimately borne by customers. Additional IRR procurements in NSW and SA following the 2024 ESOO underscore that, in tight conditions, out-of-market reserves are expensive and often pre-activated to manage risk.





Out-of-market availability costs accrue even when nothing is dispatched. In Q1 2025, SA incurred $14,748,658 and NSW $4,341,765 in availability charges alone, with no activation. The average availability intensity was $1,418/MW-day (SA) and $675/MW-day (NSW)[1]. That's a material pass-through cost to consumers just to stand up IRR.

Furthermore, when short-notice RERT is activated, $ per MWh can exceed VCR. On 27 Nov 2024 (NSW), $56,359/MWh exceeded VCR ($49,380/MWh)[2], underlining that emergency energy is often more expensive than keeping reliability in market with robust MPC/CPT. Our view is that the RERT must continue to only be a last resort mechanism due to the costs imposed on customers. The IRM results in maintaining reliability at a much tighter level of reliability than the market is actually priced to deliver.

The over-reliance on RERT can crowd out investment by making peaking plants more likely to rely on spot price spikes and wait to be contracted as out-of-market providers instead, and it can also shift costs to consumers that pay for high RERT activation costs.

[1] AEMO Reliability and Emergency Reserve Trader (RERT) May 2025 – Quarterly Report Q1 2025, page 6, URL [rert-quarterly-report-q1-2025-ver-1.pdf]

[2] AEMO Reliability and Emergency Reserve Trader (RERT) February 2025 - Quarterly Report Q4 2024, page 3 URL [rert-quarterly-report-q4-2024-ver-1.pdf]

Market Price Cap (MPC) and Cumulative Price Threshold (CPT) appropriate to deliver the Standard

Customers expect a market design that delivers reliability during critical periods at least cost over time. According to the analysis by the Panel, the current market settings are consistent with 0.003%. Therefore, we support maintaining the real value of MPC and CPT, CPI adjusted.

While jurisdictional underwriting can support project finance, wholesale price signals must remain sufficient to support complementary mechanisms and ensure transparent price discovery. This will continue to support the proposals of the NEM Wholesale Market Settings Review on the ESEM and market making.

Artificial limitations on MPC and CPT, particularly if they erode in real terms, effectively dampen investment signals for technologies that deliver reliability across multiple system conditions. While short duration batteries play a valuable role in intra-day balancing, they do not, alone, resolve multi-hour and multi-day scarcity events or extended weather-related supply/demand stress. To attract and retain OCGT with firm transport, pumped hydro and other long-duration storage technologies with depth and persistence, the market must preserve scarcity pricing credibility.

Strong scarcity pricing supports revenue sufficiency for peaking and storage technologies without undermining liquidity or bankability. It also maintains incentives for existing assets with material fixed opex to invest in the incremental maintenance, upgrades and life-extension that keep them ready during tight supply/demand conditions. In other words, the MPC also functions as an operational signal during scarcity events, independent of a project's capital structure.

The Panel has also modelled a low-WACC sensitivity to capture the support mechanism for capital intensive technologies. A low WACC provides capital for a plant to be built, however, it does not help run it when the system is under stress. The MPC is not just an investment signals, it is an operational signal. High MPC ensures performance during reliability events regardless of how the plant was financed. For example, it incentivises batteries to maintain a specific state of charge for peak events and incentivises demand-response providers to turn off. Additionally, we consider that strong signals for demand response are needed as the system integrates more small-scale resources.

Lower MPC on the basis of jurisdictional and other out-of-market schemes costs make it difficult for merchant capacity or demand side participation to compete. This creates a subsidy trap where no investment can happen without government subsidy since the market price signals have been artificially suppressed. In our view, jurisdictional schemes should not be considered when determining the efficient market price settings.

Market Floor Price (MFP) remain at –$1,000/MWh and automatically clear at the MFP during MSL3 conditions

We support automatic clearing at the current MFP of –$1,000/MWh during MSL3 events. This reduces interventions when system load is extremely low and aligns dispatch with operational realities under two-sided market conditions. However, the consequence will be more frequent/deeper negative prices, which raises prudential, contract, and operational considerations (PPAs, battery SOC strategies, synchronous unit operability).

While there may be merit in exploring whether changes to the MFP could better support flexible demand and storage in addressing MSL, any adjustment should be informed by

detailed modelling and assessed in the context of overall signal coherence and price volatility.

Other elements covered in the draft determination:

- We support maintaining the APC/APP at the current level
- Regional differences: The draft shows SA/VIC events are fewer and deeper, while in NSW/QLD are longer and shallower. It is expected that as more coal fired power generation exists the market and more VRE enters the different regions of the NEM will share a relatively similar profile and set of risks. As such, a single standard avoids fragmentation and complexity in the future and likely to be representative for all NEM regions
- We consider that it is prudent and adequate to consider OCGT as the marginal entrant technology and model the reliability settings on the costs of gas, that also includes opex. CSIRO GenCost also shows that gas costs have increased considerably in the last 5 years but are expected to decline by 2035 and stabilise thereafter.
- Wholesale settings must remain sufficient to meet the standard, while minimising reliance on out-of-market support to drive accelerated investment, in line with emission reduction targets.
- Consideration should be given to increase the CPT above 8 hours post 2028 to reflect the technology mix and the requirements for signals that incentivise a range of firming technologies

If you would like to discuss this submission, please contact me via email at Ana.Spataru@energyaustralia.com.au.

Regards

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