



21 August 2009

Chairman
Reliability Panel
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Woodward

RELIABILITY STANDARDS AND SETTINGS REVIEW (REL0034)

Origin Energy Limited (Origin) welcomes the opportunity to provide input into the Reliability Panel's (Panel) *Review of the Reliability Standard and Settings*.

This submission expresses our views on the form, level, and measurement of the reliability standard. In regard to the reliability settings - market price cap (MPC) and cumulative price threshold (CPT), Origin considers that quantitative analysis is required to make informed comments on their precise levels. However, prima facie, for a number of reasons (explained below) we are unlikely to support an increase in the MPC or CPT at this time.

We note that the Panel intends on undertaking sensitivity analysis to test the suitability of different levels of the MPC and CPT to meet the reliability standard. Origin will make more detailed comments regarding the reliability settings once the Panel has presented the results of its modelling.

Form and level of the reliability standard

Origin is largely comfortable with the form of the reliability standard in that we are supportive of it being output-based and expressed in terms of a targeted permissible level of unserved energy (USE) in each region. We do consider, however, that there is a need to clarify how compliance under the standard is measured. As we understand it the current standard of 0.002 % USE sets out the maximum allowable level of electricity at risk of not being supplied to customers in each financial year. Given this, it is confusing that compliance with the standard is actually measured over the long-term (i.e. a ten year period). Origin urges the Panel to take the opportunity through this review to clarify this discrepancy.

In regard to the level of the standard, Origin can think of no rationale why it should not be maintained at 0.002 %.

Reliability Settings

There are some key issues that we would like the Panel to incorporate into its thinking when deciding on the levels for the reliability settings.



1. Interaction between reliability settings and climate change policies

Firstly, it will be important that the results of any modelling is not looked at in isolation, and that consideration is given to the impacts of any changes to the reliability settings on the overall market risk that participants will face in the National Electricity Market. This is of particular relevance given the expectation that the Carbon Pollution Reduction Scheme (CPRS) is expected to increase both the level and volatility of wholesale energy costs. Additionally, a significant increase in renewable generation as a result of the expanded renewable energy target is expected to increase the incidence and materiality of network congestion. This could ultimately lead to more inefficient dispatch and higher pool prices.

One result of the increase in electricity pool prices brought on by the climate change policies is a greater prudential burden for the retail sector - the impacts of which are being investigated by the Australian Energy Market Operator (AEMO). Origin recommends that the Panel takes into consideration the outcomes of AEMO's *Energy Market Financial Readiness Review* which seeks to assess the prudential risks associated with the climate change policies.

It should also be noted that higher wholesale electricity prices will increase risk and hedging costs for retailers. Generators too will face increased risk due to their increased exposure to higher difference payments if they experience an outage or constraint.

The above risks will be exacerbated by an ill-timed increase in the reliability settings which is likely to put further upward pressure on wholesale electricity prices and increase risk and costs for retailers and generators.

2. Underlying reasons for a muted investment signal

In deciding on the need to adjust the MPC or CPT the Panel should remain mindful of the underlying causes of any possible muting of the investment signal. The general uncertainty surrounding the climate change policies has led to scepticism amongst investors and has retarded investment. An increase in the MPC in response to this is unlikely to encourage participants to enter into longer term contracts, and thus unlikely to stimulate investment.

3. Learnings from recent breaches of the CPT

When the most recent changes to the reliability settings (i.e. increase in MPC and CPT to \$12,500/MWh and \$187,500 respectively) were first contemplated, the CPT had never been breached. Since that time there have been breaches in the CPT in both South Australia and Victoria. The opportunity therefore exists for the Panel to take into consideration the learnings from these recent events when considering any changes to the CPT under this review. This will assist in ensuring that an appropriate balance is struck between the CPT's risk management function and that of a facilitator of future investment.



If you would like to discuss any aspect of this submission please do not hesitate to contact me on (02) 8345 5250 or Steve Reid on (02) 8345 5132.

Regards

A handwritten signature in black ink, appearing to read "Tim O'Grady".

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