



14 July 2017

Reliability Panel
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

By electronic lodgement

REL0064 - Reliability standards and settings review 2018

Origin Energy Limited (Origin) welcomes this opportunity to respond to the Reliability Panel's (the Panel's) review of the reliability standards and settings to apply for the period 2020-24. Origin has a strong interest in the work of the Panel and agrees the review should seek to balance the cost of unmet electricity demand against the investment required in additional generation capacity to meet that demand.

The Panel is undertaking its review at a time of considerable uncertainty and change in the National Electricity Market, with the Finkel Review recommendations being considered by the Commonwealth, the Vertigan Gas Market Reform Group work underway, and a number of other major reviews in progress. Additionally, governments have signalled their intent to intervene in competitive markets with the Commonwealth considering an upgrade to the Snowy Hydro scheme and the South Australian government set to underwrite investments in storage capacity and gas fired generation.

Given it is likely that many of these uncertainties will remain unresolved prior to the Panel publishing its final report, it is clear the task of determining whether changes to reliability settings such as the Market Price Cap (MPC) will be more challenging than in previous reviews. Generally, adjustments to the reliability standards and settings cannot be effectively and efficiently used as a means of addressing some of the underlying issues facing the market and it will be important that the Panel remains cognisant of this.

The Reliability Standard

Fundamentally, Origin supports the Panel considering the appropriateness of the reliability standard in a manner that weighs the cost of any additional generation and interconnection capacity against the cost of unserved energy.

Origin notes the Panel's plan to assess the value of customer reliability (VCR) as part of this review process. We agree that for a change to the reliability standard to be considered, there would need to be significant variance between the Panel's VCR and that calculated by AEMO under its 2014 study. We hold this view while noting the inherent limitations of any VCR analysis and the extent to which it can be used to inform the appropriate level of the reliability standard.

Reliability settings – the Market Price Cap

In considering any changes to the MPC, the Panel should continue to assess the trade-off between allowing for an efficient price signal and managing market participants' exposure to high price events.

While the level of the MPC is important in providing an efficient price signal for future investment there are a number of other important factors. For example the lack of a sound and coherent policy framework continues to be the primary issue dampening investor confidence, and if addressed would have a more significant impact in ensuring ongoing reliability compared to any changes to the reliability settings.

The Australian Energy Market Operator (AEMO) has used its powers of direction to intervene in the market on a number of occasions. We agree that the MPC and other reliability settings should allow for the meeting of the reliability standard without a reliance on AEMO using its directions or reserve trading powers. However, Origin would suggest that the Panel use this review as an opportunity to examine recent instances where AEMO has used these powers and determine the underlying motivation for doing so. We do not believe it should be assumed that AEMO's interventions are indicative of the MPC or other reliability settings being set at an inappropriate level. This is particularly the case where AEMO's powers of direction are used to maintain system security.

Modelling and decision making

Origin acknowledges that any case for changing the reliability settings needs to be informed by strong evidence and the Panel's modelling. However any modelling exercise will have inherent limitations given the dynamic and uncertain nature of the market. This means that qualitative analysis will also need to form a crucial part of the Panel's decision making.

Closing

Origin would welcome further discussion on any of the matters raised in this response. Should you wish to discuss any of the matters raised in this response please contact David Calder on (03) 8665 7712 in the first instance.

Yours sincerely



Steve Reid
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