



21 June 2013

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

Lodged (online): <http://www.aemc.gov.au>

Reliability Standard and Settings Review 2014 – Issues paper

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Reliability Panel - Australian Energy Market Commission (the Panel) on the Reliability Standard and Settings Review 2014 - Issues Paper.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 36 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 51,000 people and contribute \$16.5 billion directly to the nation's Gross Domestic Product.

esaa supports the current framework for the Reliability Standard for Generation and Bulk Supply in the National Energy Market (NEM): maximum unserved energy as the reliability standard with the Market price cap (MPC), Cumulative price threshold (CPT) and Market floor price (MFP) as the reliability settings. The main question for the review is whether the current thresholds for the three reliability settings are still appropriate.

In 2010, the Panel and the Australian Energy Market Commission (AEMC) reaffirmed the current reliability framework. When deciding upon the thresholds for the reliability settings, the Panel did not accept the conclusions of the consultants. The Panel decided on lower figures for both the MPC and CPT than recommended by ROAM Consulting, due to concerns that the benefits of increasing them would be outweighed by the cost of increased market risks. The Panel did decide to index the relevant thresholds to CPI to ensure their value did not diminish through time, which was endorsed by the AEMC

To date the reliability standard has essentially been met. However, the NEM faces continual changes. It is important to ensure that the reliability settings remain appropriate. The key recent developments the Panel should examine to assess their impact on the reliability settings are:

- an emerging trend of falling aggregate demand in the NEM;
- increasing penetration of intermittent generation at both large and small scale;
- increasing number of negative price periods; and
- the future introduction of a demand response mechanism.

The hollowing out of the energy only market due to: decreased average demand; the Renewable Energy Target (RET); and increasing penetration of PV means the assumptions and results of the previous studies need to be reviewed comprehensively. In particular the implicit assumption that reliable baseload generation could be taken as given needs fresh consideration.

Increasing periods of negative prices are mostly likely the result of both falling demand and higher penetration of renewable generation incentivised by the RET. It will be important to establish the drivers of the increase in negative bidding to assess what if any changes are required to the reliability settings to address this issue.

When assessing the reliability settings, as well as the conditions discussed above, the issues that affected the Panel's judgement in 2010 are still relevant. Adjusting the MPC, CPT and the MFP involve trade-offs between ensuring a sufficient price signal for investment and other costs such as transmission congestion risk and increased prudential costs. The Panel's work would be assisted by engaging openly with market participants in developing its analytical approaches (for impacts on spot and contract markets).

Value of Customer Reliability

To calculate the MPC and CPT in 2010, ROAM used an estimation of the required return on an open cycle gas turbine. In adopting a lower figure than this calculation, the Panel noted that its recommended MPC figure was similar to the Value of Customer Reliability (VCR) for the residential sector.

esaa agrees that using an estimate of what customers are willing to pay for reliability is a useful 'good sense check' for the MPC. Further, the residential sector is the most appropriate customer group to reference as that sector is most likely to experience load shedding at times of short supply.

That said, caution needs to be exercised when using VCR estimates in determining reliability settings. It is difficult to estimate accurately the value of reliability for residential customers when compared to the industrial and commercial sectors. In the latter groups, the value of lost output provides a more concrete starting point for assessing the value of reliability. For all customer groups, VCR estimates typically cannot account for customers' exposure to high impact, low probability events on the transmission network and are subject to uncertainty and measurement error.

Any questions about our submission should be addressed to Fergus Pope, by email to fergus.pope@esaa.com.au or by telephone on (03) 9205 3107.

Yours sincerely



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