AUSTRALIAN ENERGY COUNCIL

Reliability Panel
Australian Energy Market Commission
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12th July 2017

Reliability Standard and Settings Review 2018
Reference: REL0064

The Australian Energy Council (the "**Energy Council**") welcomes the opportunity to make a submission in response to the Australian Energy Market Commission Reliability Panel's *Reliability Standard and Settings Review 2018 Issues Paper*.

The Energy Council is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia and sell gas and electricity to over 10 million homes and businesses.

Introduction

The energy industry is undergoing substantial change, from changes in the generator mix in the wholesale market, to the adoption of distributed generation and batteries in the retail market. The Reliability Standard and Settings will therefore be affected by both ends of the National Electricity Market, particularly as the review is considering settings to apply from 1st July 2020, nearly three years hence.

Discussion

One of the major reports on which the Reliability Panel relies is the Australian Energy Market Operator's ("**AEMO**'s") *Value of Customer Reliability Review*[1], which used surveys conducted between November 2013 and July 2014. Aside from the self-evident age of the report, concerns have been raised about the small sample size, exclusion of high-profile customers and inadequacy in capturing low probability but high impact supply interruptions.[2] The Energy Council concurs with those views and, as noted in Section 5.5 of the Issues Paper, believes it's important to review the value customers place on reliability in light of anticipated technological and market changes, as well as recent reliability issues.

Under Clause 3.9.3A(f)(1) of the *National Electricity Rules*, the Reliability Panel may only recommend a market price cap or cumulative price threshold which the Reliability Panel considers will "allow the reliability standard to be satisfied without use of AEMO's powers to intervene under clauses 3.20.7(a)[3] and 4.8.9(a)[4]". Since 1st December 2016, AEMO has issued directions to generators seven times, and for the coming 2017-18 summer, AEMO is seeking expressions of interest for the supply of reserve contracts as a Long Notice Reliability and Emergency Reserve Trader ("**RERT**"). While the protracted government policy uncertainty is a contributor to this situation, AEMO's actions suggest that the market price cap and cumulative price threshold need review, particularly as the market price cap has been at the same level in real terms since July 2012.

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[1] Australian Energy Market Operator, *Value of Customer Reliability Review – Final Report*, September 2014
[2] Independent Pricing and Regulatory Tribunal of New South Wales, *Electricity transmission reliability standards – An economic assessment*, August 2016, p.35
[3] AEMO's exercise of the RERT
[4] System Security Directions

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Such a review has further relevance due to the long-term structural changes caused by the retirement of more than 4,000MW of coal-fired generation since the last *Reliability Standard and Reliability Settings Review* in July 2014. Indeed, papers such as *Examining the Viability of Energy-Only Markets with High Renewable Penetrations*[5] project that increased renewable generation will require a significantly higher market price cap in order for the reliability standard to be met. In addition, the current AEMC's *System Security Market Frameworks Review* and the recent *Independent Review into the Future Security of the National Electricity Market* chaired by Dr Finkel foreshadow coming wholesale market structural changes, particularly in the period the Reliability Panel is considering, from 1st July 2020 on. On this basis, it is appropriate for the reliability settings to be reviewed taking into account these matters.

We also note the findings of Oakley Greenwood's *Assessment of Approach to Market Modelling* report, and agree that future modelling needs to be revised to cater for recent changes in the market, such as the reduction in surplus due to the closure of Hazelwood Power Station, and anticipated market changes such as the outcome from the Finkel Review, increased penetration of batteries behind the meter, and possible wholesale market design changes such as an inertia ancillary services market and a transition to five minute settlement. In addition, the Energy Council recommends that modelling consider increasing levels of intermittent output, the current environment of higher gas prices, and the interaction between prices and demand.

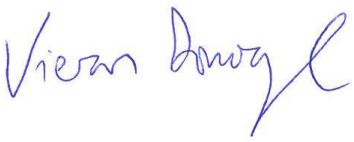
Conclusion

In light of significant market changes since the last review in 2014, the Energy Council recommends the Reliability Panel:

(a) reviews the value of customer reliability;
(b) revises the market modelling on the basis of past and anticipated market changes; and
(c) assesses the market price cap and cumulative price threshold in light of AEMO's recent use of generator directions, and its expected use of the RERT provisions.

Any questions about this submission should be addressed to Duncan MacKinnon, by e-mail to duncan.mackinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,



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[5] J. Riesz, I. MacGill, J. Gilmore, *Examining the viability of energy-only markets with high renewable penetrations*, IEEE Power and Energy Society meeting, Washington DC, July 2014

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