

8th April 2021

Lisa Shrimpton
Reliability Panel
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2001

Submitted online to: www.aemc.gov.au

Dear Ms Shrimpton,

Review of the reliability standard and settings guidelines REL0080

The Australian Energy Council (the “**AEC**”) welcomes the opportunity to make a submission in response to the Reliability Panel’s Consultation Paper on the Review of the Reliability Standard and Settings Guidelines.

The AEC 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, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Introduction

The AEC considers the Paper largely captures the issues that will need to be considered by this important periodic review.

The AEC agrees that the industry is in a major period of transition, but does not consider that it follows that fundamental concepts that underpin the power system, such as the form of the Reliability Standard, should necessarily be re-opened. Undoubtedly the operationalisation of these concepts, managed by AEMO, must adjust to new technologies, for example by through probabilistically capturing the stochastic performance of renewable generators. However the ultimate objectives for the outcomes of the power system, encapsulated by these standards, need not necessarily change.

The Paper is silent on a key issue: whether the Interim Reliability Standard will be within scope of this review. The Interim Standard was imposed by the Energy Security Board (“**ESB**”) in 2020, over-ruling the Reliability Panel’s 2018 decision. The ESB’s action was justified by a modelling report that largely repeated the Panel’s work, but produced a materially more conservative result.

The AEC, along with almost all industry and consumer submitters, disagreed with the ESB’s intervention¹ and considers that standard setting should continue to vest with the Panel set up expressly for this purpose. The AEC feels the interim reliability standard must be within scope of the Panel’s 2022 review and that it should conclude with the recommendation of only one, permanent, reliability standard.

It will also be important co-ordinate this Review with the ESB’s Post-2025 Review. The Post-2025 Review has engaged heavily with alternative market designs that might reinforce reliability in light of the changing market, but has not appeared to have engaged with whether reliability could be reinforced through changes in market settings rather than design. The Settings Review could

¹ <https://energyministers.gov.au/publications/consultation-draft-national-electricity-amendment-interim-reliability-measure-rule-2020>

provide an opportunity to complete this critical but missing piece. As the Reliability Panel and ESB have previously observed, the market design requires an alignment between market settings and reliability standard. This is particularly the case with respect to the future of the Interim Standard.

Questions

QUESTION 1: GENERAL ASSESSMENT PRINCIPLES TO MEET THE NEO

Do you agree that the general assessment principles outlined in the current guidelines are appropriate to inform future reviews of the reliability standard and settings?

The AEC supports the three assessment principles listed but notes they relate to efficient long-term investment only. The AEC therefore proposes addition of a fourth: “*Supporting the secure operation of the real-time market*” as market settings which do not consider this may have unintended consequences in the operational timeframe. This is particularly relevant to:

- The Market Floor Price (“**MFP**”) which, due to its large negative value, has incentivised behaviour that has adversely affected system security and necessitated rule changes to restrict this behaviour², and,
- The Administered Price Cap (“**APC**”) which, due to its level and form, impairs the supply non-scheduled and demand-side resources during the period of its activation.

QUESTION 2: BROAD APPROACH FOR GUIDELINES UPDATE

Do you consider it is appropriate for the Panel to:

- *Remove the existing arrangement where components are open, subject to materiality assessment or closed for review*
- *Going forward, base the RSSR primarily on the assessment principles and other assessment criteria and considerations as set out in the NER, and*
- *Review/update the existing guidelines statements on purpose/function of each of the components?*

In particular, we are interested in views on the benefits of having a more constrained framework i.e. regulatory stability, versus having more flexibility in the framework.

The transitioning power system requires considerable re-tooling of the operationalisation of the reliability standard. For example, new approaches must be developed for forecasting unserved energy (“**USE**”) due to the stochastic output of renewable energy. These matters however are for AEMO and are not the direct concern of the Panel.

The Panel’s responsibility is in the Standards which relate to the overall outcome objective of the power system, i.e. what quality of supply should it deliver to customers? This is in turn driven by the Value of Customer Reliability, recently re-assessed in detail by the Australian Energy Regulator to have not changed greatly over time.

Thus the transitioning power system, which was already occurring in 2016, does not necessarily invalidate the conclusions of the 2016 Panel. They considered there was a regulatory stability benefit in not re-opening all features of the Reliability Standard and Settings every four years, and this benefit remains.

QUESTION 3: ISSUES PERTAINING TO THE RELIABILITY STANDARD

Do you consider that there is value in the Panel considering the form of the reliability standard as part of RSSR and, if so, what (if any) general principles or assumptions should be included in the guidelines?

The form of the Reliability Standard has been reconsidered many times, more recently by the 2018 Reliability Frameworks Review, the 2018 Reliability Standards and Settings Review, and by the

² See figure 1 of <https://www.aemc.gov.au/sites/default/files/2020-09/ERC0313%20Rule%20change%20request%20pending.pdf>

ESB's 2020 Interim Reliability Standard. Despite many alternatives being put to these processes, including by the Market Operator; USE, averaged across forecasting scenarios, remains widely recognised as the superior, simplest and most transparent way of forecasting and measuring reliability.

The superiority of the USE approach is now well settled and there is no need to re-open this.

QUESTION 4: ISSUES PERTAINING TO THE MARKET PRICE CAP

Do you consider that there is value in the Panel reviewing the form of the market price cap as part of the RSSR and, if so, what (if any) general principles or assumptions should be included in the guidelines for that review?

QUESTION 5: ISSUES PERTAINING TO THE MARKET FLOOR PRICE *Do you consider that there is value in the Panel reviewing the form of the market floor price in RSSR and, if so, what (if any) general principles or assumptions should be included in the guidelines?*

In the context of an energy-only market, there is no practical alternative to a simple cap and floor on the five-minute dispatch and settlement price. Markets that apply other forms, such as the Western Australian Wholesale Electricity Market's ("**WEM**") input cost linked mechanism, have quite different mechanisms for rewarding capacity and are not relevant. Note that even for those markets with explicit capacity payments, most employ cap and floor on their day ahead and real time markets of a simple *form* similar to the NEM's (albeit at lower levels).

It is possible that the ESB's Post 2025 review will recommend to governments a deviation from the energy-only design, and, if this is the case, there is a small probability that a different form of cap and floor would be appropriate. If that becomes the case, the recommended form, and how the Panel should apply it, will presumably be provided in rule changes initiated by the ESB.

Thus, the Panel unilaterally re-opening the *forms* of the cap and floor (as opposed to their levels) in this review seems unnecessary.

QUESTION 6: ISSUES PERTAINING TO THE CUMULATIVE PRICE THRESHOLD

Do you consider that there is value in the Panel reviewing the form of the cumulative price threshold in RSSR and, if so, what (if any) general principles or assumptions should be included in the guidelines?

QUESTION 7: ISSUES PERTAINING TO THE ADMINISTERED PRICE CAP

Do you consider there is value in the Panel reviewing the form of the administered price cap in RSSR and, if so, what (if any) general principles or assumptions should be included in the guidelines?

In contrast to the MPC and MFP, the forms of the Cumulative Price Threshold ("**CPT**") and Administered Price Cap ("**APC**") are peculiar to the NEM; risk limit measures can be applied in an infinite number of ways. Thus the *forms* of the CPT and APC are worthy of review and were not thoroughly considered in the 2016 Review.

For example, it may be appropriate to align the CPT's timings (7.5 hours of MPC triggering 7 days of APC) with timings more typically used in the industry for risk management. For example, the CPT could instead operate by accumulating prices over a quarter, and, when reached, would apply APC until the end of the quarter. This could address the effectively unlimited risks resulting from CPT being repeatedly triggered within a quarter.

The APC, being a blunt cap, unavoidably interferes with important incentives at a time of system stress. Whilst compensation protects scheduled plant from running at a loss, it nevertheless has the following unintended consequences:

- Inhibits the running of non-scheduled plant with marginal costs exceeding APC;
- Removes incentives to operate demand-side and small-scale storage;

- Perversely encourages scheduling of maintenance when plant is most needed by the system.

Other forms that may be less distortionary whilst also capping financial risk might include a staged application, say first applying at \$1,000/MWh, then dropping to \$300/MWh when a second trigger is reached.

QUESTION 8: ISSUES PERTAINING TO THE APPLICATION OF INDEXATION

Do you consider that there should be any principles or assumptions included in the guidelines specifically related to indexation?

The AEC considers the current indexation approach appropriate and of minor import to the setting. Therefore it suggests there is no need to incorporate this into the review.

QUESTION 9: MODELLING

Do you consider that there is value:

- *In removing the section on modelling approach from the updated guidelines, and*
- *Including broad statements on the objectives, transparency of assumptions and use of sensitivity analysis for the modelling?*

The AEC supports these suggestions.

Any questions about this submission should be addressed to the writer, by e-mail to Ben.Skinner@energycouncil.com.au or by telephone on (03) 9205 3116.

Yours sincerely,



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