

25 November 2021

Ms. Anna Collyer
Chair
Australian Energy Market Commission (AEMC)
PO Box 2603
Sydney NSW 2000

Dear Ms Collyer

National Electricity Amendment (Extension of Time and Reduction in Scope of the 2022 Reliability Standard and Settings Review) Rule 2021

Hydro Tasmania welcomes the opportunity to respond to the AEMC's consultation on the *Extension of time and reduction in scope of the 2022 Reliability Standard and Settings Review* rule change (ERC0336).

As the National Electricity Market (NEM) undergoes a rapid transformation, it is critical that the market settings can deliver necessary investments in our future energy mix, capable of maintaining a secure, reliable and affordable electricity supply for all consumers. The Reliability Standard and Settings (RSS) have been fundamental to the NEM's regulatory framework since its inception. The role of the Reliability Panel has been to provide a regular critical assessment of these market settings, and importantly, has complemented AEMC processes by facilitating a degree of independence through the inclusion of representatives from generation businesses, market customers, TNSPs and DNSPs.

In regard to the proposed rule change, Hydro Tasmania would like to make the following observations:

- **Concurrent assessment of the RSS and capacity mechanism designs** – Noting the inter-dependencies between the RSS and any future capacity mechanism, Hydro Tasmania believes it is appropriate to align these processes so that they can be considered concurrently. In doing so, it may be beneficial to consider adjusting the schedule for the RSS review process and duration/period in which the settings will apply to better align with expected 'go live' dates of the future energy market design (i.e. 2025). For instance, it could be appropriate to conduct both a pre- and post-2025 RSS review to align with any changes to our market framework.
- **The Reliability Panel should retain responsibility of the RSS review** – Hydro Tasmania appreciates the rationale for the ESB to assume responsibility of the reliability settings in order to assess these in conjunction with future capacity mechanism designs. However, as an independent and representative mix of industry stakeholders, we consider that the

responsibility for reviewing both the standard and settings should remain with the reliability panel. We believe this can be conducted in a coordinated and complementary manner with the work of the ESB.

- **Establishing a common reliability ‘ambition’** – Hydro Tasmania notes a significant divergence in views between the current reliability standard, government expectations and customers as to the appropriate level of reliability and the value placed on this by stakeholders. This is demonstrated by the current reliability standards (0.002% unserved energy (USE)), the interim reliability standard (0.0006% USE), and other market interventions enacted by governments. Hydro Tasmania believes that this process should prioritise establishing a shared view amongst governments, policy makers, industry participants and consumers. This will provide a stronger foundation on which to pursue an effective NEM market design and settings.
- **Robust analysis is integral to identifying suitable solutions to meet reliability targets** – It is essential that any future adjustments to existing market frameworks, or introduction of new mechanisms be subject to thorough and robust testing. For example, recent analysis by the ESB indicated that the market price cap (MPC) may need to climb to as high as \$60,000/MWh in order to incentivise investment in required flexible and dispatchable generation and storage assets.¹ This analysis forms part of the justification for the potential introduction of a capacity mechanism. Hydro Tasmania considers it appropriate that industry stakeholders have the opportunity to consider and challenge such analysis via an independent, transparent and consultative approach (for instance, via existing Reliability Panel processes). An approach such as this can mitigate the risk of potential bias towards any particular solution deemed necessary to deliver investments in flexible and dispatchable capacity.

Hydro Tasmania looks forward to ongoing engagement with the AEMC, ESB and Reliability Panel as this important work progresses. If you wish to discuss any aspect of this submission, please contact me (colin.wain@hydro.com.au or (03) 8612 6443).

Yours sincerely,



Colin Wain
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¹ Energy Security Board Post-2025 Market Design, Final advice to Energy Ministers, Part B, Page 131