



10 May 2023

Reliability Panel
c/- Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Submitted online: www.aemc.gov.au

Dear panel members

Review of the Form of the Reliability Standard and Administered Price Cap – Issues Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the of the Form of the Reliability Standard and Administered Price Cap Issues Paper (the Paper) by the Reliability Panel (the Panel). Our views on key aspects of the Paper are discussed below.

Form of the Reliability Standard

Origin considers the existing form of the standard has performed well as a measure of reliability as it is simple, economically efficient, and generally captures the value that customers place on reliability. The extent to which the standard remains fit for purpose in a high variable renewable energy (VRE) environment has also previously been considered. The Australian Energy Market Commission (AEMC) assessed the adequacy of the unserved energy (USE) metric in capturing high-impact, low probability events and determined it remained appropriate.¹ The AEMC also suggested the National Electricity Rules (NER) are flexible enough to accommodate changes in the reliability risk profile that may occur, given the Australian Energy Market Operator (AEMO) has flexibility and discretion as to how the reliability standard is operationalised.²

Notwithstanding the above, we recognise the Panel has identified additional concerns with the suitability of the existing metric and potential need to establish a supplementary measure that *better* reflects the risks and needs of the system. The introduction of mechanisms like the Interim Reliability Measure (IRM), the New South Wales (NSW) Energy Security Target (EST) and Capacity Investment Scheme (CIS) also indicates a preference for a higher level of reliability than what is notionally provided for by the existing form and level of the standard.

Having regard to this, we generally support the Panel assessing the case for change and adequacy of any supplementary metrics that could potentially be applied. In undertaking such analysis, it will be important to adequately consider whether consumers place a higher value on reliability on per MWh basis than is currently reflected in the standard given the nature of the underlying events (e.g. their timing, duration and frequency), noting any reliability event that does occur would be managed through rotational load shedding. Analysis of the potential consumer experience across the range of USE events modelled will be integral in understanding the costs associated with tail risk events in this respect. The impact of load shedding and the value customers place on reliability may be influenced by the increasing penetration of Consumer Energy Resources (CER) and should therefore also be considered.

¹ AEMC, 'Enhancement to the reliability and emergency reserve trader', 2 May 2019, pg. 53-54.

² Ibid.

The Panel has also proposed to use the same method applied by AEMO in the Integrated System Plan (ISP) to develop new generation fleets and identify corresponding USE events against both the standard AEMO inputs and new VRE data adjusted to match expected events such as long-term VRE droughts. There is then an implicit standard built into this modelling approach such that the system is optimised to meet the low VRE scenario used as an input. There is much uncertainty in developing these adjusted VRE and demand inputs. We expect a one-in-ten year event might not be readily distinguishable from a one-in-one-hundred year event but the difference in build cost and value to consumers will be material. Origin would appreciate the Panel providing the details of how these scenarios are developed and any advice on possible future weather patterns being published along with the next paper.

AEMO are currently consulting on their Integrated System Plan (ISP) methodology. Feedback and outcomes of this review should be incorporated where possible in the Panel's modelling.

More broadly, we note that the terms of reference for the review require the Panel to consider how an amended reliability standard would be operationalised through market processes, and any relevant jurisdictional schemes (if considered appropriate).³ As part of the review process, we consider the Panel should provide an analysis of all downstream impacts and dependencies of the reliability standard to assist in assessing how it could be operationalised and the overall efficacy of the change. The Panel should also explicitly consider how a supplementary metric could be operationalised through the CIS, which is being progressed to complement changes to market settings and provide a more direct and certain mechanism for ensuring investment in new firming capacity.

The Panel's 2022 Reliability Standard and Setting (RSS) Review outlined that further increases to the market price cap (MPC) and cumulative price threshold (CPT) may be required from 1 July 2028 to support the required level of new investment.⁴ However, given the level of risk associated with a substantially higher MPC / CPT for participants, the Panel indicated complementary measures could be required to support investment, noting any measures should be designed to enhance the energy only framework, rather than replace it.⁵ Operationalising a supplementary metric that is implicitly intended to deliver a higher level of reliability through the CIS (e.g. to inform the level and type of investment to be procured) would be consistent with this approach. It would also provide a nationally consistent approach to supporting higher levels of reliability where jurisdictions deem it necessary for their region.

Form of the Administered Price Cap

Origin supports the existing form and governance of the APC. We consider that the existing four-yearly review process best balances flexibility and stability. The gas market APCs should be a consideration in these reviews to inform an assessment of the potential cost of marginal gas plant, but we do not consider the NEM and gas APCs should be directly linked. Such an approach would leave no flexibility to consider changes to the marginal technology or address other challenges as the market transitions. As storage begins to play a larger role in the market, the APC should be set high enough to ensure price arbitrage exists and incentives to supply are retained.

Please contact Ben Hayward on 03 9067 3403 to discuss these matters further.

Yours Sincerely,

³ AEMC Reliability Panel, 'Review of the Form of the Reliability Standard and Administered Price Cap – Issues Paper', 30 March 2023, pg. 2.

⁴ AEMC Reliability Panel, '2022 Review of the Reliability Standard and Settings – Final Report', 1 September 2022, pg. vi.

⁵ Ibid.

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