



Your ref: REL0086

4 May 2023

Reliability Panel
c/o Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000
Submitted online at: www.aemc.gov.au

Dear Panel

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

CS Energy welcomes the opportunity to provide a submission to the Reliability Panel's (**the Panel's**) Issues Paper on the *Review of the form of the Reliability Standard and Administered Price Cap (Paper)*.

About CS Energy

CS Energy is a proudly Queensland-owned and based energy company that provides power to some of our state's biggest industries and employers. We employ almost 500 people who live and work in the Queensland communities where we operate. CS Energy owns and operates the Kogan Creek and Callide B coal-fired power stations and has a 50% share in the Callide C station (which it also operates). CS Energy sells electricity into the National Electricity Market (**NEM**) from these power stations, as well as electricity generated by Gladstone Power Station for which CS Energy holds the trading rights.

CS Energy also provides retail electricity services to large commercial and industrial customers throughout Queensland and has a retail joint venture with Alinta Energy to support household and small business customers in South-East Queensland.

CS Energy is creating a more diverse portfolio of energy sources as we transition to a new energy future and is committed to supporting regional Queensland through the development of clean energy hubs at our existing power system sites as part of the Queensland Energy and Jobs Plan (**QEJP**).

Key recommendations

The power system is undergoing unprecedented change with the uptake of new generation technology as the system transitions to a lower carbon footprint. This change in generation

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mix will change the landscape of reliability and security risks that the power system may face due to the increased reliance on the weather as a fuel source. This will result in a shift from the consideration of reliability primarily based on capacity adequacy to a more energy adequacy perspective. It is thus prudent to consider whether current market settings and processes appropriately encapsulate these emerging risks and requirements, as well as generating meaningful market signals.

Form of the reliability standard

The Paper posits that the form of the reliability standard may no longer appropriately characterise the changing risk profile. The reliability standard sets out that the level of Unserved Energy (**USE**) in a given financial year cannot exceed 0.002% of total energy demanded. This excludes USE arising from *power system security events* many of which are low probability, high impact events (non-credible contingency events).

The reliability standard of 0.002% reflects the level of consumer willingness to pay for reliability, balancing expectation with a level of economic efficiency. Importantly, the reliability standard is simple, being a single metric that specifies the desired outcome in a simple, neutral and applicable form. This makes it effective in incentivising the level of investment that is required to meet the standard in future years.

Like any well-designed standard, the complexity of the reliability standard arises in how it is operationalised not only through market settings but also the operational planning and processes of the Australian Energy Market Operator (**AEMO**). In CS Energy's opinion, it is the operationalisation of the reliability standard not its form, that constrains its consideration to capacity-based only. The National Electricity Rules (**NER**) themselves are not explicit in how reliability should be considered but remain flexible in how the standard is met based on the dynamics of the power system and evolving technical envelope.

CS Energy does not consider that the form of the reliability standard should be changed particularly given its role remains unchanged. The specified outcome of a level of USE remains as the outcome that consumers and the Panel want the standard to achieve, with the Paper presenting no argument to the contrary. Furthermore, it is unclear how the federal Capacity Investment Scheme (**CIS**) will integrate with the reliability standard. This does not invalidate the changing nature of the risks the power system will face but rather CS Energy recommends the Panel focus on how the standard is operationalised with respect to this changing risk profile.

The reliability standard should retain its simple, neutral, and applicable form. It should be a single, simple metric to create investment certainty for participants and facilitate the least cost reliability outcome for consumers as required by the National Electricity Objective (**NEO**). The standard must be neutral (technology and risk) so as to remain relevant and adaptive to the changing risk environment and to facilitate economically efficient outcomes. For these reasons, CS Energy disagrees with the current Interim Reliability Measure (**IRM**) which is an additional reliability metric imposed on the market that contradicts the role and purpose of the reliability standard. This is additional to the acknowledgment that the level of reliability reflected by the IRM is inconsistent with the level of reliability for which consumers are willing to pay.¹

Treating tail risk events as a key characteristic of the standard, whether via a separate metric or otherwise, violates the simplicity and role of the reliability standard, and will not reflect an economically efficient outcome. For example, what high impact, low probability

¹ Reliability Panel, *Review of the Interim Reliability Measure Draft Report*, March 2023

(HILP) event is deemed significant enough to be distinctly parameterised in the standard, how would this boundary be determined consistently and where would the accountability lie? As per the IRM, it is likely that this approach would be costly and not be truly representative of consumer willingness to pay.

The Paper does touch upon the need to understand customer values of reliability and whether they have or will change, and thus whether the Value of Consumer Reliability (**VCR**) will need to be revised. Specifically, it questions whether consumers will continue to value each hour of USE equally. It is reasonable to investigate potential changes in attitude towards reliability particularly in the context of increased uptake of Consumer Energy Resources (**CER**). It is possible that consumers with CER may value reliability less, or, given the contribution of CER to potential HILP events, have an increased willingness to pay for reliability if it preserves a level of consumer choice. Irrespective, CS Energy considers that any changes in consumer preferences can be accommodated within the form of the existing reliability standard.

CS Energy maintains that HILP events are best captured in the operationalisation of the standard rather than the standard itself. A metric for tail risks won't necessarily incentivise investment nor will it appropriately reflect the expectation and willingness of consumers. There is a risk that the Paper is conflating a statistical representation issue with a risk management framework issue, the consequences of which will be borne by consumers.

The current frameworks and processes are sufficiently flexible to accommodate the risk environment during and after the transition, for example:

- *Develop understanding of HILP events in the short and medium term* – to determine the differing impact scales and allow comparability of risk ratings. This can then be feed into risk management strategies and enhanced scenario planning;
- *Adapt operational forecasting and planning tools* – to appropriately model the changing tail risks so that they are captured in the accumulated USE. This is particularly relevant to the Electricity Statement of Opportunities (**ESOO**) and the Integrated System Plan (**ISP**);
- *Adapt market signals* – to communicate the changing need for energy adequacy to the market, thereby supporting investment signals in both the level and type of technology required. This is not limited to the ESOO and ISP but also applies to metrics such as the Lack of Reserve (**LOR**). Redefining LOR and how it is calculated in terms of the emerging risks provides an opportunity to create market signals based on energy rather than capacity adequacy. CS Energy notes that AEMO last reviewed the LOR Guidelines in 2018, with the latest review due in 2022; and
- *Consider a risk management framework* – that codifies the scenario planning of above and sets out a clear decision-making framework and mechanism for the management of certain HILP reliability events external to the reliability standard. For example, a framework analogous to the protected events framework for system security may be worth exploring if there is a desire to pay for the management of these reliability events above and beyond the reliability standard. Similarly, a new category of the Reliability and Emergency Reserve Trader (**RERT**) could cautiously be explored.

A risk management framework may also consider how to manage the impact of potential events. For example, there may be a notional upper limit for CER penetration based on potential impacts to reliability.

Changes to the Administered Price Cap

The Panel is taking the opportunity to review the form of the Administered Price Cap (**APC**), specifically whether to shift to a dynamic value that reflects electricity and gas prices. This has arisen from the market events of June 2022 where the APC was insufficient to recover generation costs.

CS Energy does not consider the Paper as providing a solid case for change particularly given the APC has been temporarily increased to \$600/MWh with the Panel recommending this increase to be extended to the end of the price period in 2028 albeit at the slightly lower level of \$500/MWh. These changes have yet to be tested and thus, their adequacy cannot be assessed.

Similar to the reliability standard, market settings such as the APC are most effective if they are simple and applicable. The current form of the APC meets these criteria and provides the financial markets with the certainty they require. The events of June 2022 did not reflect a failure of the form of the APC rather its level at the time. CS Energy does not consider any change in form as necessary, although recommends that the Panel assess indexation of the APC to the Consumer Price Index (**CPI**) consistent with the other market price settings. This will appropriately reflect changing commodity prices.

In presenting the options to change the APC, the Paper fails to explore the potential impacts on the financial markets. Given the role that the APC plays in the management of participant risk through financial products, the Panel must explicitly consider how any changes will interact with the contract market should it continue to explore potential options to change the form of the APC. For example:

- A dynamic APC will add complexity and uncertainty to the market. Linking it directly to gas prices will complicate the pricing of contracts as it would require participants to forecast and incorporate these prices. The uncertainty in the forward gas price would likely drive-up contract prices; and
- Temporarily increasing the APC following market disruptions will not allow participants to forecast, and thus manage, potential exposure as the allocation of risk will change when the price changes. Given pricing and managing risk in the financial market is the core application of the APC, it is unclear how this option can provide the desired level of certainty to the market.

Given the role of the APC in managing risk and how contracts are priced, the Panel needs to ensure that both its form and level provide the necessary confidence and certainty to the market. CS Energy reiterates its view that the current fixed form remains appropriate but should be indexed to the CPI.

Conclusions and recommendations

CS Energy acknowledges the changing risk profile that will result from the changing generation mix but remains unconvinced that the form of the reliability standard needs to change to explicitly cater for these new risks. Rather, this should be captured through an enhanced operationalisation of the standard that sets out clear risk management frameworks and processes. An example of this approach is the increase in Remedial Action Schemes (**RAS**) that incorporate runbacks and load shedding in response to changing power system risks. Modifying the form of the reliability standard will only serve to move the goalposts of reliability at a cost to consumers by undermining its core role.

Similarly, CS Energy does not consider that a change in the form of the APC is justified, and the impacts of any potential changes on the financial market have not been considered. The APC should remain fixed but be indexed to the CPI as per the other market settings.

If you would like to discuss this submission, please myself on 0407 548 627 or ademaria@csenergy.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'A. Demaria', with a long horizontal flourish extending to the right.

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