4 May 2023

Mr Charles Popple
Chair
AEMC Reliability Panel

Dear Mr Popple

RE: Review of the Form of the Reliability Standard and Administered Price Cap (REL0086)

Hydro Tasmania welcomes the opportunity to provide a response to the AEMC Reliability Panel's *Review of the Form of the Reliability Standard and Administered Price Cap* (APC) Issues Paper.

Hydro Tasmania believes that efficient, transparent and predictable reliability frameworks are critical to underpinning confidence of all stakeholders in the NEM. Ideally, our reliability frameworks will evolve to accurately and efficiently address changing reliability risk profiles in the National Electricity Market (NEM). With the fundamental changes occurring in the NEM, we support the intent of this review process to ensure these critical market parameters are set to meet expected and acceptable reliability outcomes into the future.

The form of the Reliability Standard

As noted in the Reliability Panels *2022 Reliability Standard and Settings Review* (RSSR) Issues Paper:

> *"A single metric has historically provided sufficient information to signal reliability risk. However, this may not be the case in the future when reliability is significantly influenced by energy constrained resources, rather than capacity limited thermal generation."*

With this context, Hydro Tasmania agrees that the NEM's reliability risk profile will change as we transition towards higher shares of Variable Renewable Energy (VRE) and fewer dispatchable generation sources.

We can reasonably foresee the limitations of a single probabilistic metric in forecasting reliability risks moving forward, particularly as the predictability, distribution, frequency, depth and duration of supply shortfall events shift. On this basis, **Hydro Tasmania agrees with the above statement and the Reliability Panel's recommendation to reassess the form of the reliability standard that will apply from 2028.**

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With an increasing dependence on VRE for bulk energy supply in the NEM, **it appears likely that risks to reliability may emerge from a lack of flexible, dispatchable generation and energy storage**. These risks may be considered high-impact, low probability events on a simple USE metric which is unlikely to capture the true breadth and impact of supply shortfall risks in the longer-term. Exploring **alternative metrics may enhance NEM reliability** frameworks and settings, with the ultimate goal being that they are **sufficient to bring forward (or maintain) the types of generation/storage needed** to meet these reliability challenges.

Hydropower assets have significant start/stop and ramping capabilities which make them a highly complementary resource to balance intra-day and multi-day variability from increasing shares of wind and solar in the NEM. Long duration / deep storages will be highly valuable in managing prolonged wind and solar 'droughts', and inter-seasonal variations in supply and demand, however, effective recognition of this value is missing in current settings. The historical USE metric is unlikely to adequately show the true quantum of such flexible generation and/or storage requirements to maintain reliability during tail events.

Further, transmission expansion will be key in facilitating a reliable power system under high VRE scenarios. Transmission assets that can capitalise on resource diversity between regions and connect low-emissions and dispatchable generation and storage to neighbouring demand centres should be highly regarded. To this end, we are also supportive of the modelling approach proposed by the Reliability Panel to leverage AEMO's Integrated System Plan to inform the suitability of potential future reliability metrics.

Hydro Tasmania also noted in our submission to the 2022 RSSR Issues Paper that *'…there appears to be 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 divergence in views appears to persist, and we continue to believe that *'if an alternative metric to define reliability is proposed, it must have the confidence of Federal, State and Territory energy ministers…'* as well as market participants and consumers. We look forward to proactively engaging with the AEMC to achieve this imperative throughout the consultation process.

The form of the Administered Price Cap (APC)

The administered price period of June 2022 identified a flaw in the current settings of the APC. We were supportive of Alinta's rule change to increase the APC to $600/MWh and are broadly supportive of the Reliability Panel's recommendation to permanently re-adjust the APC to $500/MWh from 2028. While there is benefit in having a clear, transparent and static APC, we also consider there may be benefit in adjusting APC settings to better reflect the dynamic nature of supply in our market (i.e. fuel costs). We look forward to engaging with the Reliability Panel on this issue throughout the consultation process.

Next steps

We are grateful to see this work stream commencing and look forward to engaging with the AEMC and the Reliability Panel as the process progresses. We welcome the opportunity to discuss any aspect of this submission further. If you wish to discuss, please do not hesitate to contact Jonathan Myrtle (0422 535 092 or Jonathan.Myrtle@hydro.com.au).

Yours sincerely,

Colin Wain
Manager Policy Development