



Friday, 19 January 2024

John Kim,
Project Lead
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney, NSW, 2000

Lodged via the AEMC website

Dear John Kim,

SUBMISSION TO THE REVIEW OF THE FORM OF THE RELIABILITY STANDARD AND APC

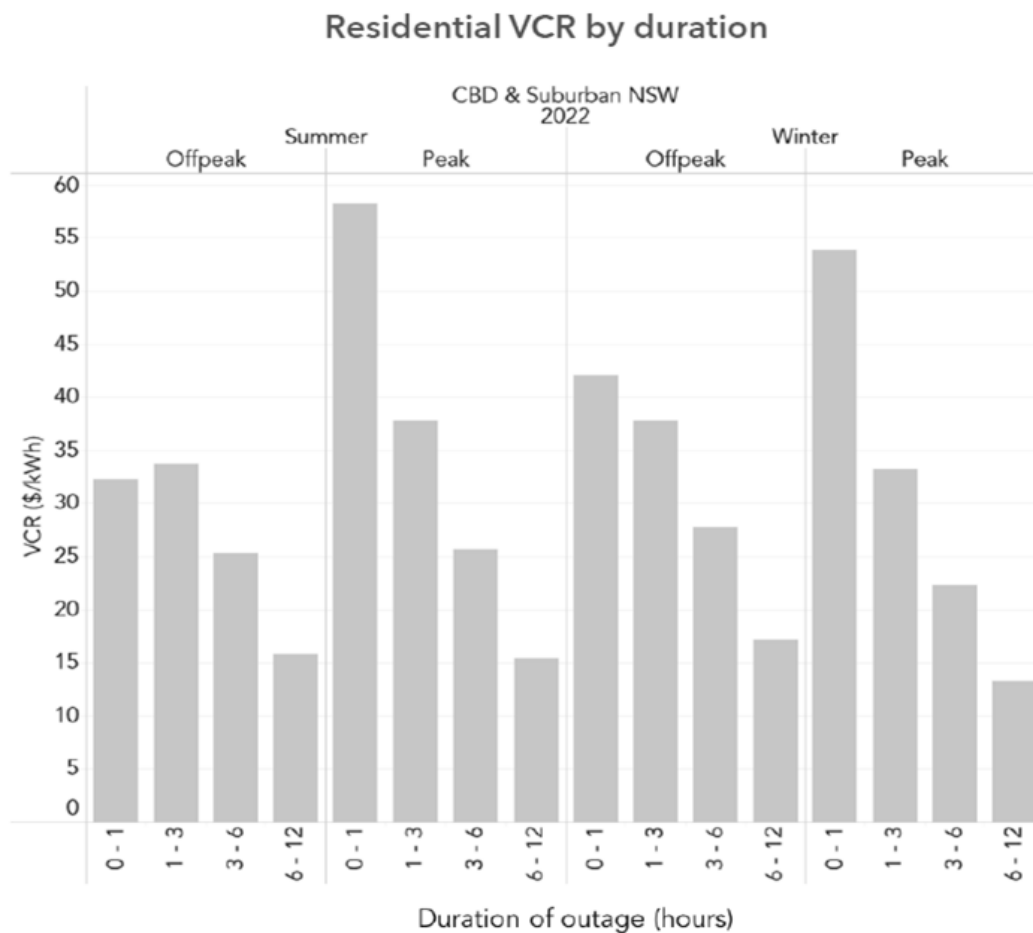
The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia, representing over 1,000 of the leading businesses operating in renewable energy, energy storage, and renewable hydrogen. The CEC is committed to accelerating the decarbonisation of Australia's energy system as rapidly as possible while maintaining a secure and reliable supply of electricity for customers.

The CEC welcomes the opportunity to comment on the direction paper as part of the market review of the form of the reliability standard and administered price cap (APC).

The initial step for the Reliability Panel to investigate the nature of changing risk in the National Electricity Market (NEM) is encouraging. The effectiveness and broad acceptance of the reliability standard to guide investor decisions is paramount for market stability now and in the future.

As the proportion of renewable energy in the total fuel mix grows it is relevant to investigate the possibility of future reliability constraints. The CEC agrees that the NEM is changing and agrees with the four broad modelling results.

The question that should be more clearly answered is whether these changes are pushing the system towards less reliability. Decisions to mismatch generation build with realistic reliability issues are detrimental to consumers and produce economic inefficiencies that become time consuming to correct. It is important to consider that analysis to date, both in the NEM based on AER data and internationally, does not support the premise that longer outages are valued more by consumers and should be avoided at any cost (figure below).



The value of consumer reliability (VCR) is decreasing with duration and this result should not be ignored. It is important to better understand the nature of VCR as electrification increases and residential and commercial consumers are installing rooftop solar panels and batteries. This can uncover more nuanced responses to the survey in line with expected changes in the NEM.

The CEC supports a co-design process between AER, AEMC and the Panel on the framework for the next round of the VCR survey. However, the CEC recognises that the methodology already considers the dynamic nature of generation and differentiates between peak and off-peak, summer and winter, and week and weekend among the other considerations. The average value has provided ample system stability (considering the few transmission-related outages that occurred since NEM was formed) and a straightforward measure investors can use in their project development.

Considering any additional complexity is important. How much complexity is acceptable when determining the unserved energy (USE) value based on a methodology that incorporates a more dynamic representation of potential USE events? Does a dynamic methodology uncover any additional benefits to setting a level of USE? An average value across the year offers certainty and has a flow-on effect into how the market price cap and the cumulative price cap are calculated. We encourage the Panel to consider the elements that are driving market confidence when weighing changes to the form of the reliability standard.

The overarching balancing between total system cost build and reliability should not exceed what consumers are willing to pay. Those with higher reliability risks (industry, large commercial sites) are more likely to be able to hedge against risk compared with residential consumers. A higher USE threshold would therefore disproportionately impact those least able to pay.

As the energy transition continues, it is not only the nature of risk that is changing but also the market. The Panel should consider the implications of changing the USE method in relation to other market signals such as the capacity investment scheme or the reliability and emergency reserve trader.

Overall, the CEC considers that any change to the form of the reliability standard should be based on data and a sound analysis. To date, there is not sufficient information that would indicate the form of the reliability standard should change substantially. While the nature of generation-related risks is changing, it does not warrant benchmarking the power system against 1 in 100 years-type USE events. Building a robust NEM does not have to come at the highest cost before fully exploring all other opportunities. The increase in the MPC and CPT will likely result in a buildout of energy storage, including longer duration that will reduce reliability concerns.

Lastly, changes to the APC are necessary since it was last set in 2008 and has not accounted for the changes seen in the energy market. Of the two options presented, indexing the APC to CPI is the preferred option. This would bring the APC in line with MPC treatment providing consistency, reflecting changing economic conditions, and avoiding future administrative burden.

As always, the CEC will work with AEMC to support the development of the reliability standard as it plays a role in the NEM reform. We look forward to further engagement in next steps. If you require any further information, please contact Ana Spataru at aspataru@cleanenergycouncil.org.au.

Kind regards

Christiaan Zuur
Director, Energy Transformation