

17 May 2024

Reliability Panel
c/- Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235



EnergyAustralia
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EnergyAustralia Pty Ltd
ABN 99 086 014 968

Dear Panel members

Level 19
Two Melbourne Quarter
697 Collins Street
Docklands Victoria 3008

Review of the Form of the Reliability Standard and Administered Price Cap – Draft Report – 18 April 2024

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We support the findings in the Panel's draft report that, although the nature of reliability risk in the National Electricity Market (NEM) will change, the existing form of the Reliability Standard remains appropriate.

The Panel's latest modelling indicates the risk of extreme outage events in a high renewables electricity system is very low. Notably, these events appear to have a probability of occurrence of approximately 1 in 100 years. This is a significant finding which contradicts concerns about renewables droughts and associated 'tail risk' outages. We note the Panel is using a significantly expanded dataset i.e. 94 weather years compared to AEMO's 13 reference years, with other methodology advancements that have been backed by expert academic support. We urge the Panel to liaise with AEMO so that that this larger dataset and other improvements can be used in preparing the Electricity Statement of Opportunities and other reliability projections.

We also support the Panel's suggestions to improve how reliability risks are articulated and communicated. It is vitally important that governments have an accurate understanding of reliability risks and the costs of pursuing very high levels of reliability. Governments appear to have a high degree of risk aversion and desire to mitigate risk well beyond efficient levels. As the Panel notes, building assets that target the risk of large but still rare events would be "prohibitively expensive".¹ Policy makers should be sensitive to this, moreover in the current high cost of living environment. Higher costs are already being imposed on consumers in the NEM through the Interim Reliability Measure, which is acknowledged to be out of line with the Value of Customer Reliability (VCR). In addition to this, the NSW Government imposes a deterministic N-1 reserve margin as a trigger for investment under its Electricity Infrastructure Investment Act. We also note the SA Government expressed concerns directly to the Panel regarding risks in

¹ AEMC, *Review of the form of the reliability standard and administered price cap – draft report*, 18 April 2024, p. 13.

its jurisdiction, and on this basis supported changing the Standard to capture tail risk events.²

The Panel notes that the Reliability Standard is not the appropriate mechanism to address tail risk. It follows that no mechanism should be used to bring on investment or incur other costs to mitigate these risks and achieve 'absolute' reliability, at least to the extent they are funded by electricity customers. This again is a critical finding that should guide government interventions such as the Capacity Investment Scheme, state-based initiatives and the upcoming Post 2030 market redesign.

A further critical finding for policy-makers is that delivering the transition in line with AEMO's Integrated System Plan, and within the current 0.002% reliability standard, requires additional support for technologies like long duration storage. The need for firming capacity of sufficiently long duration will be further amplified if peaking gas generation is excluded from the NEM's future technology mix because of fuel scarcity or emissions constraints.

Although the Panel has recommended against changing the Standard, it suggests potentially reweighting outage events that are used to calibrate the AER's VCR calculation to reflect future conditions.³ The Panel should clarify its reasoning. We foresee a risk of unintentionally introducing risk aversion via reweighting, and otherwise expect any methodology changes will be consulted upon and transparently applied by the Panel.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

Lawrence Irlam
Regulatory Affairs Lead

² [ED Letter Template \(aemc.gov.au\)](https://www.aemc.gov.au/ED-Letter-Template)

³ AEMC, p. iii.