

17 May 2024

Australian Energy Market Commission (AEMC)
Project Reference Code: **REL0086**

Lodged via the AEMC website:

<https://www.aemc.gov.au/contact-us/lodge-submission>

Dear AEMC,

Draft report: Review of the form of the Reliability Standard and Administered Price Cap

Hydro Tasmania welcomes the opportunity to respond to the Reliability Panel’s draft report on the form of the Reliability Standard and Administered Price Cap. Hydro Tasmania has previously made submissions to the 2022 Reliability Standard and Settings Review and has supported the Panel’s intent to investigate the form of the Reliability Standard and its appropriateness in the face of changing reliability risks.

Hydro Tasmania is generally comfortable with the recommendations to maintain the current form of the Reliability Standard and the Administered Price Cap. The reasons for these recommendations are well laid out and argued in the draft report which states that:

“while the characteristics of the reliability risk are expected to change in a number of ways, the current form of the reliability standard still adequately captures the vast majority of USE events that will likely arise in the NEM.”

Similarly, Hydro Tasmania supports the recommendations around *“process improvements to enhance the operation and implementation of the standard”*. This includes improvements to reliability modelling, the use of a larger range of weather reference years, improved future demand traces and improvements in the application of the Value of Customer Reliability.

The draft report notes that *“while there is a small risk of large USE events well into the future, these remain a small part of the overall reliability risk in the NEM.”* Uncertainties in future weather patterns and the inherent difficulties of modelling future resource mixes mean that these risks should continue to be considered and evaluated. The difficulty of the current energy transition necessitates that there be confidence in the resilience and future performance of the NEM. On this basis, Hydro Tasmania supports the commentary in Section 3 that *“market price settings in isolation are not designed to manage large, rare events”*.

In particular, the following statements provide important context on the likelihood of investment in the range of capacity and storage projects that are needed to maintain NEM resilience and address less frequent reliability challenges:

- *“The Panel considers the market price settings alone are not a suitable tool for managing the risk of severe, low-probability events”;*
- *“The commercial business case for generation and storage projects becomes increasingly difficult if they can only earn revenue on very rare and unpredictable occasions, regardless of the market price cap”;*
- *“The timely delivery of the ISP will be important to maintain a high level of reliability in the NEM. The Panel notes that the ISP includes some types of supply with particularly challenging investment cases, such as long-duration storage. Additional mechanisms, including government support, could be needed in combination with the market price settings to manage the risk of low-probability reliability events”;*
- *“The uncertainty of thermal plant exits which is impacting market signals”;* and
- *“Some assets outlined in the ISP, such as long-duration storage or pumped hydro, may only be commercially viable within ISP timeframes with some level of government support.”*

Hydro Tasmania appreciates the work of the AEMC on this important topic and looks forward to ongoing engagement as it progresses. If you wish to discuss any aspect of this submission, please contact me ((03) 8612 6443 or colin.wain@hydro.com.au).

Yours sincerely,



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