

25 September 2017

John Pierce
Chairman
Australian Energy Market Commission (AEMC)
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce

Reliability Frameworks Review Issues Paper (EPR0060)

Hydro Tasmania appreciates the opportunity to provide comment on the AEMC's Issues Paper for the Reliability Frameworks Review.

The energy market is undergoing a period of significant transformation which is bringing a number of challenges for the National Electricity Market (NEM). Key among these challenges is the integration of variable renewable energy sources (VRE) and the ability of the system to accommodate fluctuations in supply while providing sufficient capacity to meet demand. Hydro Tasmania notes that this review is a timely opportunity to consider the changing market and to broadly assess the ability of the NEM's reliability framework to meet and maintain reliability in the long-term and in the interests of customers.

Hydro Tasmania believes that the AEMC's proposed assessment approach and principles could be strengthened by considering the following:

- The Issues Paper emphasises the importance of ensuring that there is an adequate supply of dispatchable generation in the NEM. Dispatchable generation is a source of supply that is able to respond to instructions from the market operator. However, there is now widespread acknowledgement that flexibility in both supply and demand will be a critical success factor for a reliable power system with high levels of VRE. Flexible generation is distinct to dispatchable generation and is able to increase/decrease output in a responsive manner based on demand/supply fluctuations. While dispatchability is an important attribute, flexible sources are likely to be of increasing value in the NEM through being able to facilitate the integration of more variable renewable energy sources, providing a balancing service to the availability of these resources. It is vital therefore that explicit consideration should also be given to the role of flexible sources of energy, and how they can be appropriately incentivised within the reliability framework.
- The Issues Paper notes the relevance of an emissions reduction policy - in particular its integration with the NEM, in providing for a clear and known investment environment. Australia's commitments under the Paris agreement means it will need to make deep and lasting reductions in national GHG emissions. It is likely that the electricity sector - given its

access to cost effective abatement, will need to make disproportionately larger reductions in time. This should be factored into the AEMC's deliberations, both in terms of likely reliability requirements as well as the need to adjust for the emissions impacts of various technologies providing reliability services.

- The Issues Paper highlights a variety of potential reform options that will be considered including a day-ahead mechanism and a Generator Reliability Obligation. These options would be fundamental reforms, which would need to be given careful consideration. This should include establishing a clear understanding of the problems being addressed, identifying and assessing alternative approaches to addressing those problems (including benefits and costs), and clearly articulating the rationale for proposed solutions. In undertaking this assessment, Hydro Tasmania supports the AEMC's flexible principle that notes that NEM-wide solutions should not be put in place to address issues that have arisen in a specific jurisdiction and that solutions should be effective in facilitating reliable outcomes where they are needed, while not imposing undue market or compliance costs on other areas. This principle is important given the diverse generation mixes between states and the potential downsides of a one-size-fits-all approach.
- Hydro Tasmania supports the proposed consideration of interconnectors as a part of this review. Interconnectors play an important role in transmitting energy between regions, and are likely to play an increasingly valuable role in supporting reliability in the NEM through linking flexible sources of generation to demand centres. In considering the future reliability framework, the AEMC should therefore consider the role of interconnectors in the NEM and how their value to the market can be correctly identified. Appropriate changes to the RiT-T will be of particular importance in this regard.
- Hydro Tasmania notes that there are a variety of interrelated reviews being undertaken at the national level on reliability and system security. Of key relevance are AEMO's recommendations in their *Advice to Commonwealth Government on Dispatchable Capacity* which proposed the development of an approach to incentivise investment in flexible dispatchable capability, as well as AEMO's strategic reserve. It is unclear how AEMO's proposed consideration of these issues will be coordinated or integrated into the Reliability Frameworks Review.

Hydro Tasmania looks forward to ongoing engagement with AEMC and its working groups going forward. If you would like further information on any aspect of this submission, please contact John Cooper (john.cooper@hydro.com.au or (03) 6230 5313).

Yours sincerely



Steve Davy
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