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Dear Commissioners

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Review of the Interim Reliability Measure (EPR0090) — Draft Report — 9 March 2023

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 consider that extending the interim reliability measure (IRM) out to June 2028 would not be in the long-term interests of consumers. This is mostly based on efficiency considerations, and the Commission should give this criterion primary weight in its assessment, but also relates to simplicity, predictability and transparency in reliability settings. If possible, a preferable arrangement could be to extend the IRM while decoupling it from intervention triggers.

The Interim Reliability Measure achieves inefficient outcomes

In September last year the Reliability Panel concluded that the efficient level of reliability in the National Electricity Market, with respect to the value of customer reliability (VCR) determined by the AER, is 0.002% unserved energy (USE). The Panel considered that a USE standard of 0.001% might be consistent with the 'high' sensitivity VCR value however was not reflective of customer willingness to pay.[1] The IRM of 0.0006% is materially more stringent than the Panel's recommended value and that associated with the high sensitivity VCR. The Commission has not adequately considered the implications of this in terms of customer outcomes.

The Commission appears to place considerable weight on alternative modelling prepared for the ESB and subsequent decisions of energy ministers to maintain supply reliability during a 1-in-10 year summer, which was also based on a net benefit assessment using the AER's VCR. If the Commission considers this prior analysis is superior to that completed by the Reliability Panel, i.e. that the IRM is a more accurate reflection of

[1] Reliability Panel, *2022 Review of the reliability standard and settings – Final report*, 1 September 2022, p. iv

efficient outcomes than the current Reliability Standard, it should explicitly state this and outline its reasoning. Such a finding would have ramifications for the Panel's recommended market price settings from 2028 in addition to its views on the Reliability Standard.

In terms of efficiency impacts, the Commission states that extending the IRM could result in the Retailer Reliability Obligation (RRO) applying more often.[2] We expect that RRO costs are higher than the $77 million estimated by the ESB in its Regulatory Impact Statement and quoted by the Commission. We intend to submit further information on cost impacts to the Commission as part of its concurrent review of the RRO, and it should have regard to these in its deliberations on the IRM.

Even taking this $77 million at face value, we consider there are no offsetting customer benefits in having the RRO engaged more often (or at all) against the IRM. That is, the RRO is ineffective in managing resource adequacy, as evidenced by the ESB's initial proposal to make the RRO 'physical' in nature, then in further recommending against any form of decentralised reliability mechanism.[3] To the extent that the RRO does affect market outcomes, we consider customers are not willing to pay for those associated with the more stringent IRM standard, as noted above. At the very least, it is not possible for the Commission to accurately determine the net benefit of extending the IRM without considering the effectiveness of the RRO, and we encourage it to engage on this issue in exploring its 'efficiency' criterion.

The IRM undermines and complicates the NEM reliability framework

The continuation of dual reliability standards would undermine the predictability of the reliability framework, contrary to the Commission's draft position.

We believe that many market participants have been anticipating the IRM would cease in 2025, as per the ESB's recommendation to Ministers in 2020[4] and the expiry dates in NER clauses 11.128.2 and 11.132.2. The IRM's extension would be inconsistent with its 'interim' nature and also incongruent with the ending of the ESB's Post-2025 work on resource adequacy mechanisms last year. The Commission's draft position legitimises a generalised preference for governments to meet a "community expectation" around reliability outcomes. This is in spite of a consciously designed reliability framework under the NER that is managed by market bodies and an appointed advisory panel, independent of governments of the day. Extending the IRM now increases the prospect of it being extended again, or varied, on the basis of alternate modelling exercises or where governments disagree with findings of the Panel or the Commission.

The Commission notes that governments made a "deliberate choice" to introduce the IRM.[5] It may therefore be pragmatic to accept this choice as an unavoidable part of the NEM's reliability settings. Even so, we would expect any decision to extend the IRM to be based on an explicit statement from energy ministers that they still wish to use it to lower risk and increase costs on behalf of customers. Our expectation is that ministers

[2] AEMC, *Review of the Interim Reliability Measure – Draft report*, 9 March 2023, pp. 6-7.
[3] Energy Security Board, *Capacity mechanism High-level Design Paper*, June 2022
[4] Energy Security Board, *Recommendation for National Electricity Amendment (Interim Reliability Measure) Rule 2020 – Decision Paper*, July 2020, p. 15.
[5] AEMC, p. ii.

may now see the IRM is redundant as jurisdictions now have alternative means to pursue tighter reliability standards:

- the ability to trigger T-3 obligations under the RRO at any time (noting that we do not consider this would influence reliability outcomes)
- legislated settings in their own investment frameworks, such as the N-2 deterministic requirement in the NSW Energy Security Target
- AEMO's short notice RERT panel, as per the ESB's advice on a jurisdictional strategic reserve.[6]

At a practical level, and contrary to the Commission's draft finding, the IRM does not aid in providing a consistent market-wide solution to reliability. The presence of the IRM alongside the Reliability Standard complicates AEMO's signalling of reliability risk thresholds and public messaging when presented in the Electricity Statement of Opportunities and similar publications. Market price settings and investment signals are calibrated against the Reliability Standard, while actions under the RRO and the Interim Reliability Reserve (IRR) are based on the IRM. It is also unclear how the IRM will sit alongside the explicit preferences of jurisdictional policy-makers. That is, jurisdictions are now pursuing their own market-led investment targets, electing to directly invest via government-owned businesses or potentially via state electricity commissions. In the case of NSW, the Reliability Standard forms part of its Investment Infrastructure Objectives.[7] It is not yet clear what reliability measures were embedded in the QLD Energy and Jobs Plan or modelling for the Victorian storage targets announced in October last year. The calibration of investment triggers under these jurisdictional frameworks, and the Commonwealth's Capacity Investment Scheme, will become clearer over 2023 however it seems unlikely that all will align with the IRM.

Decoupling the IRM from intervention triggers may be preferable

Notwithstanding our point above about presenting dual reliability thresholds in the ESOO, the IRM has the advantage of having been derived from a prior modelling exercise and hence preferable to others that may arise in jurisdictional frameworks. An alternative option may exist to simply extend the IRM to 30 June 2028 under current arrangements, which seeks to minimise inefficiencies associated with the IRM being an intervention trigger. That is, the Commission could develop a set of amendments that:

- continues to compare forecast reliability outcomes against the IRM until 2028
- decouples the IRM from mandatory RRO and IRR interventions
- allows jurisdictions to "opt back in" to the IRM as a reliability intervention trigger via derogations or under their own legal frameworks.

Such flexibility is consistent with jurisdictions already being able to initiate T-3 instruments under the RRO at any time.

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[6] Energy Security Board, *Amendments to the Interim Reliability Reserve – Decision paper*, July 2022. See appendix A.
[7] NSW *Electricity Infrastructure Investment Act 2020*, section 44.

This flexible arrangement would provide appropriate accountability and transparency for policy-makers in seeking specific outcomes for customers in their jurisdiction. This is particularly important where governments may wish to depart from efficient market settings that are determined under an independently managed NER framework.

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

Regards

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