



19 June 2020

Dr Kerry Schott AO  
Energy Security Board

Submitted by email: [info@esb.org.au](mailto:info@esb.org.au)

Dear Dr Schott

### **Interim Reliability Measure (Reliability Reserve) – Consultation on Draft Rules**

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Energy Security Board's (ESB) consultation on draft rules for the Interim Reliability Measure (Reliability Reserve).

Origin considers it important to ensure reliability of supply in the National Electricity Market (NEM) is maintained, consistent with consumer expectations. While the NEM has historically performed well in this respect, it is recognised there is a need to ensure the existing framework continues to deliver reliable supply, particularly given the market transition underway.

Ideally it would have been prudent for consideration to be given to how best to guarantee the meeting of the current standard (through the availability of supply and demand response), before moving to a new (higher) benchmark. The Reliability Reserve effectively increases the reliability standard, limiting the level of unserved energy in the NEM to no more than 0.0006 percent. There is little indication this is in line with community expectations given the absence of public consultation on this new approach.

The lack of transparency around this process runs the risk of undermining market governance. Traditionally the Reliability Panel is responsible for independently and transparently reviewing/updating the reliability settings every four years and is required to consult with a broad range of stakeholders as part of that process. While consultation is now being undertaken on operational elements of the framework, stakeholders essentially have no say on the key policy component of the proposed reform (i.e. the level of the new standard).

The decision to increase the standard is also inconsistent with the findings of other recent reviews in this area. The Reliability Panel in 2018 concluded that no change to the standard was required to apply from 2020, noting any variation should be predicated on a material shift in the Value of Customer Reliability (VCR). The Australian Energy Regulator (AER) subsequently updated VCR estimates in 2019 and no material changes were observed. In 2019 the Australian Energy Market Commission (AEMC) also determined it was not appropriate to de-link reserve procurement from the broader reliability standard, as is being undertaken through the Reliability Reserve.

It will therefore be important to ensure the Reliability Reserve is designed in a way that allows reliability risks to continue to be managed in a cost-effective manner. To this end, Origin has provided comments on the following core elements of the proposed framework.

- Preconditions for procuring multi-year reserves: Origin agrees AEMO should only be permitted to enter into multi-year contracts of up to three years in length where: the forecast level of unserved energy exceeds 0.0006 per cent for two out of the three years; and the multi-year contract is more cost effective than entering into shorter duration contracts covering the same period.
- Procurement volumes: Clause 11.xxx.4(i) currently proposes to cap the level of reserves that could be procured under the mechanism as follows:

- for single year contracts, procurement would be capped at the amount reasonably required to address the interim reliability exceedance in that year, for that region; and
- for multi-year contracts, procurement would be capped at the amount reasonably required to address the largest interim reliability exceedance during the period for which the contract would apply.

Origin considers Clause 11.xxx.4(i) should be strengthened by specifying that procurement volumes associated with a given contract (single or multi-year) should be capped at the level reasonably required to address an interim reliability exceedance, having regard to any other reserve contracts entered into over the same period.

- Eligibility of reserve providers: Out-of-market reserve provisions should be consistent with the provisions applied under the RERT framework.
- Reporting requirements: Origin is supportive of the additional reporting requirements proposed under 11.xxx.5(d). However, AEMO should also be required to outline the payments made for each contract entered into under the Interim Reliability Measure, noting that is a requirement for contracts procured under the RERT framework.
- Review period: The operation of the mechanism and AEMO's reserve procurement activities should be reviewed by 1 July 2023 as proposed, with a view to sunsetting the mechanism at that time. This would be consistent with the view that the Interim Reliability Measure is intended to be temporary, noting further consideration is being given to the need for other more enduring reforms to the NEM framework under the ESB's Post-2025 work program.

If you wish to discuss any aspect of this submission further, please contact Shaun Cole at [shaun.cole@originenergy.com.au](mailto:shaun.cole@originenergy.com.au) or on 03 8665 7366.

Yours Sincerely,



Steve Reid  
Group Manager, Regulatory Policy