

22 June 2022

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Energy Security Board  
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Dear Board Members

### **Amendments to the Interim Reliability Reserve – Consultation Paper – 22 May 2022**

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 4,500MW of generation capacity.

We appreciate the Board's work on reforms to ensure resource adequacy in the NEM. Recent market developments have highlighted the desire from policy makers and other stakeholders to have the ability to address supply issues in the short-term. The Board's July 2021 recommendations around a Jurisdictional Strategic Reserve reflect the intention to provide jurisdictions one avenue to intervene in the market ahead of enduring reforms, including a possible capacity mechanism.

To this end we support the Board's analysis of the existing short notice RERT Panel. This provides a transparent avenue for jurisdictions to fund any additional capacity they desire. It appropriately leverages off the independent role of AEMO in advising on the need for any such additional resources, and mechanisms to bring them into the market under limited emergency settings if they are required.

We are, however, cautious about the proposed changes to the interim reliability reserve. The main proposed changes and our evaluation of each is as follows:

- AEMO's ability to enter into multi-year contracts would extend to those expiring on 31 March 2028. There would be an associated obligation for it to demonstrate that any such contract is likely to be cheaper than aggregated annual contracts. We support this in principle. Provided there is an identified need that spans multiple years, it seems likely that forcing AEMO to contract annually would involve higher administrative costs, as well as potentially forego benefits in attracting cheaper or more suitable market services.
- AEMO would only be able to do this where at least two years of a contract period involve identified breaches of the interim reliability measure, as set out in the latest ES00. Again, this seems appropriate in principle as part of establishing a



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procurement need. The risks of over-procurement versus administrative and market response benefits should be consulted on by AEMO under the safeguards in the existing rules.

- The Board seeks to accommodate the prospect of multi-year contracts extending beyond 2025, while also stating that it does not “seek to extend the existence of the interim reliability measure i.e. it will still expire on 31 March 2025.”<sup>1</sup> This appears to conflict with the draft rules, in that at least two contract years need to reflect a breach of the interim reliability measure, and critically, that procurement volumes in each year also address breaches of that same interim measure.<sup>2</sup> It is unclear how the draft rules would provide for multi-year contracts beyond the expiry of the interim measure on 31 March 2025.

We would not support an arrangement that de facto extends the interim reliability measure as a trigger for reserves procurement beyond March 2025. Doing this may give jurisdictions additional comfort around short-term reliability issues. However, a change of this nature should be given more careful attention if it is to be pursued. This includes in light of the implications of continuing with a more stringent reliability standard in NSW beyond Eraring’s expected closure date.

We suggest a preferable arrangement, or at least one that appears to clarify rule drafting against the Board’s intentions. This would be to have contract triggers and maximum volumes based on the prevailing reliability measure, including the interim measure up until its scheduled expiry on 31 March 2025. That is, procurement volumes beyond 2025 would be based on ‘the’ reliability standard, including any changes that result from the Reliability Panel’s current standards and settings review.

We also support the Board taking stakeholder feedback on these issues and progressing proposed rule changes on the back of ministerial endorsement. However, it seems prudent to consider any changes to AEMO’s reserves procurement after the AEMC’s scheduled review of the interim reliability measure and reserve later this year.

The desired set of reserve arrangements, as well as potentially other short-term measures, may be informed in further discussions around a capacity mechanism. There may be a preference from some to accelerate the delivery of a capacity mechanism, including via earlier transitional auctions, affecting the need or scope of interim measures. The Reliability Panel’s ‘straw person’ proposal of a risk-averse reliability measure, which if adopted, would increase the standard to a level closer to the interim measure. All these changes should be considered together if the objective is to give jurisdictions comfort around resource adequacy, in both the short and longer term.

If you would like to discuss this submission, please contact me on 03 8628 1655 or [Lawrence.irlam@energyaustralia.com.au](mailto:Lawrence.irlam@energyaustralia.com.au).

Regards

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<sup>1</sup> Energy Security Board, *Amendments to the Interim Reliability Reserve*, consultation paper, 22 May 2022, p. 5.

<sup>2</sup> See draft clause 11.128.4(i)(2)(i).