

INTRODUCTION AND SUMMARY

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian industrial and commercial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined our members employ over one million Australians, pay annual energy bills in the many billions of dollars and are desperate to see a lasting national energy and climate change plan that puts downward pressure on electricity costs.

The current uncertain state of the NEM and the tightening supply/demand balance supports the need for AEMO to have an efficient and low cost RERT type mechanism as part of its operational levers to meet the reliability standard.

The EUAA also recognise the important potential role of the RERT in AEMO's procurer of last resort function under the proposed NEG. The EUAA has shown strong support for the overall NEG approach and for the majority of the design elements. If the architecture of the NEG is coupled with enduring bipartisan support we believe it will create greater investment certainty for all market participants and, over time, put downward pressure on energy costs while providing the system reliability and climate risk management that we need. While this should reduce the chances of AEMO ever being called upon to be the procurer of last resort, it is crucial to ensure the design elements of the RERT are fit for purpose and lowest cost to ensure the NEO is achieved.

This submission begins with our member experiences from the 2017/18 RERT (it is not good). We then comment on the ARENA-AEMO demand management trial and support its extension and conclude with specific responses to the paper's questions.

Our over riding concern is that the direction AEMO is taking seems to be driven by a desire to focus on system security and reliability, irrespective of the cost. This will lead to a gold plated network being complemented by gold plated reliability. AEMO's apparent justification (p.32):

"... community expectations have shifted so that jurisdictional governments are unwilling to tolerate load shedding and are intervening themselves directly in the market as a result."

is not sufficient justification for imposing large costs on medium and large energy users. EUAA members do not agree with this interpretation of community expectations. We wonder if those expressing these expectations are actually facing the full costs of their preferences? We look forward to seeing a much more robust justification indicating the actual costs involved in ensuring there is no load shedding. The forthcoming AER review on the value of lost load will be an important input.

The core approach in the NEM is to set a reliability standard after wide consultation with all energy users. Like the AEMC, we think that there is a trade-off between cost and reliability and this should be reflected in the operation of the RERT. Its operation in 2017/18 failed to recognise that trade-off. We have members with flat loads that are now facing very large and unexpected RERT bills for a problem they believe they did not contribute to.

In terms of the specific questions asked in the Consultation Paper:

1. The EUAA does not support the apparent AEMO approach for 'RERT and reliability standards'

We say 'apparent' because the Consultation Paper seeks comments on two approaches:

- (i) Based on operationalising the 0.002% reliability standard, and
- (ii) Based on linking the procurement trigger to a reliable operating state where there can be no load shedding

We have interpreted AEMO's preferred approach to be the latter. We support the current 0.002% unserved energy (USE) standard as an acceptable balance between costs and benefits and are concerned that AEMO's approach will lead to a higher reliability standard at an unacceptable cost and hence contrary to the NEO. AEMO has provided no comprehensive economic justification for linking the procurement trigger to a reliable operating state.

Operationalisation based on 0.002% USE is the approach proposed in the NEG to determine triggering of the procurer of last resort mechanism – which will be the RERT.

The EUAA supports the same RERT reliability standard and operationalisation irrespective of whether the NEG is agreed to by COAG Energy Ministers on August.

2. If the NEG is not approved by COAG Energy Ministers, the EUAA supports the implementation of the forecasting and accountability framework set out in the ESB Technical Working Paper on Forecasting the Reliability Requirement published in June.

This would involve the AER reviewing and approving any decision by AEMO to procure RERT.

3. The EUAA generally supports the changes proposed by AEMO around ‘procurement horizon and contracting period’ and ‘standardisation of reserve products’

These changes should address many of the shortcomings evident in the 2017/18 experience.

Finally, there should be much greater transparency around the costs incurred eg by region, the level of payments by providers and how they are allocated to retailers and then to end consumers. We look forward to this in the AEMO’s forthcoming report on the 2017/18 period.



Andrew Richards
Chief Executive Officer

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OUR MEMBERS' EXPERIENCE OF 2017/18 RERT

It has been a combination of:

- For those members who participated – satisfaction that they participated (particularly given the costs now being borne by consumers) combined with the hope that much of the complexity and administrative workload of participation might be removed in the future
- For those that did not participate - “bill shock” over the last few weeks for those with operations in Victoria and South Australia as they have received invoices for their share of the \$52.16m in RERT costs. In some cases these invoices have been hundreds of thousands of dollars.

As we look at the data available from the AEMO reports and in the Consultation Paper, it appears that the procurement approach from AEMO may have led to a lot of unnecessary costs around availability and pre-activation when it should have been focussed on activation.

We understand the constraints that AEMO was under, but there should have been much more education of the market around:

- the operationalisation of the reliability standard to show how AEMO arrived at the level of RERT if felt necessary to procure, and
- The reasons AEMO accepted the prices it did - particularly for availability and pre-activation in what appears to have been a “RERT sellers” market.

On the former, the EUAA is concerned that AEMO, given the criticism it received post the South Australian blackout, seems to have a desire for the lights to never go out rather than making a balanced economic analysis of how best to achieve the 0.002% reliability standard. Those members now faced with very large bills are saying that they would have preferred the risk of them having an interruption to their power supply than pay the amounts they are now asked to.

The very large RERT invoices came without warning, with little detailed explanation around how the costs were incurred eg how they were allocated by AEMO to retailers and then allocated by retailers among their customer base. Retailers have not been clear how they arrived at the RERT charge and this would appear reflective of AEMO's equally unclear charge to the retailers.

These members are struggling to understand why they should contribute to the RET costs when they have a flat load. Where is the contribution from retail customers that are the main cause of the peak demand instances?

While there are information disclosure requirements under the Clause 3.20.6(a) of the Rules, this is not something that consumers regularly focus on. Even if they knew to read Clause 3.15.9 of the Rules they are not going to get much help to understand their particular bill. In at least one case, the member, who has the same retailer for its operations outside of Victoria and South Australia, is awaiting confirmation that only its load in those two states has incurred a RERT cost. The end result is that it does not engender any confidence in the RERT efficiency.

Then there is the uncertainty around the costs of AEMO contracting reserves in NSW on 7th and 8th June 2018. These costs are yet to be published and our members are bracing themselves for more bill shock. Even though RERT was not dispatched in these cases, we do not have visibility on the availability and pre-activation costs with the combination being 93% of the Victorian/South Australian total of \$51.26m.

We think there is an opportunity for much greater liaison between EUAA and AEMO to assist our members in better understanding RERT and avoiding the “bill shock” they are currently experiencing.

ARENA-AEMO TRIAL

We welcome the further development of the ARENA-AEMO trial of demand management and see its potential for playing a much larger role in RERT. We recognise the early lessons learned and look forward to the opportunity of our members gaining an improved understanding of demand management and the ability to participate in the future.

There are potentially significant quantities of demand response availability and we look forward to the concurrent Reliability Frameworks Review addressing the barriers to this being efficiently made available to the market.

RESPONSE TO SPECIFIC QUESTIONS

Question 1 Assessment framework

- (a) Is the assessment framework appropriate for considering the changes proposed in the rule change request?
(b) Are there any other relevant considerations that should be included in the assessment framework?

The EUAA supports the central focus on the NEO and agrees with the Commissions preliminary assessment of the relevant aspects of the NEO for this rule change request. The EUAA agrees with the proposed principles the Commission will apply and would emphasise the need to have an assessment framework that transparently leads to the least cost pathway to meeting the reliability standard.

Question 2 Procurement lead time

The EUAA supports increasing the procurement lead time from nine months to one year. This will be particularly important for encouraging demand response bids.

Question 3 Multi-year contracting

The EUAA supports multi-year contracting of up to three years where it can be transparently shown that it brings benefits to consumers.

Question 4 Operationalisation of the reliability standard

Question 5 Appropriateness of the reliability standard

Question 6 Alternatives to the reliability standard metric

Question 8 Linking the procurement trigger to a reliable operating state

Question 9 Procurement volume

We consider these questions together.

As the Consultation Paper notes in discussing the reliability standard (p.28):

“Crucially, this is not set at zero per cent...Importantly, setting the level of the reliability standard involves a trade-off between the prices paid for electricity and the cost of not having energy when it is needed. Increasing the levels of reliability involves increased costs.

The EUAA supports:

- The current metric – annual expected USE per region, and
- The number relating to that metric – 0.002%

and does not support consideration of any alternative/additional reliability metric.

AEMO seems to want to move away from the reliability standard in triggering RERT. As the Consultation Paper comments (p.32):

“AEMO notes in its rule change request that the reliability standard may no longer be appropriate given changing system conditions, in particular, a more peaky system and one with more common extreme weather events. It also states that community expectations have shifted so that jurisdictional governments are unwilling to tolerate load shedding and are intervening themselves directly in the market as a result.”

Given the Commission’s assessment criteria for this rule change are based on the NEO and a balance of costs and benefits, AEMO provided no comprehensive economic analysis to justify a move that seems to result in a reliability standard higher than the current 0.002% USE.

The EUAA believes that the standard is still very appropriate to the current market and in the foreseeable future given the changes expected as the NEM transitions to a lower carbon, more distributed generation system.

The Reliability Panel has recently completed a comprehensive review of the standard and settings and there was no support during that review for the fundamental type of change that seems to be proposed by AEMO.

The forthcoming AER review of the value of customer reliability may indicate a change in consumers value of reliability that might drive a change in the standard. However, we should not pre-empt this AER review.

Perhaps the best indicator we currently have on consumer's attitudes is the feedback given in consumer consultations on network revenue resets. The EUAA's participation in these consultations concludes that the overwhelming important issue for all consumers is affordability. This is definitely the view of our members. Consumers are satisfied with the current level of reliability (noted this refers to "delivered" reliability rather than the formal USE measure) and want to see the current level of reliability delivered at a lower cost.

The Consultation Paper (p.33) quotes Ernst & Young research that the achieve zero USE in Victoria would require a further 1,000MW of capacity at an annual cost of \$200m. Our members have no interest in paying any more than what they pay now – and look forward to paying a lot less with a more efficient RERT.

Further, AEMO's approach seems to be contrary to the proposed NEG process for forecasting a material shortfall. The ESB proposed design - which the EUAA supports - provides for a much more comprehensive forecasting methodology and accountability framework than is currently the case for AEMO's ESOO process.

This is designed to boost the markets confidence that the forecasts provide an appropriate basis for identifying and measuring a reliability gap. This includes:

- Development of best practice forecasting criteria
- Defining the reliability gap based on the 0.002% USE reliability standard
- AEMO publicly providing as much information as possible (respecting its confidentiality obligations) to enable the forecasts to be repeatable by an independent forecaster or reviewer, and
- Review of AEMO forecasts by the AER prior to a reliability gap being declared and the procurer of last resort mechanism triggered

If the NEG is supported by COAG Energy Ministers in August then the ESB framework set out in their Technical Paper – Forecasting the Reliability Requirement published in June, will apply to the operation of RERT in AEMO's role as the procurer of last resort, irrespective of the discussion in the AEMO rule change request. If the NEG is not supported, then the EUAA supports that same ESB framework to be applied. This This would involve the AER reviewing and approving any decision by AEMO to procure RERT.

Question 7 Power system security trigger

Given that purchasing for power system security was not raised by AEMO it is difficult to make any specific response. We would need to see more details around how it might be preferable to using ancillary services.

Question 11 Standardisation of products

The EUAA supports AEMO's approach to standardisation of products and exercising flexibility to allow non-conforming offers if it considers that will result in lower cost procurement. It is unsure what net benefits would come from formalising this standardisation in a high level framework in the NER.

Question 12 Governance and transparency of the RERT

The EUAA shares many of the concerns listed in the Consultation Paper (p.42). We agree that AEMO's proposed product standardisation will go some way to addressing these concerns.

Given our members experience with the 2017/18 RERT, we support greater oversight and transparency around the whole RERT process. As commented above, this would involve applying the ESB framework developed for the NEG even if the NEG is not approved.

Question 13 Notification periods

The EUAA supports the three proposed notification periods – 10 minute, 60 minute and 24 hour.

Question 14 Eligible technologies

The EUAA supports continuation on the current technology neutral approach. The key to this supporting the NEG is rules eg product standardisation categories that do not give an advantage to one technology over another.

Question 15 Minimising market distortions

(a) Are the out-of-market provisions in the NER, aimed at minimising market distortions, are appropriate?

(b) Are the existing out-of-market provisions clear and transparent to stakeholders?

(c) What are stakeholders' views on the specific suggestion to increase the out-of-market restriction to a year?

(d) What are stakeholder views on interactions, if any, between a wholesale demand response and emergency demand response?

The overall aims should be:

- to incentivise all potential resources to operate in the market to reduce the likelihood that RERT will be triggered, and
- ensure appropriate ring-fencing to ensure RERT reserves are indeed “out of market:

The EUAA believes that removal of restrictions on demand response through the AEMC Reliability Frameworks Review will be an important step in the right direction that will bring a more efficient market and limit RERT costs.

Question 16 Other product specifications

The EUAA is broadly supportive of the proposed product specifications. This will considerably simplify the current very complex contracting process. There is benefit in these specifications being in the NER – as long as it does not restrict AEMO's procurement flexibility to achieve a lower cost outcome.

Question 17 Payment structure

The EUAA supports:

- a very low availability payment with a cap
- Pre-activation costs to be actual cost reflective
- close review of pre-activation costs so that they properly reflect the actual costs incurred and with a cap; it appears that a substantial proportion of the pre-activation costs of \$21.56m for 2017/18 were incurred in Victoria on 19th January for contracts that were not subsequently activated
- the provider of RERT obtaining their return through usage charges and that these be capped; we do not have a strong view either way on AEMO's proposed \$30,000/MWh but there is a reasonable basis for it given that it is somewhere between the market price cap and AEMO's estimates of VCR

Question 18 Dispatch triggers

The EUAA sees no reason to change from the current framework.

Question 19 Other design features

The other design features seem reasonable.