



13 August 2020

The Commissioners
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Sent to: AEMC by online lodgement

Dear Commissioners

**System Services Rule Changes
Response to Consultation Paper
ERC 0290**

Major Energy Users Inc (MEU) is pleased to provide its thoughts on the issues raised in the consultation paper relating to the system services rule change proposals.

The MEU was established by very large energy using firms to represent their interests in the energy markets. With regard to all of the energy supplies they need to continue their operations and so supply to their customers, MEU members are vitally interested in four key aspects – the cost of the energy supplies, the reliability of delivery for those supplies, the quality of the delivered supplies and the long term security for the continuation of those supplies.

Many of the MEU members, being regionally based, are heavily dependent on local staff, suppliers of hardware and services, and have an obligation to represent the views of these local suppliers. With this in mind, the members of the MEU require their views to not only represent the views of large energy users, but also those interests of smaller power and gas users, and even at the residences used by their workforces that live in the regions where the members operate.

It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumers for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (ACCC, AEMO, AEMC, AER and regional regulators) and with governments.

The MEU recognises that the change in generation mix (especially the increased share of variable renewable energy (VRE) generators) in the NEM is resulting in some negative impacts on the electricity supply system and that some actions are

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needed to ensure that the supply system is maintained in a secure and reliable manner. Equally, the MEU is aware that the AEMC and ESB are also examining methods for ensuring that the electricity system is able to operate in a secure and reliable manner with the increase in VRE generation.

The MEU has a number of concerns about these proposed rule changes.

The first MEU concern

The MEU notes that the introduction of these proposed rule changes while other more wider focused reviews are being undertaken to assess the long-term reliable and security of the National Electricity Market (NEM) and introduces the first concern of the MEU that implementing any of the proposed rule changes at this time could negatively impinge on better longer-term solutions that are currently under review and, potentially, development. Further, the MEU is concerned that actions taken in relation to these rule change proposals might well be overturned or made redundant by outcomes from these wider focused reviews and therefore lead to unnecessary costs being incurred by consumers.

With this in mind, the MEU considers that great care needs to be taken to ensure that any actions regarding these rule changes will not negatively impact on the actions implemented as a result of the current reviews already in train or impose costs that might be ultimately unnecessary due to the implementation of the change processes resulting from the long-term reviews currently underway.

The second MEU concern

As noted above, it is the introduction of new and different forms of generation that are leading to the need for the rule changes being implemented. The MEU notes that four of the five proponents are all generators and are providers of power from different proportions of variable renewable generation (VRE) in their generation mix. All four generators are likely to be beneficiaries of the new markets that are proposed to be introduced.

Yet it is the introduction of VRE generation that has led to the need for these additional services so it raises a core question as to the motives of the proponents in both providing VRE and then recommending tools to manage the changes resulting from the decisions they made to implement VRE generation, especially as they are likely beneficiaries from the provision of these new services.

The third MEU concern

The implication of the proposed rule changes (including the rule change by TransGrid) is that the costs of these new markets and/or tools to manage declining system reliability and security from the introduction of VRE will fall to consumers,

yet it is not consumers that have caused the change in generation mix leading to the need for the tools implied by the rule changes proposed.

Some generation types (eg synchronous generators) provide these services “for free” yet in the dispatch process, the generators that don’t provide these services are dispatched on the basis of supposed technology neutrality with those that do. Effectively the VRE generators do not have technology neutrality with synchronous generators yet are assumed in the dispatch process to be equivalent.

Implicitly, to have technology neutrality, the VRE generators should be assessed on their ability to provide the services that are absent but needed as part of their dispatch process and to provide reliability and security of supply. If these new services are paid for by consumers as implied by the proposed rule changes, then they are providing VRE generators with a benefit at the expense of synchronous generators – this is inequitable.

The MEU considers that the cost of the new services should be borne by the beneficiary of the service. For example, if a VRE generator needs the service for it to be comparable to a generator that provides the service as part of its normal delivery, then the VRE generator should pay for the service.

The fourth MEU concern

The ACCC in its report from their review of retail electricity prices, identified that the current market is concentrated in terms of electricity generation, and that this concentration was causing harm to consumers.

The new services that are proposed with these rule change proposals will have to be provided by an even smaller cohort of providers, noting that the increasing numbers of VRE generators are rapidly displacing synchronous generation which already provide the services proposed. The MEU observed that the recent exercise of market power in the SA region in the provision of FCAS highlights this problem in that when services can only be delivered by a small cohort of providers, the cost of the service can reach very high levels, well beyond the cost of providing the service. Essentially the MEU considers that market measures do not deliver efficiency when there are only small numbers of providers available to provide the service.

In the analysis that the AEMC undertakes with regard to these rule changes, the MEU considers that it must assess the likely competition there will be to provide the services and evaluate whether there will be sufficient competition in their provision to ensure that prices offered are commensurate with the cost of the service provision.

If there is likely to be insufficient competition, then the MEU considers that the provision of the service should be regulated so that prices more closely reflect the costs. This regulated cost should then be passed to the beneficiary of the service.

The fifth MEU concern

The MEU notes that one of the new services proposed is an operating reserve market. The MEU notes that already AEMO has proposed a similar mechanism that would operate in tandem with the “reliability and reserve trader (RERT)” process.

The MEU also points to more recent changes to the NEM rules aimed at increasing reliability (the retailer reliability obligation (RRO) which has yet to be required and the soon to be implemented wholesale demand response (WDR) process) which so far have not been able to demonstrate whether they will address the concerns raised by the rule change proponents. The MEU notes that these rule changes already in place will increase costs for consumers but the MEU considers that it is important to identify whether these changes will provide the requisite improvements to reliability before introducing more changes that will add further costs to consumers.

The MEU is concerned that these many different approaches to ensuring reliability of supply in the market will act against each other and result in less competition for the basic service (ie overall reliability of supply), while in the process hollow out competition for the provision of each individual service leading to higher prices for all.

The MEU considers that analysis of the rule change must reflect that there are many approaches to ensuring reliable supplies (megawatts and “negawatts”) which can be added to the bid stack for the supply of energy into the NEM without needing additional ancillary services.

AEMO has access to reserves through the RERT scheme and the MEU considers that this should be sufficient for ensuring reliability of supply. But the MEU is also concerned that the RERT (which has the potential to deliver providers of RERT with higher rewards that they might get from the market processes) will remove providers from the main dispatch process thereby reducing reliability in the main market and requiring the higher priced outcomes for consumers that the RERT delivers. The MEU has a similar concern about the proposals for establishing an operating reserve and payment for an ex ante day-ahead capacity commitment.

The sixth MEU concern

It is not clear from the proposals as to how these new services will actually operate and be paid for, but what is possible is that they will result in a double payment for the same input. As noted above, synchronous generation already provides some of the proposed services “for free” yet it is possible that under the proposed changes, a generator will get paid twice for the same delivery of energy into the market through the normal dispatch arrangements plus get payment for one or more of the new services but not doing anything different to their dispatch.

Inherent in some of the proposals is a payment for provision of capacity. It would be iniquitous if a generator was paid to provide capacity and then receive payment

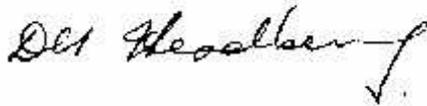
from a market structured as an energy-only market. Under a capacity market, a generator gets paid for being available and effectively the short run marginal cost for the energy it supplies, so a proposal for a capacity payment as well as energy in the NEM would deliver the best of both the two basic market approaches to generators, to the detriment of consumers.

In summary the MEU's concerns with these rule change proposals can be stated as:

1. Are these rule changes required when:
 - a. There are many other changes being contemplated which if implemented might make the proposed rules redundant, and
 - b. The existing new rule changes to improve reliability have not yet been needed and so assessed whether they are effective?
2. If the rule changes are deemed to be needed, who should pay for the new services – consumers or the beneficiaries such as VRE generators?
3. Will there be sufficient competition to ensure that there is no ability to exercise market power?
4. If significant lack of competition is expected, then the MEU prefers that the service provision should be regulated
5. Any new rule that is developed must ensure that the generator cannot be paid twice for providing energy into the market.

The MEU is happy to discuss the issues further with you if needed or if you feel that any expansion on the above comments is necessary. If so, please contact the undersigned at davidheadberry@bigpond.com or (03) 5962 3225

Yours faithfully



David Headberry
Public Officer