SUBMISSION

REVIEW OF RELIABILITY STANDARD & GUIDELINES | 08 APR 2021

EUAA
Energy Users Association of Australia

INTRODUCTION AND SUMMARY

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Our members are highly exposed to movements in both gas and electricity prices and have been under increasing financial stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

Thank you for the opportunity to make a submission to the Review of Reliability Standard and Guidelines. In summary, the EUAA does not see any need to review the Reliability and Standard setting guidelines prior to the regular review of the reliability standard and settings. Regular reviews in the past have shown that the current form of the settings is the best approach to an energy only market and we do not think the Panel has made the case for a change. Potential factors that may support a change are raised, but they are not explored in any detail to seek to build a case to justify that change.

We agree that the NEM is transitioning at pace to a lower carbon world. Yet after all the discussion of the what the market should look like post 2025 and what measures should be put in place to meet the current reliability standard, the ESB is still proposing to retain the current energy only market design. In its discussion of Resource Adequacy Mechanisms and Aging Thermal Generation Strategy options it concluded[1]:

> *"The options we propose to develop further aim to preserve the role of the real time market and financial contracting market in providing a signal for investment and providing incentives to make resources available when they are needed, which we expect to be the main, enduring resource adequacy mechanisms after the energy transition has run its course."*

And a key direction of the workstream is to[2]:

> *"Ensure the spot and contract market continue to provide incentives for the efficient use of resources in the market – the ESB will investigate an operating reserve market as part of the essential system service workstream as well as a range of other reforms to ensure all services are valued."*

We agree with the Panel's view that given the post 2025 ESB work and the uncertainties related to government policy and schemes that:

[1] ESB "Post-2025 Market Directions Design Paper" January 2021 p.22 https://energyministers.gov.au/sites/prod.energycouncil/files/publications/documents/P2025%20Market%20Design%20Directions%20Paper.pdf

[2] Op cit p.23

> *"… it is important that the approach for review of the reliability standard and reliability settings is fit for purpose and that the reliability settings are considered holistically."*

However much of the discussion in the Consultation Paper seems to combine the 'form' of the reliability standard/settings with the 'level' of the reliability standard/setting in a way that is confusing to the reader. It is not clear how much the Panel considers the need to review the form of the reliability standard/setting to cope with the changes in the NEM that cannot simply be handled with a review of the level itself.

Past reviews of the form of the reliability standard/settings have clearly concluded that the current form is the best combination to meet the assessment criteria. It is also widely agreed that a stable predictable standard/settings framework is absolutely essential to provide the appropriate signals to market participants. This is even more important in the current transition.

Therefore, we do not support the proposal to automatically review the form of the standard/settings at each RSSR. This would inject considerable additional uncertainty at the very time that a reduction in uncertainty is required, increase the level of time required to undertake the RSSR and increase the complexity of the review. In our view this would consume significant Panel, AEMC and stakeholder resources and based on the detailed reasons set out in previous reviews, likely result in no changes to the current form of the reliability standard and settings.

The EUAA is very concerned that the changes that may come from a review of the form will result in unjustified increased costs being placed on our members. We have consistently supported the current form and level of the standard/settings as an appropriate balance between cost and reliability. We do not want an additional source of uncertainty around form and potential cost increases introduced at the very time that the level of uncertainty around cost increases is increasing.

SPECIFIC RESPONSES TO QUESTIONS

Question 1: General Assessment principles to meet the NEO

We agree with the Panel that the general assessment principles outlined in the current guidelines are generally still appropriate.

Question 2: Broad approach to the Guidelines Update

We do not support the Panel's proposed approach of removing the existing arrangement where components are open, subject to materiality assessment or closed for review from the guidelines, effectively making all components open; reviewing/updating the statements in the existing guidelines that refer to the purpose/function of each component; and effectively forming a materiality assessment for the guidelines.

This is because we do not think the Panel has made the case that the benefits of stability no longer outweigh the benefits of a flexible framework in a changing environment or that the changes in the NEM are so significant, that a change to a more flexible framework is warranted.

The 'NEM is Transitioning' section in the Consultation Paper highlights that:

> *"Over the past 14 years, interruptions to power supply in the NEM due to lack of available capacity have been very rare"*

The most recent AEMO ESOO forecasts no breach of the 0.002% reliability standard until 2029-30. A lot of action will take place, particularly in the area of new investments, prior to then to address this potential shortfall. Yes, there is a forecast breach of the interim reliability standard in 2023-24 but that is not a reason to change the form. We are confident that the impact of Liddell closing is being well addressed by existing market mechanisms and NSW Government policy.

The Panel's recent Annual Market Performance Report showed that <1% of all interruptions to supply were reliability events with distribution events responsible for the vast majority of interruptions.

So we do not believe the Panel has made the case for a review of the form of the standard/settings as part of the RSSR for such a negligible part of total system reliability. This review will simply increase market uncertainty at the very time we should be seeking to reduce it.

Questions 3-8: Issues pertaining to the Reliability Standard, market price cap, market price floor, CPT, administered price cap and indexation

We do not consider there is any value in the Panel considering other forms of the reliability standard, the market price cap, market price floor, CPT, administered price cap or application of indexation as part of RSSR.

These matters have been thoroughly reviewed in all past reviews where the form of the standard and settings was reviewed as part of developing the RSSR guidelines and were found to be fit for purpose.

The Paper mentions issues including provision of efficient price signals to demand side participants and the transition to batteries and other forms of storage and the lack of investment on OCGTs as reason to reconsider the form of the settings but does not go on to explain exactly why those issues necessitate a review of the form as opposed to adjustment to the level. In the absence of that justification we cannot see a reason to review the form.

The Appendix briefly discusses some potential alternative forms of the reliability standard, none of which we would support:

- Frequency of interruptions – this is only a part of the story as it excludes duration
- Maximum probability of USE – this seems to be more around the level of the standard than the form of the standard as it is still a probabilistic measure based on USE; the justification the ESB provided for the interim reliability standard of 0.0006%USE was that it represented a 10% chance of exceeding 0.002%USE
- Maximum probability of any lost load – it is not clear how this accounts for the duration of the lost load
- Volumetric buffer – this seems to be a deterministic standard that we do not support as it has no consideration of the trade-off between costs and benefits to consumers of different levels of reliability.

Do not hesitate to be in contact should you have any questions.

Kind regards,

Andrew Richards
Chief Executive Officer