



8 April 2021

Ms Lisa Shrimpton  
Australian Energy Market Commission  
GPO Box 2603  
Sydney NSW 2001

Sent by: direct lodgement

**Reliability Standard and Settings  
Reliability Panel Review of Guidelines**

The Major Energy Users is pleased to respond to the Reliability Panel (RP) for input to its review of the guidelines for the Reliability Standard and Settings.

**About the MEU**

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.

***8 Harker, Healesville, Victoria, 3777***

***ABN 71 278 859 567***

***[www.meu.asn.au](http://www.meu.asn.au)***

As an over-arching observation, the MEU does not see a need to change the guidelines for reviewing the Reliability Standard and its associated market settings as part of the regular four-yearly reliability standard and settings review (RSSR). The current guidelines provide a number of essential aspects which must be considered as fundamental to a considered approach in reviewing and calculating the reliability standard and its market settings. The MEU is of the view that the current approach embedded in the guidelines has provided outcomes that have continued to deliver a highly reliable wholesale market where the frequency and durations of unserved energy (USE) are so low as to have a negligible impact on the overall reliability of supply as seen by end users, yet provide the necessary certainty and transparency of process to ensure investment in the NEM as and when required.

In this regard end users are aware that loss of supply is overwhelmingly caused by outages in the distribution networks, and any improvement in the reliability at the wholesale end of the supply chain will have marginal (if any) impact on overall reliability seen by end users and to achieve such marginal improvement could cause considerable additional cost to consumers. It is pertinent to point out that the distribution networks (especially in NSW and Queensland) were extensively augmented to increase reliability (now referred to widely as network gold plating) yet the additional and significant costs delivered little improvement in reliability of supply. The MEU has a similar concern that the same approach to reliability is driving marginal benefits in the wholesale market<sup>1</sup> at a very significant cost to consumers (ie a gold-plating the wholesale market).

The Consultation Paper provides a view that the current guidelines have provided sufficient guidance to the RP to recommend settings that have delivered a very reliable wholesale market, even as significant change to the market has occurred. These changes are clearly listed in the Consultation Paper, yet the current approach has delivered forecast USE levels<sup>2</sup> well below the Reliability Standard in the past and for the next decade, even as these changes in the market have occurred. As an observation, the MEU also notes that the amount of USE forecast will be at or below the interim reliability standard of 0.0006% for most regions for the rest of this decade (except NSW) where AEMO's choice of modelling input assumptions has had a material impact on forecast USE<sup>3</sup>. It is also important to note that the purpose of forecasting well into the future, is to provide guidance to market participants and investors of the needs of the future NEM, so a forecast now

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<sup>1</sup> For example, through the Interim Reliability Measure which has been roundly rejected by consumers.

<sup>2</sup> The MEU is a member of the AEMO Forecasting Reference Group and considers that the USE forecast by AEMO is extremely conservative both in assessment of peak demand and the level of demand response that is being provided into the market.

<sup>3</sup> The MEU notes AEMO in its forecasts omitted the benefit to NSW of the VNI Minor upgrade, the transmission upgrade to allow export from Snowy 2.0 or the capacity forecast in the Orana REZ being supported by the NSW government.

of high USE many years into the future is needed to provide the impetus for new investment.

While the RP points to the amount of RERT that has been activated by AEMO to ensure no loss of supply in the wholesale market (and provides a table in the consultation paper outlining these costs over the past three years), yet this RERT was primarily been dispatched to maintain reserve levels against AEMO's forecasts rather than limiting USE<sup>4</sup>.

As a fundamental aspect of the NEM, it is accepted that there will be times where there is USE and the target is to limit this to no more than 0.002% (ie notionally for just 10 minutes in a year) reflecting the reality that any reduction in the level of targeted USE will incur considerable additional cost to consumers to achieve this<sup>5</sup>. Nowhere in the Consultation Paper does the RP provide any quantitative analysis showing the costs of making the changes proposed will be less than the cost of continuing the current approach<sup>6</sup>.

The purpose of the reliability standard and its settings is to provide a high level of confidence in what investment will be needed in the future so that market participants and larger consumers<sup>7</sup> have a degree of certainty about the investments they make will have a reasonable chance of meeting the needs of the NEM in the future and delivering an appropriate reward for the risks they take. A regular four-year review where the RP would (under this proposal) routinely review the **form** of the reliability standard and the market settings does not provide sufficient certainty to make these important investment decisions. Already we have seen that the uncertainty engendered by the government interventions<sup>8</sup> has negatively impacted investment needed to manage the future NEM, and the proposed changes to the RSSR guidelines will just enhance this uncertainty.

The MEU does not consider the RP has made a compelling case that the RSSR guidelines need to be changed (ie in the **form** of the Reliability Standard and the settings) but the MEU considers that the changes proposed have the potential to create increased uncertainty and so lead to more risk for investments, causing higher costs to consumers. Effectively, the MEU considers the proposed changes do not meet the National Electricity Objective.

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<sup>4</sup> It is also worth noting that on many occasions when RERT has been dispatched, actual consumer demand has been below AEMO forecasts by a considerable margin.

<sup>5</sup> Essentially, the setting of USE is a balance between cost and reliability.

<sup>6</sup> Included in such an assessment should be the balancing of the cost of RERT with the value of the electricity to consumers that such RERT dispatch avoided.

<sup>7</sup> It needs to be remembered that large end users who operate with spot price pass through or who will offer WDR to the market, they also need the certainty of the process in order to make the investment needed and limit their risk to allow them to use pass through or WDR.

<sup>8</sup> Such Federal intervention included the decision to reduce the Reliability Standard to 0.0006% for application to the RRO, as well as intentions to build new generation. State governments have also introduced changes (eg NSW roadmap and VicGrid).

The consultation Paper asks a number of questions:

1. Box 1 in the consultation paper outlines appropriate guidance principles for the RP.
2. As pointed out above, reducing the Reliability Standard will increase costs for marginal benefit to end users yet the frequency and extent of exceedances of USE are minimal over the life of the NEM. Whilst there is currently no proposed change to the **form** of the standard or settings, the mere fact that these might be changed is unsettling in an increasing changing environment. The MEU points out that because stability and certainty are needed for investment, flexibility in the RSSR process should be limited, especially regarding the **form** of the standard and the settings.

If a change in form of the reliability standard and settings is considered necessary, then there is an avenue for this to occur via the Terms of Reference for the RSSR from the AEMC so the MEU does not consider a change to the guidelines is needed. Hopefully, if the AEMC elected to provide a direction to the RP under this mechanism, it would do so after careful consideration and consultation with stakeholders.

3. The MEU considers there is no valid reason for the RP to have the power to change the **form** of the reliability standard – if change is needed, there is a mechanism available to make this change. However, reviewing the **form** of the standard at each major review increases uncertainty and reduces stability which are both necessary to incentive investment. There is no convincing reason provided in the consultation paper as to why the **form** of the reliability standard should be changed, or why the RP should have the ability to do so.

The MEU notes that the arguments provided by the RP behind the next four questions relate more to the **value** of the settings than the **form** of the settings. The MEU considers that the value for the settings is already part of the RP RSSR process, but the **form** of the settings has to be internally consistent and appropriate to the fundamentals of the NEM (that it is an energy-only market). If the post 2025 review by ESB results in a change to the market structure, then the MEU agrees that a change might be needed to the **form** of the settings and this can be implemented via the rule change process, allowing extensive AEMC investigation and stakeholder consultation under the current rules and not via a RP review process.

4. The MEU considers there is no valid reason for the RP to have the power to change the **form** of the market price cap – if change is needed, there is a mechanism available to make this change. However, reviewing the form of the MPC at each major review increases uncertainty and reduces

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stability which are both necessary to incentive investment. Further, the MEU has difficulty in identifying what other form might be possible in an energy-only market and there are no convincing reasons provided as to why the form of the MPC should be changed.

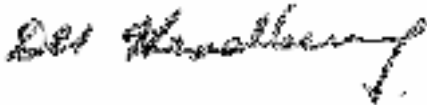
5. The MEU considers there is no valid reason for the RP to have the power to change the **form** of the market floor price – if change is needed, there is a mechanism available to make this change. However, reviewing the form of the MFP at each major review increases uncertainty and reduces stability which are both necessary to incentive investment. Further, the MEU has difficulty in identifying what other form might be possible in an energy-only market and there are no convincing reasons provided as to why the form of the MFP should be changed.
6. The MEU considers there is no valid reason for the RP to have the power to change the **form** of the cumulative price threshold – if change is needed, there is a mechanism available to make this change. However, reviewing the form of the CPT at each major review increases uncertainty and reduces stability which are both necessary to incentive investment. Further, the MEU has difficulty in identifying what other form might be possible in an energy-only market and there are no convincing reasons provided as to why the form of the CPT should be changed, other than it might be calculated over a different period.
7. The MEU considers there is no valid reason for the RP to have the power to change the **form** of the administered price cap – if change is needed, there is a mechanism available to make this change. However, reviewing the form of the APC at each major review increases uncertainty and reduces stability which are both necessary to incentive investment. Further, the MEU has difficulty in identifying what other form might be possible in an energy-only market and there are no convincing reasons provided as to why the form of the APC should be changed.
8. The MEU has consistently been opposed to indexation of the market settings as the valuation of each setting is relatively arbitrary with a range of possible values. The implementation of indexation implies an accuracy in the valuation process that is non-existent.
9. The MEU does not see that the current guidelines impose any significant constraints on the RP in carrying out its tasks, so it does not agree that there is a compelling reason for change. However, the three dot points listed as principles are seen as beneficial and are supported.

The current RSSR guidelines provide a sound approach which has delivered a high level of certainty about how an outcome will be developed coupled to transparency

of the RP process that is so important to a competitive market. The MEU does not consider that the guidelines should allow the Reliability Panel to decide to make change to the form of reliability standard or how and what the settings for the market should be, and certainly not to be able to change (or even contemplate a change) these at each four-yearly review of the reliability standard and its associated settings.

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](mailto:davidheadberry@bigpond.com) or 0417 397 056

Yours faithfully

A handwritten signature in black ink, appearing to read 'David Headberry', written in a cursive style.

David Headberry  
Public Officer