

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.

While the scope of this review is clear, its eventual impact may be somewhat limited. The Issues Paper says that this consultation is about the reliability standard and settings for the period 1 July 2024 to 1 July 2028 in an energy only market. Yet there is a widespread expectation that the ESB 2025 work will lead to some form of capacity market from 1 July 2025. In the [EUAA submission](#) on the ESB Rule Change on this matter we asked:

- “Will the reliability standard resulting from the Panel’s current process be the kept as the reliability standard to apply until 30 June 2028, irrespective of whether an energy only or capacity market is in place?”
- What role will the Panel play in determining the settings that will apply under a capacity market?
  - From the start of the capacity market until 30 June 2028
  - Beyond 30 June 2028”

We await answers to these questions in the Final Determination. The Paper says (p.ii):

“The Panel’s 2022 RSS review will consider whether the existing form and level of the standard and settings remain appropriate for expected market conditions from 1 July 2024 to 30 June 2028.”

But that can only be on the expectation that the energy only market will continue until 20 June 2028. So we assume that the modelling will be on that basis but any changes in the standard and the settings may only apply for 12 months.

The NEM transition debate in recent years has focussed a lot on its security and reliability implications. This debate is often around a ‘political’ reliability standard rather than the reliability standard used in the NEM. The ‘political’ standard seems to be zero – the expectation that the lights will never go out. This ‘political’ standard also seems to only look at the generation/transmission level and not at the distribution level where the vast majority of interruptions to supply occur.

Our aim is for a reliability standard that balances costs and benefits to consumers and that is not zero or close to zero. As the Paper notes (p.ii):

- “The standard defines an efficient level of reliability, expressed as the level of unserved energy (USE) that represents an efficient economic trade-off between reliability and affordability based on what consumers value.”

and further at p. 12:

“A reliability framework requires a trade-off between the prices paid for electricity and the cost of not having energy when it is needed. The need to balance these costs illustrates that the most efficient level of reliability is not having zero per-cent USE. Such an approach would be inefficient as the cost of supplying

energy would exceed the value placed on it by customers. As introduced in Chapter one, the level of the standard is based on the level of USE that represents an efficient economic trade-off between reliability and affordability based on what customers value.”

Our view at this stage of the consultation process, prior to seeing the results of the modelling and other stakeholder responses, is that:

- We do not see any material benefit in a move away from the current form and level of the probabilistic standard of 0.002% USE; specifically, we do not support any move to a deterministic style of standard because we are not convinced that the potential benefits will outweigh the costs
- There may be benefit in seeking to refine the 0.002% to reflect changes in frequency, duration and size of interruption in a VRE dominant grid
- We agree with the Paper that while modelling is helpful, it is not determinative of what the settings should be (p.53):

“As there are limitations to any modelling approach, the Panel also considers a range of qualitative issues, such as the benefit of regulatory predictability and transparency in determining the level of the standard.”

We are puzzled by the comments around the implicit assumption that aluminium smelters will not have a continuing role at the end of their current electricity supply contracts:

“Changes in the Australian economy are seeing small and medium industrial enterprises (SME) continuing to increase their contribution to Australia’s economic output displacing the contribution of large industrial customers such as aluminium smelters...

“The continuing exit of large industrial loads, such as aluminium smelters... (p. 35)

We would have thought that the significant renewable energy resources in Australia, combined with technology developments that are dramatically reducing the costs of zero emissions electricity would suggest a potentially bright future for large smelter loads. Rio Tinto<sup>1</sup>, Tomago<sup>2</sup> and Alcoa<sup>3</sup> have recently announced a series of initiatives to ensure that future. This is aside from the benefits of smelter loads to the likely future reliability risks this review is examining. Hence the modelling needs to consider what impact their long term operation will have on the NEM.

There is one area our members see as relevant to the review but outside its scope. The level of interruptions to supply from generation and transmission factors is very minor compared with interruptions stemming from the distribution system. We have no way of being confident that any additional cost consumers would bear from a change in the reliability standard and settings is money that could be more efficiently spent improving distribution reliability. Our members are still paying for gold plating of the distribution system based on overly aggressive reliability setting in some States 10-15 years ago and will continue to do so for the next 30-40 years. We do not want to be paying for gold plating of the generation and transmission system for the next 50 years.

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<sup>1</sup> For Boyne Smelters see [here](#) and for Bell Bay see [here](#).

<sup>2</sup> See [here](#)

<sup>3</sup> See [here](#)

## Answers to specific questions

### Chapter 3 - Questions 1- 5

We agree with the Issues Paper that the NEM is very much in a period of rapid change with developments described in Chapter 3 around supply, demand, wholesale market operation and the NEM policy environment are having a profound impact on the NEM. What is clear is that the market price settings, particularly the MPC, are no longer fulfilling one of its original functions to provide an incentive for new generation to enter the market to support the reliability standard. We comment on this further below.

The changes in wholesale market operation and pricing dynamics discussed in the Chapter are the result of thermal plants response to the expansion of renewable generation. Thermal plants need volatility/high priced events to recover their losses from negative price events during the day.

### Chapter 4 – Question 6

We support the proposed general assessment principles, assessment approach and criteria to be applied. We particularly support the ‘materiality’ test for any change – and that any change the Panel may propose would have to go through the rigor of a rule change process.

### Chapter 5 – Questions 6-9

#### *Question 7 – The level of the reliability standard and considerations for VCR*

The most recent AER’s VCR estimates are a considerable improvement on past measures, but they were never intended to reflect the values for all classes of consumer. We were engaged in the AER’s consideration of the WALDO methodology and agree with their conclusion that there were too many difficulties in measurement to proceed further.

We would caution the Panel in seeing sensitivity testing as a comprehensive answer to gaps in VCR values. Our members have a range of ways to manage their exposure to grid reliability. Some have onsite back-up generation, some are able to exercise demand response, some participate in the RERT market. This means they do not always rely on the reliability standard and settings to provide the reliability they require for their particular operations. In many cases they are prepared to pay for their individual tailored response and are not interested in effectively paying twice for a tighter reliability standard.

#### *Question 8 – Form of the reliability standard*

No standard is perfect – all have their limitations. As a general principle, we support a probabilistic standard, not a deterministic standard. The latter has the risk of generating considerable additional costs to consumers for an uncertain benefit. We also agree with the comment in the Paper that (p.57):

“...it may just be more an expression of redundancy rather than energy not delivered to customers, which is more relevant when considering reliability.”

At a detailed level we recognise that the market is changing and there may need to be refinements made to the current USE definition to take into account different frequency, duration and size of interruption. A VRE dominant NEM may result in differences in these variables to a large thermal unit dominant NEM, but there may be occasions when there are similarities when weather changes quickly and generation in a major REZ reduces quickly.

## Chapter 6 – Questions 10-14

### *Question 10 – Further issues regarding the MPC*

As argued above, there is little evidence to suggest that the MPC is fulfilling its first function listed – efficient price signals to support long run generation investment. The expansion in utility scale and behind the meter renewables and more recently storage shown in the various Figures has occurred because of State and Federal Government policies, particularly those that underwrite new investment, not the level of MPC. Based on what is publicly known, it seems the Federal Government commitment for Snowy Hydro to build Snowy 2.0 and the Kurri gas plant would have occurred independently of the market price settings. Many commentators think that the Kurri station will not be a good investment at the existing and expected market price settings, but the Federal Government seems to have been driven by reliability concerns.

We support the principles the Panel is going to use e.g. focus on long run equilibrium, gradual changes over time. We await the views of generators on the other parts of this question.

### *Question 11 – Issues relating to the setting of the MPF*

We support the concept of a market price floor to help the market clear during excess supply situations. There may be a case for indexing the MPF to parallel the MPC and we await further stakeholder submissions on this issue. We are not convinced about the case for technology specific MPFs which seem to be inconsistent with the principle of a technology neutral approach to settings.

The MPF has become more relevant to our members as corporate PPAs have expanded. Early PPAs sought to move negative pool price risk to the buyer. Buyers are now more sophisticated and are not willing to accept that risk. So any move to change the MPF needs to take into account which party will bear that risk.

### *Question 12 – Issues regarding the CPT*

We see no case for increasing the CPT given that will just increase consumers' risk for an unknown benefit. We are not convinced that there is a case for reviewing the CPT to provide support for the business case of a particular technology. Again, these setting should be technology neutral.

### *Question 13 – Issue regarding the APC*

There may be a case for indexation of the APC. We await submissions to examine the arguments for and against.

### *Question 14 – Indexation*

As noted above there may be a case for indexation of the MPF and APC. We await stakeholder submissions before expressing a definite view.

## Chapter 7 – Questions 15-17

We are not modelling experts so only offer a few general comments. This is the first time the ROAM/EY modelling will be looking at both the form and level of the settings. It is not clear from the discussion on the second dot point on p. 81 how the modelling will assess deterministic type standards.

Will EY use input assumptions developed as part of the 2022 ISP e.g. CSIRO gen costs in the modelling? We think it would be appropriate to use common assumptions.

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

Kind regards,

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

Andrew Richards  
Chief Executive Officer