

12 July 2022

Reliability Panel
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Submitted online

Reliability Standard and Settings Review, Draft Report

Thank you for the opportunity to submit our feedback on the 2022 Review of the reliability standards and settings Draft report.

Consumer groups support maintaining the current form and level of the Reliability Standard

PIAC has engaged with consumer and community groups, specifically on the Reliability Standard (the Standard) and more generally on related matters. Feedback from these stakeholders has consistently supported retaining the current form of Unserved Energy (USE), and level of 0.002%, for the Standard.

Reasons for these consumer preferences include

- the Value of Customer Reliability (VCR) has not increased in the last decade or more, and the VCR for households has decreased.
- tightening the Standard is likely to worsen energy affordability, with disproportionate impacts on vulnerable and low-income households already struggling with energy costs.
- the Standard has bearing on less than 1% of all USE from all outages and, in most years, 0% of outages experienced by most consumers.
- given the market price settings linked to the standard are determined on the basis of the standard not being breached in any year or region, actual reliability outcomes usually far exceed the level of the standard.
- there is risk in altering the standard beyond consumer preferences. Of note, the temporary additional Standard of 0.0006% USE was not widely supported by consumers, despite being preferred by Ministers.
- State-based schemes like the NSW Roadmap, and other interventions, are likely to provide a higher level of reliability than the Standard.

The energy market events after the release of the Draft Report have not altered this preference. We note that Reliability Panel modelling indicating 0.0015% USE might more efficient (in balancing the cost of the market with the cost of outages) was done before these events, and subsequent higher prices are likely to increase that efficient level of USE.

Accordingly, we recommend the Standard should not be changed from 0.002% USE.

Demand response should be considered a marginal new entrant in setting the Market Price Cap

We acknowledge the extensive and detailed work of the Reliability Panel and AEMC in modelling prospective price settings, and the challenges of predicting the costs and operation of the energy market out to 2028. The treatment of Demand Response (DR) in the model reflects these challenges. DR bidding in at less than the current Market Price Cap (MPC) has not been considered a prospective marginal new entrant, which has led to more expensive options (batteries and gas turbines) indicating a much higher prospective MPC.

The Wholesale Demand Response Mechanism (WDRM) is only recently introduced, and narrow in scope due to restrictive eligibility requirements and limited baselining options. This is expected to change in coming years, resulting in more DR entering the market at lower cost than batteries and generators.

We recommend DR, particularly that under the WDRM, should be assumed to be more mature in the 2025 to 28 period and therefore a material portion of the 'supply' mix.

We recommend including substantial demand response, both below and above the current MCP, as a marginal new entrant for determining the MPC.

Yours sincerely,

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