

Australian Energy Market Commission
GPO Box A2449
Sydney South NSW 1235

Submitted via www.aemc.gov.au

26th November 2013

Dear Commissioners,

RE: EMO0026 Consultation Paper: Advice to SCER on linking the reliability standard and reliability settings with VCR

Thank you for the opportunity to comment on the Consultation Paper.

As the peak body for the community services sector in South Australia, SACOSS has a long-standing interest in the delivery of essential services and particularly the cost of basic necessities like electricity because they impact greatly and disproportionately on vulnerable and disadvantaged people.

As previously stated in our submission to your review of Strategic Priorities for Energy Market Development 2013, SACOSS is of the view that the treatment of VCR is a key strategic issue for the NEM. SACOSS expressed concern at the disparate treatment of VCR and encouraged the AEMC to take a leadership role on this important matter. We are somewhat disappointed then that this consultation paper also appears in the middle of a range of related work by AEMO and your own Reliability Panel.

We have sought some brief advice on this matter from St Kitts Associates and a short report is attached to this letter.

In summary, we support the report's recommendation that the most appropriate way to link the value customers place on reliability in the wholesale energy market is to implement an effective Demand Response Mechanism as recommended by the AEMC in its 2012 *Power of Choice* final report.

We thank you in advance for your consideration of our comments. If you have any questions relating to the above, please contact SACOSS Senior Policy Officer, Jo De Silva on 8305 4211 or via jo@sacoss.org.au.

Yours sincerely,



Ross Womersley
Executive Director

Marjorie Black House
47 King William Road
Unley SA 5061

P. 08 8305 4222
F. 08 8272 9500
E. sacoss@sacoss.org.au
www.sacoss.org.au

ABN 93 197 662 296

ADVICE ON AEMC'S CONSULTATION ON LINKING THE NEM RELIABILITY SETTINGS WITH THE VALUE OF CUSTOMER RELIABILITY

SOUTH AUSTRALIAN COUNCIL OF SOCIAL SERVICE

Prepared by:

Andrew Nance

st.kitts.associates

e: andrew@stkittsassociates.com.au

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BACKGROUND

SACOSS has commissioned St Kitts Associates to provide advice with respect to the Australian Energy Market Commission's Consultation Paper "Advice to SCER on linking the reliability standard and settings with VCR (AEMC Ref EMO0026, 29 October 2013)"¹

Andrew Nance (St Kitts Associates) is retained by SACOSS to provide advice on a range of energy and water market and regulatory issues and is also the current end-use consumer representative on the AEMC's Reliability Panel. The Reliability Panel is currently reviewing the Reliability Standard and Settings to be applied in the NEM from 2016. The relationship to VCR is also a key consideration in that review.

Over recent years, SACOSS and St Kitts Associates have made a number of submissions on the derivation and use of the Value of Customer Reliability (VCR) in the National Electricity Market (NEM). Most recently, SACOSS identified the treatment of VCR as one of 3 strategic issues in response to the AEMC Review of Strategic Priorities for Energy Market Development 2013².

The SACOSS submission detailed the various regulatory processes that involve the VCR and expressed concern that such a strategically important and historically neglected matter such as VCR was being handled in such a disparate way. SACOSS expressed a desire to see the AEMC assume a leadership role on VCR in the NEM.

DISCUSSION

The reliability of electricity supply experienced by consumers is a combination of the reliability of the complete supply-chain including generation, transmission and distribution. This AEMC project is concerned with the reliability of generation only.

The Consultation Paper states (Summary, i):

"The challenge of maintaining reliability in the NEM is setting the market price cap high enough to incentivise sufficient levels of generation capacity and demand-side response to deliver the expected reliability outcome, but no higher than consumers are willing to pay for that outcome."

And (summary, iii):

"The ultimate objective of this advice is to identify whether there is an alternative approach which may better promote the [National Electricity Objective] than the current approach."

The consultation paper canvasses a number of options for linking the key reliability settings (particularly the Market Price Cap, MPC) and VCR levels determined for the NEM. The Australian Energy Market Operator (AEMO) is currently surveying around 18,000 electricity customers nationally in order to develop a range of VCR values for the NEM³. Based on past consultations on this matter⁴, and

¹ <http://www.aemc.gov.au/Market-reviews/Open/advice-on-linking-the-reliability-standard-and-reliability-settings-with-vcr.html>

² Available from <http://www.aemc.gov.au/market-reviews/completed/strategic-priorities-for-energy-market-development-20123.html>

³ <http://www.aemo.com.au/Consultations/National-Electricity-Market/Open/Value-of-Customer-Reliability-Statement-of-Approach>

⁴ Including: www.aemo.com.au/Electricity/Policies-and-Procedures/Planning and www.aemo.com.au/Electricity/Policies-and-Procedures/Planning/National-Value-of-Customer-Reliability-VCR

information provided on the experiences in other markets, it is clear that VCR is both an important concept and an elusive value.

Further, it is evident that the NEM's nascent Demand Response "market" reveals a willingness for some customers to curtail demand – and therefore contribute materially to the market's reliability performance - at wholesale pool prices below both the current Market Price Cap and the levels of VCR published by AEMO.

The National Electricity Forecasting Report (NEFR) Supplementary information provided by AEMO⁵, identifies material levels of Demand Response at wholesale pool prices of less than \$7,500 per MWh in each of the NEM regions. This is well below the current Market Price Cap (MPC) of \$13,100/MWh and AEMO's current regional VCR estimates of \$40,000 to \$60,000 per MWh (\$40-\$60/kWh)⁶.

Reconciling these results can only imply that while VCRs expressed during surveys may be appropriate for reliability originating in networks, these values may not be so relevant to considerations in the wholesale market.

Further, it would suggest that the most efficient way to link VCR and reliability of the wholesale (generation market) is to ensure that an efficient Demand Response Mechanism operates in the NEM. On this front, it is noted that the AEMC proposed a demand response mechanism as part of its 2012 Power of Choice Review. It is understood that the SCER has supported this and AEMC is awaiting a rule change proposal from the AEMO to implement such a mechanism.⁷

Other than this, the use of the residential VCR as an upper bound cross check for the MPC continues to be appropriate.

SUMMARY

While it is clear that a link to a concept of Value of Customer Reliability at the wholesale generation level is implicit even if it is not made explicit, the inherent uncertainty with which administratively derived VCR can be determined implies that its role should be that of an upper bound cross-check only. This is particularly the case when the VCR is determined from surveys of customers that cannot distinguish outages due to network events from curtailment from price events.

An effectively implemented Demand Response mechanism would appear to provide the most meaningful approach to linking the reliability settings to the value customers place on the 'reliability' of this component of the electricity value chain.

It is therefore recommended that any further work by the AEMC to development the link between VCR and the Reliability Settings should concentrate on the implementation of an effective Demand Response mechanism.

⁵ www.aemo.com.au/Electricity/Planning/Forecasting/National-Electricity-Forecasting-Report-2013/NEFR-Supplementary-Information-2013

⁶ www.aemo.com.au/Electricity/Policies-and-Procedures/Planning/National-Value-of-Customer-Reliability-VCR

⁷ Consultation Paper, p37 footnote 47.