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Dr Kerry Schott AO  
Independent Chair  
Energy Security Board

Submitted via email: [info@esb.org.au](mailto:info@esb.org.au)

Dear Dr Schott

**Re: Consultation on the draft interim reliability reserve rules**

Thank you for the opportunity to comment on the Energy Security Board's (ESB) public consultation on the draft interim reliability reserve rules.

A continuing concern for the Australian Competition and Consumer Commission (ACCC) is the affordability of electricity for consumers. In our most recent report on prices, profits and margins in the supply of electricity in the National Electricity Market (NEM) we found that, while the average effective price for a residential customer fell by approximately three per cent in 2018–19 compared with the previous year, households were still paying about 45 per cent more in real terms than in 2007–08.<sup>1</sup>

There is an inherent trade-off between reliability and affordability, and the pursuit of marginal increases in reliability in the NEM will have negative impacts on affordability. The ACCC considers that, while customers value reliability, they are very concerned about affordability.

Marginal increases in reliability should not be pursued at the expense of affordability. Past decisions to enhance the reliability of supply in the NEM have had unintended and enduring impacts on affordability that cannot be easily unwound. For example, overinvestment in state-owned networks across New South Wales, Queensland and Tasmania were driven by an increase in network reliability standards. The excess costs associated with these new reliability standards are estimated to be in the tens of billions of dollars.<sup>2</sup> Customers in those states continue to pay for over-investment in networks intended to meet high reliability standards.

The changes considered through the draft interim reliability reserve rules will have negative implications for affordability. A tighter reliability measure, being a trigger or mechanism for

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<sup>1</sup> ACCC, *Inquiry into the National Electricity Market - November 2019 Report*, 22 December 2019, p. 2.

<sup>2</sup> ACCC, *Retail Electricity Pricing Inquiry – Final Report*, June 2017, pp. 163-4.

greater market intervention through the Reliability and Emergency Reserve Trader (RERT) directly impacts on the cost of supply paid by consumers.

The ACCC agrees that a combination of factors, including increasing intermittent generation and the exit of ageing thermal generation plant, mean that reliability is likely to become a more pressing issue in the NEM and that enhancements to reliability safeguards may be required. However, increasing reliability will come at an increased cost to customers, in circumstances where NEM-wide outages have represented a very small proportion of overall outages experienced by customers, the majority of which are network-related.

The ACCC is particularly concerned with how the extra costs of a higher reliability standard will impact household, and small and medium sized business customers (SME). The ACIL Allen analysis relied on by the ESB, which used the Australian Energy Regulator's value of customer reliability (VCR) estimates, did not show a net benefit for residential customers of moving to the proposed higher reliability standard. This is due to the lower valuation put on increased reliability by households, compared with SME and large industrial users. The reliability standard valued by households and SME customers would also be lower than that used by ACIL Allen because of the higher valuation put on increased reliability by large industrial users, compared with households and SME customers. Despite this difference in valuation, there is no mechanism to allocate the costs of increased reliability, such as the increase in RERT costs, to customers in accordance with their valuation of reliability. So residential customers and SME customers are likely to face higher electricity costs to meet a new reliability standard that they do not value.

The ACCC is concerned that these reliability measures will impose additional costs on consumers, particularly small consumers. We urge the ESB to consider these affordability impacts.

If you have any questions in relation to this submission, please contact Lyn Camilleri, General Manager, Electricity Markets Branch, on (03) 9290 1973.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'Rod Sims', is written over a light blue circular stamp.

Rod Sims  
Chair