SUBMISSION

ESB INTERIM RELIABILITY MEASURES | JUNE 2020

EUAA
Energy Users Association of Australia

INTRODUCTION AND SUMMARY

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing and materials processing industries. Combined they employ over 1 million Australians, pay billions in energy bills every year and expect to see all parts of the energy supply chain making their contribution to the National Electricity Objective. Our members are highly exposed to movements in both gas and electricity prices and have been under increasing stress due to escalating energy costs.

The EUAA welcomes the opportunity to provide comments on the Energy Security Board (ESB) Interim Reliability Measure - Reliability Reserve Consultation Paper.

There has been considerable focus on NEM reliability in the last couple of years including the regular Reliability Panel review along with numerous proposed rule changes around RERT, ISP and the Retailer Reliability Obligation. These reviews and processes were all conducted in the context of standard stakeholder engagement processes and timelines that enabled appropriate consideration of the issues , debate and engagement to inform the final decision.

Unfortunately, the situation with this set of rule changes is quite different. We recognise the ESB was given Terms of Reference by COAG Energy Ministers at their November 2019 meeting that placed very tight constraints on what analysis and stakeholder engagement the ESB could undertake. Given key parts of the rule changes have already been approved by the COAG Energy Council we are left with little scope for comment that may have an influence to change the outcome.

Nevertheless, we feel it important to communicate to the ESB our concerns about these constraints and the process that resulted. This submission begins by commenting on the process, or more correctly, the lack of process in arriving at the rule changes, that we do not think meets the NEO.

The second part of the submission proposes some improvements in the transparency around AEMO's procurement of the Interim Reliability Reserve to give consumers more confidence that the costs will be minimised.

CONCERNS ABOUT THE LACK OF DUE PROCESS

The purpose of the ESB Consultation Paper:

> "…is to give stakeholders the opportunity to comment on draft amendments to the National Electricity Rules that will implement the temporary out-of-market capacity reserve agreed to by Ministers at the March 2020 COAG Energy Council Meeting."

So, the consultation is really more about commenting on legal drafting of the proposed Rules change than it is on the merits of the proposal. The Assessment Framework is really "the ESB has assessed that the proposed rule change meets the requirements of Section 90F of the National Electricity Law because COAG Energy Council defined it to be so with the COAG Energy Council's definition of 'community expectations'".

We, like all other stakeholders we have discussed this matter with, are disappointed that COAG took the course it did. The setting of the terms of reference effectively prescribed the revised reliability standard the ESB recommended to COAG absent stakeholder consultation and the preferred instruments that would be used to achieve it – out-of-market strategic reserve and modification of the RRO.

The short time to prepare its advice meant that there was no scope for proper stakeholder engagement. The EUAA had one brief conversation with the ESB in the course of its review. Decisions were made at the March 2020 COAG Energy Council meeting have effectively ended debate on the substantive parts of the package. This is far from best practice engagement and has left consumer advocates feeling disconnected and ignored.

We would welcome a discussion with the ESB on how it can better engage with energy consumers in a more productive manner. For example, establishing an ESB Consumer Council, similar to that which many Network Service Providers (NSP's) have established, would be a welcome step to better consumer engagement. NSP's who have established Consumer Councils have found that by engaging more meaningfully with consumers not only builds understanding and trust in the outcome but vastly improves the outcome itself. We would strongly suggest you consider this and we would welcome an opportunity to work with the ESB on establishing such a group.

THE EUAA DOES NOT SUPPORT THE MOVE TO 0.0006% EXPECTED USE

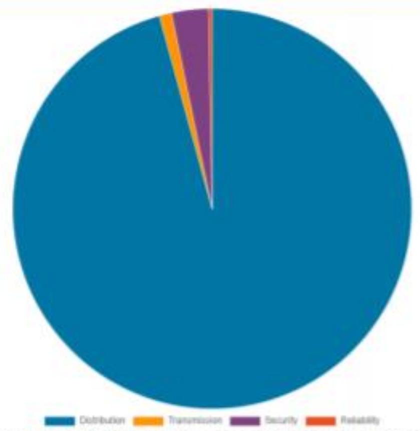
We have always supported the process used by the AEMC Reliability Panel of regular reviews of the reliability framework to set both the reliability standard and the reliability mechanisms. Following the most recent review, the Final Report in April 2018, concluded:

> "The current reliability standard and settings are, in our view, achieving their purpose and are likely to continue to do so throughout the review period including with the introduction of five minute settlement from 1 July 2021." (p. iii)
>
> "Setting the level of the reliability standard involves a trade-off between the prices consumers pay for electricity and the cost to consumers of not having electricity there when it is needed. Getting the balance right avoids what some have called 'gold plating' with excess capacity built but not required for many years. In making such a trade-off it is important to understand what level of reliability consumers actually value, and the extent to which a higher standard would better match consumer expectations." (pp iv-v)

The intense focus on the reliability standard is difficult to understand given that over the period 2008-19, these events accounted for less than 0.3% of blackouts[1]. We recognise that the risk of reliability events causing blackouts is increasing but it will still be a very small aspect of reliability in the period to the implementation of the post 2025 NEM market structure.

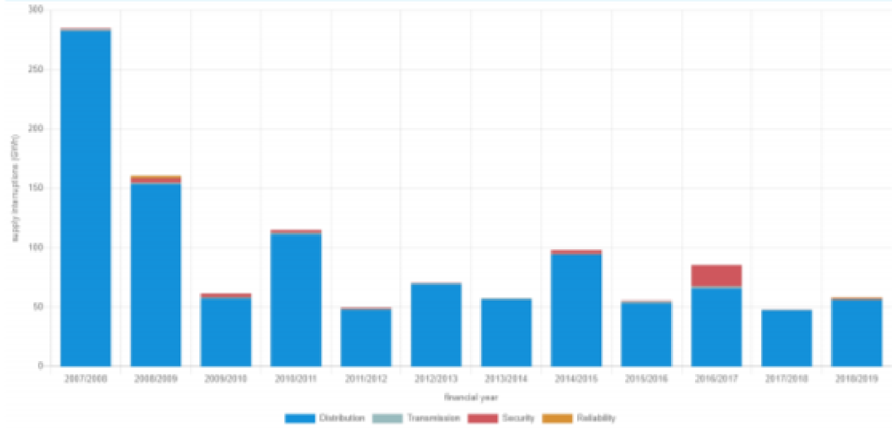
[1] See p. 36

Figure 2.20: Sources of supply interruptions over the decade (2008/09-2018/19)



Source: AEMC analysis and estimates based on publicly available information from AEMO's incident reports and the AER's RIN economic benchmarking spreadsheets.
Note: The data for this chart is available in the AMPR data portal.

Figure 2.21: Sources of supply interruptions in the NEM 2008/09 to 2018/19



Source: AEMC analysis and estimates based on publicly available information from AEMO's incident reports and the AER's RIN economic benchmarking spreadsheets.
Note: The data for this chart is available in the AMPR data portal.

The COAG decision in our view reflects more of a political reliability standard rather than a standard based on economic justification that actually assesses consumer preferences. While the ACIL Allen modelling may be used to justify the standard as 'consumer friendly' on the basis of a narrow interpretation of the recent VCR estimates, the inability of stakeholders to test that modelling through a normal engagement process means we do not share the ESB's confidence.

We support the view expressed by ERM Power in their submission that the modelling as set out in the ACIL Allen report is flawed and hence does not justify the proposed changes.

The EUAA has also consistently argued in favour of in-market measures to achieve the reliability standard as an over reliance on out-of-market measures can lead to unnecessary costs for consumers from unnecessary or inefficient procurement of RERT.

A PROPOSAL FOR GREATER TRANSPARENCY

Given the balance between prescription and flexibility gives AEMO considerable flexibility in how it implements its obligations to help to minimise costs, we look to the reporting requirements to give consumers comfort that this flexibility has been exercised in a way that does minimise costs and meet the NEO.

Consider the following example - how much IRR would AEMO be able to purchase if the forecast of shortfall was 10MW in year 1, zero in year 2 and 50MW in year 3? Is there any constraint on AEMO saying it is cheaper to buy 50MW for 3 years? The explanation of Draft Rule 11.xxx4(i) says:

> "on an annual basis, no more than is reasonably necessary to address the largest Interim Reliability Exceedance identified during the period for which the contract would apply"

which suggests that purchase of 50MW may be possible. And yet we have seen significant swings in forecast USE over successive annual ESOOs. Next year the forecast potential shortfall in year 2 (this year's year 3) could disappear. In the case the procurement of 50 MW of RERT for a three-year period would clearly be an inefficient and costly outcome for consumers.

In procuring the Interim Reliability Reserve, AEMO will have reporting requirements (RERT Report) under draft Rules 11.xxx.6 application of clauses 3.20.6(d). However, this will still mean that a considerable amount of AEMO's actions under the rule changes are confidential making it difficult for consumers to fully evaluate whether the procurement has been at lowest cost.

For example, AEMO will be required under sub-clause (5):

> "for each multi-year reserve contract entered into in the relevant calendar quarter, an explanation of whether the total payments made by AEMO under the contract are likely to be lower than the aggregate payments AEMO would have made under reserve contracts that are not multi-year reserve contracts for the same period."

However, it is unclear to the EUAA how this assessment will be made with any level of reasonable accuracy when there may be periods where RERT procurement is not required.

We have been told many times by both AEMO and the ESB that there are many demand response providers who will provide 'competitive' demand response with a three-year contract. However, when we ask for details, we are told they are confidential. We understand that bidders for both RERT and the Interim Reliability Reserve – which we expect to include EUAA members - do not want their commercial in confidence information published. So, the RERT Report with regards to costs details will, of necessity, be high level.

This is the case with the current AEMO RERT quarterly reports. For example, the most recent report for the March Quarter 2020 did not show how much of the contracted long notice RERT was actually used in Victoria on 31st January. Additional information subsequently provided by AEMO indicates;

Type	Available (MW)	Dispatched (MW)
Long notice	50 (of 72 procured)	50
ARENA demand response	65	4
Short notice	235	135

AEMO did not indicate if the costs associated with activation of long notice RERT contracts were in fact cheaper from a megawatt hour perspective than the costs of short notice RERT activation. AEMO did not indicate if the 22MW of long notice RERT that was not available lost their availability payments. Therefore, consumers who are paying these costs had no idea of the relative costs of long vs short notice RERT.

We can guess that perhaps payments fell over this time because availability payments in the three months in the March quarter were $0.56m for 72 MW vs $1.15m for two months in the December quarter 2019 for 62MW[2]. We do not consider this type of information confidential.

We think that a useful addition to the rules change would be a requirement for the AER to undertake a Transparency Review and Report in relation to the level of detail and transparency contained in quarterly and annual AEMO's RERT Reports. This is the same concept as the Transparency Report proposed by the ESB to enhance oversight and increase transparency in the ISP rule changes.

Following the concept proposed by the ESB in Clause 5.22.13 of the ISP rule changes, we would suggest a new clause:

(a) The AER, must within one month of the RERT Report required under 11.xxx.6 being released by AEMO, publish a report (AEMO RERT Report Review Report) of its review as to whether AEMO has adequately explained how it came to its published conclusions in the AEMO quarterly and Annual RERT Reports.
(b) The AER is not required to consult on the RERT Review Report
(c) If the AEMO RERT Report Review Report identifies issues with AEMO's RERT Report then AEMO must:
    a. As soon as practicable, provide further explanatory material in an addendum to the RERT Report, and
    b. Consult on the issues.

AMENDING THE TRIGGER FOR THE RETAILER RELIABILITY OBLIGATION

As the ESB notes, these changes will increase the likelihood of the RRO being triggered. It suggests that liable entities will be required to maintain qualifying contracts at all times and the MLO obligations being constantly triggered.

Our concern is around the potentially large additional costs this will impose on retailers, that are them passed on to consumers. We believe the change to trigger a T-1 reliability instrument absent the initial declaration of a T-3 reliability instrument is not warranted and fails to meet the NEO. It is unclear to the EUAA what benefits the proposed change delivers from a NEM operational perspective compared to the current ability for AEMO to contract for RERT if a potential breach of the radiality standard or interim reliability measure is identified as part of the T-1 reliability assessment process. The proposed change should only occur if the ESB are able to identify a clear and tangible benefit to consumers.

Moreover, given the change means that retailers will need to assume that a T-1 could be declared at any time, our members could be considerably disadvantaged. Consider the case of one of our members whose existing contract is maturing and they wish to go to market to assess competing offers. A retailer other than the members current retailer, having set their qualifying contract level on the basis that a T-1 reliability instrument could be declared, would be unwilling to provide an offer to take on an additional consumer load.

This is because taking on that new customer could potentially result in a retailer's net qualifying contract position at the contract position day is deemed to fall short of its liable share for compliance during a reliability gap period. This could effectively mean our member is stuck with their existing retailer who could increase the price of a new contract knowing they do not have any competition.

[2] The March 2020 report says the 10MW Enel X contract started on the 1st January 2020.

We consider that this outcome would be less likely to occur under the current framework where a T-3 reliability instrument must be declared first. In this case retailers and consumers have a lengthy period to facilitate retail contracts where competition between retailers for the customer load would be more apparent.

Please do not hesitate to be in contact should you require additional information.

Andrew Richards
Chief Executive Officer