SUBMISSION

NEG DRAFT DESIGN CONSULTATION PAPER
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EUAA
Energy Users Association of Australia

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Introduction

The Energy Users Association of Australia (EUAA) is the peak national body representing major Australian electricity and gas users. Our membership covers a broad cross-section of the Australian economy including significant retail, mining, manufacturing, materials and food processing industries.

The EUAA is a strong advocate for energy users and firmly believes that the primary objective of energy markets should be to serve the long-term interests of the consumer as stated in the NEO and NGO. There can be no doubt that energy users, both large and small, are experiencing unprecedented increases in both electricity and gas costs while there are potentially significant risks to both the availability and reliability of energy for some consumers. This situation is clearly at odds with both the NGO and NEO.

Over the last 10 years Australia has given up its comparative advantage in competitively priced, highly reliable energy that has underpinned significant industrial development and employment for many decades. Much of this has come about due to the highly politicised nature of the energy and climate change debate that has disrupted energy markets and progressively created a level of sovereign risk for investors in energy infrastructure. This translates into a higher cost environment for market participants and therefore a higher cost environment for consumers.

It is inconceivable to think that a country with resources that are the envy of the world cannot deliver reliable, competitively priced energy to its own population. If allowed to continue on this trajectory this comparative advantage will be permanently lost and along with it, a majority of energy intensive industry including many industrial, food processing and manufacturing industries.

While what has been proposed in the Consultation Paper is far from perfect, we recognise that many policy options that would deliver more efficient, market-based solutions have been “taken off the table” for reasons outside of the ESB’s control. So, while we have raised a number of concerns with the proposed design of the NEG we have taken the approach of working with what we have been given to make it as efficient as it can be and least cost to consumers.

Critically, whatever the final design of the NEG, it must achieve bipartisan support. It is the absence of bipartisan energy and climate change policy and the overtly political debate over the last decade that has been the single greatest contributor to investment risk and higher consumer costs.

If the political environment continues to be a minefield for investors, no amount of well-designed policy will be enough to reduce investor and consumer risk to a point where energy costs return to economically viable levels.

With all of this in mind, the EUAA commends the Energy Security Board (ESB) on the work it has undertaken to date under difficult circumstances and applaud its willingness to engage openly with stakeholders. We welcome the opportunity to comment on the National Energy Guarantee (NEG) Draft Design Consultation Paper (Consultation Paper).

Key Themes

On reading the Consultation Paper and speaking with a number of EUAA member companies and various market participants, a number of key themes have emerged for energy users that will be summarised here and expanded upon throughout this submission.

The NEO and Consumers.

The EUAA is focussed on achieving the best possible outcomes for consumers, a focus that is enshrined in the National Electricity Objective (NEO) with particular emphasis on “the long-term interests of consumers”. Unfortunately, we do not see where this emphasis replicated in the Consultation Paper.

All too often we have seen the core aspects of the NEO ignored, used to justify over-investment in energy systems or not fully understood by politicians. Most of all we have seen a lack of consumer involvement in key decisions that impact on reliability, cost and emissions reduction.

All of this has played a major role in driving sub-optimal financial, reliability and environmental outcomes for energy users. The NEG is an opportunity to address this and we encourage the ESB to make the long-term interest of consumers the focus. We are encouraged by the willingness of the ESB to engage with consumers so far and we hope this translates into a consumer focussed outcome.

A Gold-Plated Solution

While reliability is a priority for consumers it should not be sought at any price nor should it be restricted to supply side solutions. The EUAA is concerned that consumers will end up with a gold-plated supply solution in the same way that we have a so called gold-plated network solution. We must learn from the past and ensure this is not the end result. Importantly, if we are heading down the path of designing a new market to deliver reliability, we must start with asking consumers what level of reliability they require and how much they are willing to pay.

It is the second of these questions, willingness to pay that was the missing piece in the network reliability discussion 10 years ago that has led, in part, to so called network gold plating. We think it would be advisable to spend time evolving a well-defined Value of Customer Reliability (VCR) that engages consumers rather than rely solely on assumptions and theoretical reports from industry consultants.

Complicating this will be the ongoing unilateral actions of Governments who are likely to continue to intervene in system reliability “solutions” if they think their constituent’s interests are not being looked after by the AER, AEMO or the market in general.

We recognise this is no easy task and that different categories of consumers will place different values on reliability. However, the NEG appears to contemplate significant changes to energy markets and with it significant additional investment and cost to consumers that could be locked in for many decades. Taking some time to gain a greater understanding of VCR early in the process seems like a sensible investment in risk management.

Demand Side Participation

Following on from our previous comments, the Consultation Paper still appears to assume that the best way to resolve our energy market issues is to build more supply side assets. We must use this opportunity to move away from the approach of spending billions of dollars on energy assets (network and generation) to satisfy peak demand on 5 days of the year. In part, it is this approach that has contributed to overbuilding assets in the past that consumers will spend the next three decades paying for.

While we agree that additional investment in supply side assets is both inevitable and, in many cases, desirable, the EUAA would like to see more emphasis on encouraging greater demand side participation as the front line of the fight to reduce overall costs, improve reliability and manage emissions.

When assessing options of what to do next, we must include all demand and supply side options together as part of a broader cost-benefit analysis of actions to improve system reliability and stability. This would be a worthwhile piece of work for the ESB to undertake as part of the NEG process.

Despite these concerns the EUAA is pleased to see the Consultation Paper commit to the development of the NEG in concert with the development of a demand response mechanism for the wholesale electricity market to ensure that any demand response products developed also qualify for compliance under the Guarantee (p.38).

We would encourage the development of a demand response mechanism to focus on maximising consumer participation including consideration of establishing a day ahead market that allows consumers to engage directly in the NEM should they so desire at a time that is best for them and that allows the full benefit of their participation to accrue to them.

Complexity

One of the common issues raised by EUAA members and market participants is that the NEG appears to represent a very complex mechanism that is likely to increase the risk of participation, reduce competition and involve a high cost to implement and administer – a cost we expect to be passed on to consumers.

There is a view that even the high-level design elements of the Consultation Paper suggest that it will require the development of extensive documentation, rules and procedures. These will then be the subject of constant review and change as parties seek to change the rules to either ensure they achieve their original objective of seek to gain a particular advantage for one stakeholder

The Consultation Paper contemplates that retailers and market customers have primary responsibility for managing compliance under the NEG. EUAA members are concerned this will add substantial complexity and cost to their business and have expressed a strong view that responsibility and risk associated with managing system security should reside with those parties that are in the best position to manage those risks. Apart from so called “gentailers”, retailers and market customers are certainly not in the best position to do so.

The EUAA’s view is that the NEG should not apply to large energy users who are market customers or to large users that are not customers under the Rules but use a retailer for a spot price pass through arrangement. If forced to do so it would have a significant impact on these customers’ risk profile and cost without evidence of a strong NEM benefit such as a material improvement in system reliability which they have no control over anyway. All this would do is force these participants out of the market, reducing competition and further increasing the likelihood of greater market power accruing to a small number of large players.

Many EUAA members are concerned that the NEG as proposed appears to substantially change the way the NEM operates, disrupting well established procurement and risk management tools and creating significant transaction costs. A number of EUAA members have expressed a concern that many of the existing financial instruments they use for risk and cost management will no longer be available as the NEG contemplates a high level of bi-lateral contracting that may have an adverse effect on existing trading arrangements.

With the above in mind, some EUAA members also warn that with this additional complexity will come an enhanced ability of certain parties to manipulate the system to achieve wind-fall gains or that these wind-fall gains may accrue to them as an unintended result of this complexity.

At a practical level, parties with various accountabilities are contemplating this complexity and the resultant need to establish trading desks, prudential requirements, in-house procedures and staffing to fulfil their obligations. The AER, as the designated regulator, will also be required to take on a massive task that involves detailed knowledge of every generation contract for every retailer to fulfil its role.

AEMO's forecasting task will expand on what it currently does, but its biggest expansion will be in implementing its parts of Steps 3-8. Not just in allocating shares of the "gap" across many market participants, but also potentially giving directions to market participants every 5 minutes to ensure reliability standards are met – actions that it currently undertakes but now effectively contracts out to parties with little or no current experience in undertaking.

Competition

As the EUAA have stated before the level of complexity, increased obligations on market participants and concentration of market power that may come about from the implementation of the NEG could have significant competition issues. In addition to previously articulated concerns about market manipulation and wind-fall gains, we are of the view that many tier two retailers and market customers would no longer be able to participate in the market due to increased complexity, cost and risk. Clearly this would be a poor outcome for all consumers.

As a general recommendation the EUAA would support additional oversight of the NEG by an independent body such as the ACCC given their enhanced investigative powers. This additional ACCC oversight is currently an important part of the gas market reform process and should be considered in the context of the significant changes to the NEM that many expect will come about due to the NEG.

We also see an important role for the ACCC or Productivity Commission in the development of the NEG and the early years of operation. In the first instance, the NEG should be subject to close analysis to understand if competition will be negatively impacted by its introduction and to obtain greater clarity on the price/cost impacts of its introduction.

It is unreasonable to expect stakeholders to accept the claimed benefits of the NEG (past and future) in blind faith and that robust analysis of its short, medium and long-term impact would be in the best interests of consumers, the ESB and governments.

We believe this robust, independent analysis will assist in building consumer trust in the NEG through not only highlighting potential competition issues but a means by which to rectify such issues.

Substantive Comments

NEG and the National Electricity Objective (NEO)

The EUAA acknowledges the Consultation Paper's emphasis that the NEG is just one part of the overall framework for ensuring the NEO is continually achieved over time. We agree with the Paper's conclusion (p.50) that consideration of strategic reserves, day-ahead markets and demand response are priority issues. We look forward to working with AEMO, AEMC and the ESB in furthering these matters.

The EUAA has welcomed what we perceive as a recent shift from those on the supply side of the energy industry and in the market governance structure to bring a renewed focus on "putting the consumer at the centre" of all their activities. Putting "consumers at the centre" means a focus on the key consumer issue now of affordability.

The EUAA has always, perhaps naively, thought we were supposed to do that given the NEO, but that has not always been the case. For too long we have had a market driven by an interpretation of the NEO that could be summarised as “what is required of the supply side to provide reliable and lowest cost electricity and the supply side were the best judge of what those requirements were.”

This has not meant a focus on affordability with the result being the huge price increases over recent years.

We were looking forward to this Consultation Paper confirming this shift to “consumers being at the centre”. Unfortunately, it is not there, at least not explicitly. The Consultation Paper makes many references to the emissions and reliability “policy objectives”.

The ESB should make it abundantly clear that the primary purpose of energy markets is to serve the consumers best interests and that the NEG must work to bring the market closer to that goal not take it further away.

In the Executive Summary we read that the NEG is intended to:

- Provide “…an opportunity to resolve some of the most vexing policy issues challenging the National Electricity Market today”
- “...bring(ing) together climate and energy policy for the first time in Australia to ensure we can meet the electricity sector’s share of our international obligation to reduce emissions while supporting the reliability of our electricity system. Providing long-term policy confidence…”
- Provide “… a clear investment signal so the cleanest, cheapest and most reliable generation gets built in the right place at the right time.”

These are all worthwhile objectives, but nowhere are they brought together under the overarching NEO. The discussion (p. 48) on “Policy position and intergovernmental agreements” says that:

> “Consideration will need to be given to a number of matters, including….AEMC obligation to have regard to national energy objectives and objectives for the Guarantee”

Which suggests that there is a difference between the NEO and the guarantees’ objectives, this difference is not explained.

The Paper notes that:

> “Over the last decade policy makers have attempted to design the perfect emissions trading scheme and every attempt has failed.”

The EUAA agrees that while there are alternative policies that would better meet the NEO, these are not possible politically. Consumers have borne the enormous costs of these political failures. We agree that a 3rd, 4th or 5th best policy is preferable to no policy. If the NEG is the best policy that can be achieved politically, we seek an assurance that it will be developed and implemented with the NEO explicitly as the central objective. The Paper does not give that assurance. Indeed, while the NEO is listed on p.49 under “Abbreviations and defined terms”, the term is not actually used in the Paper.

While the NEG seems to be driven by an over-riding political desire to avoid putting a price on emissions, inevitably some form of price discovery will develop to enable retailers and market customers to decide which contracts to enter into. Indeed, we are aware of a number of energy users who have entered into long-term power purchase agreements with low and zero emissions generators to manage price and compliance risk.

This can only happen where open, liquid markets exist allowing price discovery and equitable contract negotiation to occur and represent examples of where the market has worked in the long-term interest of the consumer. We think this is a good thing and hopefully will not be inhibited by the introduction of the NEG – If this customerinitiated activity is frustrated and compliance can only be achieved by more costly regulation then consumers will be worse off and goals of the NEO once again ignored.

Obligations under the NEG

The Consultation Paper makes it clear that the compliance obligation under both reliability and emissions guarantee rest solely with energy retailers and market customers. We are concerned it will create significant complexity and barriers to participation for many tier two retailers and market customers

There is an overwhelming view amongst energy users and market participants that the EUAA have spoken to is that the NEG will result in significantly increased costs being passed through to consumers as a result of the reliability and emissions requirements, particularly as they are being placed on retailers and market customers.

As with any compliance regime, there will be risks associated with meeting the reliability and sustainability obligations of the NEG. These risks should sit with those parties that are in the best position to manage them. Based on what has been outlined in the Consultation Paper we are not convinced that retailers and market customers are in the best position to manage those risks especially risks associated with system security and reliability.

In the case of the reliability guarantee, the compliance obligation has been put into the hands of many participants that are not directly in control nor can influence system reliability. Additionally, retailers who also have significant generation assets (so called "gentailers") have the ability to not only internalise their reliability obligations but will be net sellers of reliability to other market participants. As the ESB have noted before, this raises serious concerns around concentration of market power and economic withholding of reliability.

It seems the simplest way to avoid all of this is for AEMO to continue to have system reliability under their control. While additional checks and balances need to be in-place along with enhanced forecasting capabilities to avoid a "gold plated" supply solution prevailing, we believe AEMO is best placed to efficiently achieve the reliability (and emissions) objectives given its current role, market knowledge and systems.

Under the current proposal it seems that AEMO could potentially be issuing reliability directives to a large number of market participants every 5 minutes. What this means in reality is that while AEMO retains the accountability for system reliability and security, its means of achieving that are sub-contracted to parties that potentially have considerably less expertise than AEMO to purchase the services to ensure required reliability levels.

This could result in up to twenty market participants are doing what AEMO does now. For example, instead of AEMO buying 50MW of 6 sec raise FCAS there could be 20 market participants all buying a component of that 50MW at the same time. To achieve this, these market participants must have the internal resources ready and waiting to implement them or face severe penalties if their failure to implement resulted in the reliability standard not being met.

Three main issues regarding this process that require further clarification are:

- How will it ensure the lowest price is achieved – which is an AEMO obligation now?
- How will it provide investor certainty to move from centralised procurement to a very fragmented buyers' market?
- How will it avoid the providers of FCAS services and gentailers from exercising market power?

When it comes to the emissions guarantee, we are unable to understand the logic of putting the emissions obligation on market participants and not on the logically party, the party that produces the emissions.

This situation is especially concerning given a clear, liquid market in emissions abatement is unlikely to evolve under what has been proposed in the Consultation Paper.

It is also concerning that at present the NEM gross pool does not differentiate between generation sources, it simply sees the MWh. It appears that significant complexity will be added whereby market participants will somehow need to track generation sources of not only all NEM traded energy but also allocate emissions intensity under the myriad contracting arrangements (i.e. swaps) that are a fundamental part of current risk management strategies.

Given the widely varying emissions intensity of generating units (e.g. even different units of the same generating plant may have different intensities), we can't see be a standard financial contract for generation will be available apart from a renewable energy PPA.

We can only assume that a market-based framework to manage emissions has not have been something the ESB was able to consider which has led to the rather convoluted approach proposed in the Consultation Paper.

Unfortunately, the desire of not appearing to put a price on emissions while still attempting to manage emissions seems to be leading to a much more complex and costly framework that will ultimately result in significantly increased costs for consumers.

If managing emissions at least cost to consumers and creating long-term investor certainty is the objective of government the most logical solution would be to implement a well-designed, internationally linked emissions trading scheme. Policy options that move away from transparent, flexible and liquid market-based solutions will almost always create more risk for investors and be more expensive for consumers.

Competition

This issue has been extensively canvased in public comment on the NEG. We share the concerns of many that the NEG may entrench the position of the existing large vertically integrated gentailers. Existing small retailers will have a large administrative compliance cost and there will be significant barriers to entry for new retailers without a large balance sheet, access to generation resources and the funding to establish the backrooms required to implement AEMO directions.

We hope that the Consultation Paper's comment that consideration of these matters has to wait until the NEG design is further developed does not mean it is ignored.

Given this concern about impact on competition, we believe the ESB should consider exemptions from the reliability guarantee for market customers certain tier two retailers who do not have a natural or integrated generation hedge. The reliability benefit of these participating is marginal but the negative impact on competition could be large.

As mentioned previously, the EUAA sees an important role for the ACCC or Productivity Commission in both the development of the NEG and assessing the early years of operation. In the first instance, the NEG should be subject to close analysis to understand if competition will be negatively impacted by its introduction and to obtain greater clarity on the price/cost impacts of its introduction. To this point, the absence of significant, publically available, robust financial impact analysis of the NEG has hindered the ESB's attempts to explain the NEG and to gain broad acceptance for it.

It is unreasonable to expect stakeholders to accept the claimed benefits of the NEG (past and future) in blind faith and that robust analysis of its short, medium and long-term impact would be in the best interests of consumers, the ESB and governments.

We believe this robust, independent analysis will assist in building consumer trust in the NEG through not only highlighting potential competition issues but a means by which to rectify such issues.

NEG Impact on the NEM

On reading the Consultation Paper and speaking to a number of market participants, it is not clear how the NEM will have to adjust to make the NEG work

The Consultation Paper seems to assume that the NEM will continue much the same as it is today – an energy only compulsory gross pool. Given the objective is to increase the level of contracting for dispatchable generation, retailers will need to put complying contracts in place.

Under these arrangements it is not clear whether generators will still be required to bid through a mandatory gross pool with AEMO setting the clearing price or even if they are, what is the benefit. Given the large number of bilateral physical contracts assumed to be required under the reliability guaranteed, the pool may effectively evolve to be a net pool, with trading limited to a balancing role.

This appears to be a significant departure from the market that participants know and, according to many of these market participants, is likely to create significant disruption and cost that will ultimately borne by consumers.

Additionally, there are already numerous parallel market reform processes underway that must be considered in light of the proposals made in the Consultation Paper. The risk of regulatory and jurisdictional duplication is a concern and we encourage the ESB to be cognisant of this to avoid unnecessary costs.

For example, one of the key considerations for consumers and an issue that is currently being discussed outside of the ESB process is the Market Price Cap. The Consultation Paper sets out 8 key steps to reliable energy supply stating that AEMO will estimate the generation “gap” and then direct retailers to fill it according to their MW allocation.

This suggests that the NEM reliability settings of the Market Price Cap, which are designed to provide an efficient market response to drive new investment, are no longer required. Essentially, steps 3 to 8 that are set out in the Discussion Paper will now surpass this market response. It seems clear to us that we don’t need two tools to do the one job.

Hence, we wonder what is the purpose of the market price cap of $14,200/MWh other than to protect consumers from price volatility and the exercise of generator market power? If so, then it can fulfil those objectives much better at a much lower level than $14,200/MWh. The market price cap no longer serves the purpose of providing the “missing money” in an energy only market.

Reliability Obligation and Market Customers

The EUAA’s view is that the NEG should not apply to large energy users who are market customers or to large users that are not customers under the Rules but use a retailer for a spot price pass through arrangement. If forced to do so it would have a significant impact on these customers’ risk profile and cost without evidence of a strong NEM benefit such as a material improvement in system reliability which they have no control over anyway.

All this would do is force these participants out of the market, reducing competition and further increasing the likelihood of greater market power accruing to a small number of large players.

Simply put, the responsibility and risk associated with managing system security should reside with those parties that are in the best position to manage those risks. Apart from so called "gentailers" retailers and market customers are certainly not in the best position to do so.

It appears that consideration of including market customers seems to be driven by the decision to put the responsibility on the retailer rather than with AEMO where it is most efficient to do so. As we have stated previously, unlike AEMO, retailers do not cover all electricity consumption in the NEM.

So, it seems that the consequence of making an inefficient decision to allocate compliance responsibility to retailers requires another inefficient decision to have consumers cover the shortfall when it should be the responsibility of system administrators such as AEMO.

It is certainly a new approach to think that customers should be forced to directly contribute their reliability via establishing physical contracts for the supply of external power to them separately from their existing sourcing. It is understandable then that consumers are concerned by this situation given these are the same users that have been required to pay the high price for a NEM that has failed to meet the NEO and now it seems they are being asked to pay to fix the problem they did not create in the first place.

We do recognise that some large users do currently enter into direct supply contracts with third parties or self-supply to improve their reliability, lower their costs or manage an emissions obligation. This is undertaken as a business decision, not forced by a regulatory requirement. The fact that the option of a regulator will simply 'deem' (p.41) customers above a certain size to comply with the requirement suggests a lack of knowledge of the pressures electricity users face today.

Large consumers face enough electricity cost pressures today due the failure of past policy and that by now requiring them to set up an internal trading desk to respond to AEMO 5-minute directions seems a very strange and inefficient way of achieving the NEO.

While the Paper does contemplate (footnote 22 p. 41):

> "…a different level of compliance and/or reporting requirement may be justified for those market customers who are not retailers"

no details are provided.

The Paper then suggest that those users that are on spot price pass through contracts or shorter-term fixed price contracts might also contribute to the reliability requirement. Under the NEG, retailers may not have an incentive to maintain physical capacity for this load, but:

- These customers are sophisticated and recognise the risk associated with spot price exposure and have risk management tools available e.g. offering in demand response – so in effect they are already contributing to the reliability requirement, and
- Under step 7 AEMO as the procurer of last resort (which is currently facilitated somewhat by the RERT and will be with the Strategic Reserves Mechanism) will step in; the costs of that will be shared across the market and these spot price customers will pay their share of these AEMO costs

The Paper recognises that there are both legal and cost considerations (e.g. administrative burden) in imposing the NEG requirement on large energy users. We agree. We await any further analysis that the benefits justify these costs.

Given the proposal outlined in the Consultation Paper and the issues we have raised, it is the strong view of the EUAA to exempt users – both "customer" and those with spot price pass through contracts – from the reliability requirements of the NEG.

AEMO – Procurer of Last Resort

The Consultation Paper comments (p.43):

> "In the event that the reliability requirement is triggered, perhaps because the response by retailers has been insufficient to address the gap, it will be necessary for AEMO to perform the function of procurer of last resort. This function will give confidence to governments and AEMO that any gap will be resolved so as not to reduce system reliability.

The evidence of recent years is that State Governments do not have confidence in the NEM to deliver their required reliability. South Australia has directly intervened to underwrite new generation and batteries, the Tasmanian Government is proposing to take Tasmania out of the NEM form 2021.

It appears that the proposed rules around when a gap is triggered and how the gap is allocated have the real risk that a State Government is going to intervene in a way that effectively changes the size of the gap after the trigger is declared and disrupts the efficient procurement of the required generation and emissions intensity by the retailers.

This uncertainty only emphasises the role of AEMO as the procurer of last resort and raises further questions around the role of market participants (retailers an d customers) being responsible for the reliability obligation. We believe that there needs to be greater consideration given to AEMO maintaining its central role of managing reliability and is provided with additional tools to perform this task.

Remove Barriers to Demand Response

The EUAA is pleased to see Consultation Paper commit to the development of the NEG in concert with the development of a demand response mechanism for the wholesale electricity market to ensure that any demand response products developed also qualify for compliance under the Guarantee (p.38).

The EUAA has found that all too often the conversation is about building more supply side assets to solve our problems when we should be balancing this with the avoided cost benefit of greater consumer control and flexibility. We simply have to stop spending billions of dollars to meet demand for 5 days per year. We also have to stop the ability of retailers preventing the spread of demand response that threatens their control over the market.

There have been many reviews to examine ways to increase demand responses, most recently the AEMC November 2016 rule change. Unfortunately, little change has eventuated as vested interests sought to resist the competition that demand response would bring. While the AEMC may claim that retailers engage in demand response it is normally driven by their objectives not the consumers e.g. when they are short on generation and spot prices are very high.

A number of our members are engaged in demand response, but they are limited (apart from the 2017/18 AEMO RERT auction) in doing more through their retailer which sets the conditions. We need to have unfettered access to receive competing offers for wholesale demand response. This should build on the recent experience on of the rule change that unbundled ancillary services to bring new players in the FCAS market which has led to a significant drop in FCAS prices.

Demand response should have the same freedom to bid into the market as a peaking generator. We look forward to the current AEMC Reliability Frameworks Review to bring forward the required changes.

The EUAA strongly supports retailers being able to buy dispatchable demand response contracts from independent aggregators to satisfy the reliability requirement. These contracts should be should be able to aggregate this demand response from any electricity consumer in the NEM, independently of that user's retailer.

The development of a day ahead market will also facilitate greater demand response.

If we are able to achieve a stable, customer focussed demand response framework it will increase the likelihood of greater consumer investment in technology, systems and skills. This in turn could unlock significant consumer participation in demand response and potentially avoid billions of dollars in supply side and network investment while helping customers off-set higher energy costs.

Energy Intensive Trade Exposed Industries

We strongly support the Commonwealth Government's view that electricity used to carry out EITE activities should be effectively exempt from the emissions requirement – consistent with the approach established under the Renewable Energy (Electricity) Act 2000 from 2020.

Not surprisingly, EUAA members who rely on export markets and who therefore compete with international business who do not have the same obligations as proposed under the NEG, would be looking for 100% exemption so as to remain competitive. The EUAA supports this position and encourage an unambiguous statement to this effect from the ESB and Commonwealth.

As commented above, EITE industries should not be subject to the reliability requirement. Given the importance of the electricity price and reliability to their operations, these industries have a strong self-interest in ensuring their own long-term contracts deliver on these variables. In addition to this, EITE pool contracts are often supported by the flexibility of self-generation and demand response provisions in their PPA. All this is achieved without any externally imposed reliability requirement.

Additional Comments

The EUAA provides the following comments in relation to the specific questions in Chapter 4 – Commonwealth Government Design Elements:

- The EUAA agrees with the Commonwealth approach of expressing the emissions target as a trajectory of average emissions per MWh levels for NEM retailers
- The EUAA supports not adjusting the electricity emissions targets to account for changes in electricity demand with any change being considered in the context of setting future electricity emission targets
- The EUAA agrees with the target setting to initially be 10 years and then subsequently 5-year periods consistent with the governments Paris Agreement commitments
- The EUAA agrees with setting a single annual electricity emissions target under the Guarantee that will apply across all jurisdictions in the NEM

- As noted above, the EUAA agrees with the exemption of all electricity used to conduct an EITE activity from the emissions requirement under the Guarantee, consistent with the approach under RET legislation
- The EUAA supports retailers using high quality international offsets issued under the Paris Agreement, following the establishment of an acceptable governance framework for such units. This is consistent with our view that the emissions reductions targets should be achieved in the lowest cost manner to limit cost pressures on domestic consumers. Normally any target for their use would be set by their price relative to the price of domestic units. Given there will be no explicit(?) price of domestic units we consider it will be difficult to set a target that results in an efficient outcome for consumers.

The EUAA looks forward to working through these and other issues to develop the detail of how the NEG will work.

Over the coming weeks and months, the EUAA will continue to engage with member companies on the details of the NEG as they are refined. We would be delighted to provide the ESB with opportunities to engage directly with energy users at places and times that are convenient to you.

We look forward to our continuing discussions

Andrew Richards

CEO

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