SUBMISSION

REVIEW OF RELIABILITY STANDARD & SETTINGS | 07 JUL 22

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

We welcome the opportunity to make comment on the review of reliability standard and settings. While the Draft's assumption is that this standard and settings from this review will apply until 30 June 2028, the outcome of recent Energy Ministers' discussions suggest the introduction of some form of capacity market will occur much earlier than this date. This has influenced some of our responses below.

FORM OF THE RELIABILITY STANDARD

In our earlier submission to this review, we supported the current form of the standard – expressed in terms of the expected USE in a region. We did not see any material consumer benefit in moving to alternative measures such as loss of load expectation or loss of load probability. Nor do we see any benefit in introducing a supplementary or secondary standard with regards to the monitoring of so called "tail risk" associated with high impact low probability (HILP) events.

We understand that historically most of the HILP tail events in the NEM have been security events, not USE events. So it seems that inclusion of tail events would lead to over estimation of the probability of a USE event occurring and a higher than necessary market price cap.

Following careful review of the discussion in the Draft on the changing reliability risk profile, we are not convinced of the case for change from a singular USE based measure for the period to when some form of capacity market will be introduced. As for the 'straw person' proposal, we await the outcome of the modelling before expressing a view.

LEVEL OF THE RELIABILITY STANDARD

Our earlier submission to this review supported continuation of the 0.002% USE level. A review of the IES modelling under the base and high VCR cases, has not caused us to change this view as an acceptable balance of reliability and affordability to consumers. The 2019 VCR values are overall generally similar to the 2014 values[1].

However, the value for residential customers in 2019 is generally lower than in 2014. These customers are the ones likely to be first in the load shedding queue (apart from smelters who have contractual arrangements). So, we are puzzled at how the modelling suggested that a 'higher'/'stricter' standard of 0.0015% would be an efficient outcome when a significant increase in the MPC is proposed to achieve this outcome.

We do not see material benefits in any change to the level of the reliability standard.

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[1] https://www.aer.gov.au/networks-pipelines/guidelines-schemes-models-reviews/values-of-customer-reliability/final-decision

MARKET PRICE CAP AND CUMULATIVE PRICE THRESHOLD

We have considerable concerns about any proposal to substantially increase the MPC above its existing CPI adjusted level. We particularly focus on the RSS review Guideline that states any MPC movement should be 'gradual' and '…movements should occur over a period of several review periods' (p.66). While we support the principle that MPC/CPT need to be sufficient to support efficient new entry, we are concerned about the impact on consumers of a significant step change in these variables.

We note that the modelling outcomes suggest in the period for which this review applies, forecast unserved energy does not exceed the reliability standard in any region (p.12). Only by the application of the synthetic withdrawal of additional schedulable generators is the modelling able to exceed the reliability standard.

We also consider that is should be noted that there are numerous new supply side projects which have commenced construction that are still defined by AEMO as an "anticipated" project and as such would not be included in the base case modelling assumptions. Inclusion of these projects would further lower expectations of forecast USE outcomes.

In addition, given the market expectation of some form of capacity market in the near future, we would caution setting the MPC/CPT on the basis of what a new entrant requires over the long term in an energy only market.

Given we expect that the MPC/CPT in a capacity market would be considerably lower than in an energy only market, we think this should be a consideration in the Panel's analysis of what is the suitable level for this variable in the few years prior to the introduction of that capacity market.

Where, despite our reservations as to the need, the MPC is changed, we support no change in the current form of the CPT. We continue to support a single NEM wide MPC/CPT and indeed question how different MPC/CPT's in different regions could practically function.

ADMINISTERED PRICE CAP

We support no change in the current APC of $300/MWh. We do not think that recent events justify a change, even temporary, in the APC as proposed by Alinta in its recent rule change request. We consider that where the generators genuine short run marginal costs are not covered by the APC, compensation measures through AEMO directions or the AEMC Administered Pricing arrangements will ensure costs are covered. We await the outcomes of the compensation determinations resulting from recent market suspension to ensure that only genuine losses are recovered by impacted parties. In particular we do not see why a coal or gas plant with long term fuel supply contracts in place should earn windfall gains from a rise (even temporary) in the APC or via compensation payments.

We would suggest the Panel consider what it's role should be in setting the market parameters in the gas Short Term Trading Market (STTM). We consider there is value, considering the interplay of electricity and gas markets, in considering the Panel also having the responsibility to advise on STTM market parameters. We think that is a better governance arrangement than currently where AEMO is both the setter of the parameters and the market operator.

We suggest that if a review of gas market paramaters found that a reduction in the gas APT were appropriate (which we think it is) that it would serve the dual function of capping energy user exposure to both high gas and electricity costs and the instances of market directions or market suspension and subsequent compensation.

MARKET FLOOR PRICE

We support retention of the current market floor price of -$1,000/MWh.

As always we would be happy to discuss any part of this submission.

Kind regards,

Andrew Richards
Chief Executive Officer