SUBMISSION

RRO T-3 MINISTERIAL TRIGGER
17 AUGUST 2022

EUAA
Energy Users Association of Australia

INTRODUCTION

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.

As large energy users, our members are highly exposed to movements in both gas and electricity prices and have been under increasing financial stress due to escalating energy costs. These increased costs are either absorbed by the business, making it more difficult to maintain existing levels of employment or passed through to consumers in the form of increases in the prices paid for many everyday items.

As always, we remind all stakeholders of the National Electricity Objective (NEO) being.

> *"to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers*[1] *of electricity with respect to: price, quality, safety and reliability and security of supply of electricity.*

Too often consumers see policy being proposed that is in the interests of others including investors, market participants, technology providers, developers, shareholders or even governments. While we should pursue opportunities where interests are aligned, the long-term interests of consumers should never be subservient to the interest of others.

A guiding principle for all EUAA energy policy and regulatory advocacy is to achieve net zero at least cost, not at any cost. Therefore, design criteria that seeks to minimise total consumer costs must be at the forefront of design of any future market or policy.

MINISTERIAL RRO T-3 TRIGGER

With this in mind we welcome the opportunity to make a brief submission to the RRO T-3 Trigger draft bill and initial rules (draft bill). This comes at a time when substantive work is being undertaken by the ESB and many industry stakeholders on the proposed Capacity Mechanism.

We have made a submission to Capacity Mechanism High-Level Design Paper (Design Paper) where, amongst other issues, we raise questions involving the ability of existing mechanisms to meet much of the capacity/reliability gaps that are emerging. The current EUAA view is that short duration capacity, or intra-day capacity gaps (i.e. up to 4 hrs), may well be met with existing (FCAS and RRO) and emerging (ESS) market settings (along-side energy market revenue).

[1] *Emphasis Added*

We see evidence almost every day that battery technologies are already being deployed to meet the short duration and system strength needs of the market as evidenced by this recent announcement by Blackrock[2] so we question the need for further or specific assistance to solve a problem that does not appear to materially exist. It may well be that longer duration (inter-day) capacity gaps could also be met via the RRO given the normal 3 year horizon (T-3 trigger) that already exists.

Many EUAA members have questioned why existing mechanisms such as the RRO have not been given an opportunity to deliver the desired reliability outcomes. They are concerned that it appears governments have lost faith in the market to deliver the desired political reliability they seek so will continue to intervene, even if a capacity market is in place.

It is clear from the 12 August communique[3] that Energy Ministers are looking to place their hands firmly on the energy transition wheel. It seems even when market mechanisms are introduced governments want to remain in the driver's seat.

The following statement from the draft bill[4] seems to validate our view that Ministers are seeking more "levers" to directly manage reliability concerns:

> *The draft Bill amends the T-3 trigger so that the relevant Minister has the option to trigger a T-3 reliability instrument for their jurisdiction if it appears to the Minister, on reasonable grounds, that there is a real risk that the supply of electricity will be disrupted to a significant degree during a specified period.*

We read in the draft bill that the proposed amendments are designed to deliver the following policy outcomes:

- provide a supporting policy lever to address reliability concerns in the NEM
- implement a nationally consistent framework by extending the current legislative framework in South Australia to the other jurisdictions
- leverage the existing RRO framework which is well understood by market participants

Given this, our view on the proposed changes in the draft bill are:

- We are supportive of using the existing RRO, given it is a more decentralised market-based solution (however it will become more centralised with the proposed changes).
- If Ministers desire the additional control in the manner envisaged, they have an obligation to consumers to clearly and transparently articulate the reliability threat they see, the reliability outcome they desire and the costs and net benefits to consumers of their actions. If Ministers (or regulators) are to have greater control, they too must fully comply with the NEO and ensure their actions are prudent and efficient.
- The reliability standard, for the purpose of the Ministerial trigger should be .002 USE, not the interim measure of .0006 USE or other state-based reliability targets.

[2] https://www.theaustralian.com.au/business/renewable-energy-economy/blackrock-in-1bn-battery-charge-after-buying-akaysha-energy/news-story/f6eaa2a3b07b1246934a10cd7f87d865
[3] https://www.energy.gov.au/government-priorities/energy-ministers/meetings-and-communiques
[4] https://www.datocms-assets.com/32572/1659397866-esb-t-3-ministerial-lever-rro-consultation-paper-final.pdf

Given these changes are progressing, we see this as an opportunity to assess the impact of what will become an enhanced RRO. For example, does it lead to increased contracting of dispatchable resources, both existing and new? What are the resources being unwritten by it? What capacity/reliability gap (duration) is being addressed?

Understanding this will help in design of the Capacity Mechanism (in whatever form it takes post the 12th August Energy Ministers meeting) and may lead to further refinement and focus of the mechanism itself. For example, will this enhanced RRO essentially meet (or greatly assist in meeting) the intra-day reliability needs of the market? If so, the Capacity Mechanism should have greater focus on solving longer-duration inter-day capacity and reliability.

Once again, thank you for the opportunity to make this submission. Do not hesitate to be in contact should you have any questions. We look forward to engaging with the ESB over the coming months.

Kind regards,

Andrew Richards
Chief Executive Officer