SUBMISSION

EUAA
Energy Users Association of Australia

REVIEW OF INTERIM RELIABILITY MEASURE EPR0090

13 APRIL 2023

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. Our membership covers most of the major gas users in the east coast gas market who all rely on reliable and competitively priced gas for their business sustainability.

CONTEXT

This submission does not support the extension of the Interim Reliability Measure (IRM) beyond its current expiry date of 30th June 2025. Contrary to what the Commission argues in its Draft Report, we do not consider an extension is in the long-term interests of consumers.

It is interesting to recall some background on how the National Electricity Market came to have the IRM. The Draft Report notes that it came about from Energy Ministers deciding in late 2019 to have a tighter reliability standard and the ESB providing advice that 0.0006% USE would ensure the NEM remained reliable during a 1 in 10-year summer. At the time the EUAA noted:

> 'The ESB was directed to undertake the reliability standard review by the COAG Energy Council in a very short time period with a report back to COAG required for its meeting on 20th March 2020. Terms of reference provided by COAG Energy Council effectively provided the ESB with little room to manoeuvre.
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> Given the potential impact on consumer costs we would have expected a reasonable level of public consultation. Sadly, this did not occur with the EUAA only having very limited discussions with the ESB staff in the course of preparing their report. The existing and well supported process for reviewing the reliability standard through the AEMC Reliability Panel was ignored.
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> COAG made its decision to significantly strengthen the standard and stakeholders finally received the ESB's reasoning (and modelling) behind that decision with the publication of the proposed rule changes on 12th May. We see in that publication that the ESB concluded that:
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> "A tighter standard in the range of 0.0010%-0.0005% expected USE was found to have net positive benefits overall." (p.3)
>
> But that decision was made without consultation with consumers.'

It seems to us that the ESB was being used to try deliver an ex post justification of a political decision. We were not surprised by the modelling outcome given assumptions used e.g. the VCR values and the inclusion of RERT. The conclusion appears to be pre-ordained.

We can't help feeling that this Draft Report is fulfilling a similar purpose, though in a more formal rules driven process.

As the Draft paper notes, the selection of the reliability standard is a trade-off between reliability and the value which consumers place on it. This is done through the formal review process of the Reliability Panel which in its most recent 2022 review, recommended, after extensive analysis and modelling[1]:

> "…to retain the current level of the reliability standard at 0.002% expected USE in a region over a financial year for the review period from 1 July 2025 to 30 June 2028.

because:

> "The benefits of changing the level of the reliability standard from 0.002% USE to 0.0015% USE are not sufficiently material to justify a change."

We agree with the Panel's recommendation. If there is no economic justification to move to 0.0015%USE, there is certainly no economic justification to move to 0.0006%USE.

In effect the Commission's argument for the extension of the IRM to 1st July 2028 is that, given recent political decisions to allow Ministers to the make T-3 decisions without reference to any specific reliability gap and given AEMO can enter multi-year contracts beyond 2025, extending the IRM has little additional risk for consumers bearing costs above their value of customer reliability.

So, these recent political decisions which were based on no economic analysis, let alone the five criteria proposed in the Draft Paper, means the residual potential for costs above benefits from extending the IRM for three further years is small. Then the Draft Paper seeks to use an RIS study from December 2018 (p.6) i.e. before the IRM was in place, to provide justification for the extension. The decisions of Ministers since the introduction of the IRM seems to allow the Commission to ignore how the implicit VCR required to justify the extension compares with the AER VCR.

We would argue that the costs are still potentially significant for consumers because the IRM will still be used in AEMO T-1 decisions, still be used to determine RERT requirements and still be used in the ISP which could lead to increased network spend. For example, the August 2022 ESOO identified a reliability gap in South Australia[2]. This led to the AER making a T-1 reliability instrument on 24th October 2022 for the period 8th January to 29th February 2024. This would not have occurred were the 0.002%USE standard used.

[1] See p. iv https://bit.ly/3MJTpJf
[2] https://bit.ly/3L5enRD

This brought a requirement for liable parties to hold contracts, invest directly in generation or demand response. The table shows the significant rise in Q1, 2024 forward cap prices that occurred subsequent to the AER's decision. It also shows the significant separation from prices in Victoria[3].

	Victoria Cap Price $/MWh			South Australia Cap Price $/MWH		
	Peak	Off-peak	Flat	Peak	Off-peak	Flat
1 July	69.00	4.46	31.50	95.00	5.94	43.25
1 August	64.00	4.62	29.50	97.50	7.15	45.00
30 September	72.50	5.38	33.50	121.50	8.77	56.00
1 November	72.00	4.88	33.00	192.50	9.21	86.00
15 November	62.50	7.00	30.25	226.00	20.77	106.75
1 December	65.50	6.98	31.50	233.00	21.31	110.00
3 January	38.50	4.51	18.75	150.00	12.32	70.00
1 February	41.50	4.50	20.00	112.00	7.88	51.50

This decision was driven by AEMO's very conservative modelling assumption on what is committed plant[4]. What was not regarded as committed in August 2022 was subsequently regarded as committed in the February ESOO update which removed the reliability gap that caused the T-1 instrument back in 2022[5]. However, once a T-1 decision is made, the AER has ruled it cannot be withdrawn[6].

We wonder how that process can ever be seen as consistent with the long-term interests of consumers. As we consider the Draft Report's assessment of the extension against the five criteria, we offer the following comments:

Simplicity and transparency	How can what has just happened with the 2024 T-1 instrument in South Australia be considered 'simple and transparent'? Not extending it removes a layer and makes it even simpler.
Efficiency	How can the extension of the IRM that the Reliability Panel says has no economic justification, be considered 'efficient'?
Allocation of risk	How can an ESB process that had no transparency before the decision was made to assess what 'community expectations' were led consumers to be confident that there has been an appropriate 'allocation of risk'?

Then having Recommendation 1 supporting the extension as it will:

> "…align with the commencement of an expected new form of the reliability standard recommended by the Reliability Panel's 2022 Reliability Standards and Settings Review"

suggests that the Commission had made up its mind that the form will change before the review had even started.

[3] GFI Australian Electricity Desk Daily Electricity Curve
[4] See submissions by AEC https://bit.ly/3mxAWF2AGL https://bit.ly/3obfR3o Shell https://bit.ly/408UDk6 and EUAA https://bit.ly/411TOe5
[5] https://aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/nem_esoo/2023/february-2023-update-to-the-2022-esoo.pdf?la=en
[6] https://bit.ly/3UvDGz0

So, we wonder what is the use of putting in a submission to this review arguing for a retention of the current form?

We acknowledge the right of Energy Ministers to set reliability standards on the basis of a political decision. However, we think an attempt to provide a measure of economic rigour to that decision is not in consumers interests when it may end up providing Ministers with an economic justification for their original decisions that had none. We accept political decisions and they should stand or fall on being a political decision to impose increased costs on electricity consumers that are not justified by the economic analysis.

Do not hesitate to be in contact should you have any questions or wish to discuss further.

Andrew Richards
Chief Executive Officer