Dr Kerry Schott AO
Energy Security Board

6th October 2020

Submitted via e-mail to: info@esb.org.au

Dear Dr Schott,

Interim Reliability Measures – RRO Trigger

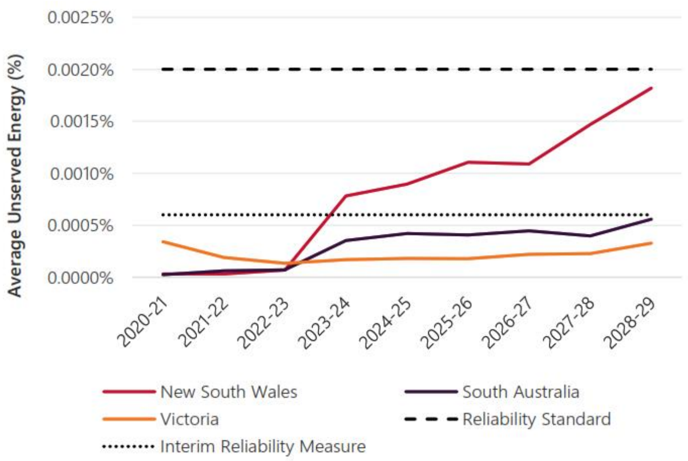
The Australian Energy Council (the "**AEC**") welcomes the opportunity to make a submission in response to the *Interim Reliability Measures – RRO Trigger: Consultation on Draft Rules*.

The AEC is the industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Introduction

The AEC acknowledges the history of the development of the proposed amendments, which the Energy Security Board ("**ESB**") has set out in the paper, and appreciates the ESB seeking to defer the rule changes to decouple the T-3 instrument from the T-1 instrument, while broader work on resource adequacy continues within the Post-2025 National Electricity Market Design Programme.

Nevertheless the AEC remains concerned that the rule change will be implemented by the powers contained within Section 90F of the *National Electricity Law*. While Section 90F(4)(a)(i) contemplates rule changes which are in connection with "energy security and reliability of the NEM", the need for exercising this rule-making power in relation to this issue is not evident.



The latest Electricity Statement of Opportunities ("**ESoO**") shows (as demonstrated by the graph on the left)[1] that average unserved energy does not exceed the interim reliability measure in any state until 2023-24,[2] and it appears that the hasty drafting of the rule change is designed to allow a T-3 instrument to be made in time for the summer of 2023-24. It is noted that the exceedance in 2023-24 is almost negligible, and the average unserved energy remains well within the reliability standard.

The AEC also notes that the interim reliability measure should be characterised as a metric which is similar to the reliability standard, in that it is intended to be a target met as an average over time. Thus it should be anticipated that the interim reliability measure, like the reliability standard, will be moderately exceeded in occasional years without cause for fundamental concern.

[1] Excerpt from p.7, Figure 2
[2] Australian Energy Market Operator, *Electricity Statement of Opportunities – A report for the National Electricity Market*, August 2020

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This evidence leads the AEC to believe that there is sufficient time for the rule change to follow due process, and be assessed by the Australian Energy Market Commission, rather than being rushed through under the Section 90F powers.

Genesis of the Interim Reliability Measure

The December 2019 meeting of the former COAG Energy Council was held in a circumstance of pressing concern about reliability, following an adverse outlook presented in the 2019 ESoO. This resulted in a direction to the ESB to rapidly develop a range of responses. The ESB did not have time to undertake an appropriate level of consideration of these rushed responses, and they were not consulted with industry before being presented to the March 2020 COAG Energy Council meeting. Fortunately, as presented above, concerns have since greatly eased, which allows time for more considered thinking with respect to the resulting rule changes, including the role of the T-3 instrument. Again, the AEC suggests the normal rule change process is the appropriate path given the improved conditions. This will allow an appropriate level of consideration, which was not feasible in the December-March period.

Consistency with the National Electricity Objective

The AEC also disputes whether the rule change is consistent with the National Electricity Objective ("**NEO**").

The NEO is "to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to

(a) price, quality, safety, reliability and security of supply of electricity; and
(b) the reliability, safety and security of the national electricity system."[3]

The AEC notes the ESB's view set out in the Consultation Paper, but believes that the proposed rules (when considered *in toto*) fail to meet the primary consideration of the NEO, efficient investment. As expressed in the AEC's previous submission,[4] the Reliability Panel has established the most appropriate level for the reliability standard and associated market settings, therefore the imposition of a stricter standard, and the associated increased investment to meet that standard, cannot be construed as "efficient investment … for the long term interests of consumers…", given that the additional investment required will result in increased costs for consumers.

These additional costs were corroborated by the ESB's consultant's analysis, which reported an expected increase of $8-16 p.a. for 4MWh p.a. households.[5] Larger users would have commensurately higher costs.

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[3] *National Electricity (South Australia) Act 1996*, Clause 7
[4] Available at https://www.energycouncil.com.au/media/18585/20200612-aec-reliability-measures.pdf
[5] Ernst & Young, *Assessment of Potential Market Impacts associated with moving to a Higher Reliability Standard*, 6th May 2020, p.3

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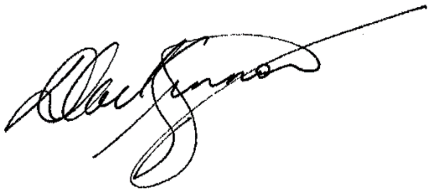
Conclusion
In conclusion, the AEC acknowledges that while the drafting of the proposed rules is benign, the use of Section 90F powers is unnecessary, and the rules' intention will increase consumers' costs until their expiry in June 2025.

Any questions about this submission should be addressed to the writer, by e-mail to Duncan.MacKinnon@energycouncil.com.au.

Yours sincerely,



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