

5 September 2018

Dr Kerry Schott
Chair
Energy Security Board

Lodged by email: info@esb.org.au



Dear Dr Schott,

Submission to NEG Reliability Requirement Pre-condition Options

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to respond to the Energy Security Board's (ESB) consultation paper. We are supported in this submission by the Australian Council of Social Services (ACOSS).

PIAC strongly opposes all of the proposed alternatives to activating the reliability obligation of the National Energy Guarantee (NEG), and fundamentally disputes the need to revisit generation reliability at this time.

Generation reliability is not a pressing concern for the NEG to address

The alternatives proposed were developed in response to concerns that a reliability gap could emerge at any time across the 10 year forecast period. While this may be theoretically possible, PIAC strongly disagrees this warrants a change to the governance and mechanisms in the final detailed design which was developed through long consideration and broad, public consultation.

Modelling conducted for AEMO's 2018 Electricity Statement of Opportunities (ESOO) shows that the NEM Reliability Standard will not be breached with the implementation of the Integrated System Plan – which the COAG Energy Council have tasked the ESB with delivering.

There are other mechanisms for responding to potential reliability shortfalls

PIAC understands the reliability obligation in the NEG is designed to incentivise flexible generation to be available in the NEM in the medium- to long-term. To attempt to modify the NEG to also cover the short-term would be a poor outcome: not only would it hamper achieving its intended purpose, but it may actually exacerbate generation reliability issues.

There are a range of existing mechanisms as well as others currently being developed which are better suited to addressing any potential short-term shortfalls of generation capacity. For instance, there is the Reliability and Emergency Reserve Trader (RERT) mechanism already available to AEMO. The RERT is the subject of a current rule change to enhance its effectiveness. As displayed in response to a projected generation shortfall in NSW on 10 February 2017, there are also contracts in place with large customers to reduce consumption at particular times (in this case Tomago aluminium smelter) and consumers may be asked to voluntarily reduce or shift their consumption.¹

¹ In their System Event Report, while AEMO could not verify the extent of this voluntary response, they saw a 200MW reduction in forecast peak demand. Such a reduction could be greatly enhanced through better communication as well as more formal arrangements such as through a wholesale demand response mechanism.

To disregard existing mechanisms risks duplication and distorting otherwise efficient price signals – ultimately leading to inefficient responses from the market. This is not what is needed for the NEM.

Affordability is a pressing concern

PIAC stresses that affordability is a pressing concern for consumers in the NEM. As has been pointed out in many reports, including most recently the ACCC report, electricity bills have increased significantly in real terms since the 1990s putting greater financial stress on many households and businesses.

Therefore, it is essential that any new mechanism address, or at the very least not worsen, the current affordability issues facing many consumers.

The reliability obligation must be completely benign when not triggered

As outlined in PIAC's earlier submission, the Reliability Obligation must be benign when it is not triggered. This must inform both the design of the obligation itself, as well as the design of a robust and transparent governance process for triggering the obligation.

The proposed alternatives run counter to this.

A key part of the NEG design process has been to firstly allow existing market processes to respond to any forecast reliability shortfalls and only triggering the reliability obligation if this is insufficient. This has meant ensuring industry receives sufficient information and signals to respond appropriately. To do otherwise introduces risk and uncertainty, distorting signals to market participants and ultimately leading to inefficient investment (and retirement) decisions.

Specific comments on the proposed alternative options

Ministerial powers to activate the reliability obligation:

- PIAC opposes this option.
- Even as a transitional arrangement to be reviewed by the COAG Energy Council after 5 years, this proposal removes transparent and independent governance and replaces it with opaque and potentially inscrutable decision-making. Doing so would increase uncertainty around if and when the obligation may be triggered and hence discourage coordinated and efficient market responses.
- As with the deterministic network reliability standards which were set by political rather than economic processes, this proposal risks setting standards which do not reflect informed, consumer preferences. This could ultimately gold-plate the wholesale market as it did with a number of networks.
- The proposal reduces the minimum notice period to show compliance from 2 years to 3 months. It is unlikely the market would be able to efficiently respond to the projected shortfall and show compliance within a 3-month period.

Removal of T-3 determination:

- PIAC opposes this option.
- Removing the need for a determination 3 years out from a projected shortfall essentially reduces the minimum notice period to show compliance from 2 years to 3 months. It is unlikely the market would be able to efficiently respond to the projected shortfall and show compliance within a 3-month period.
- Furthermore, the proposal would remove the upper limit for when the obligation could be triggered. PIAC sees no need for this.

- Both factors are likely to increase risk for liable parties and introduce additional barriers for new participants to enter the market – ultimately leading to increased prices for consumers for little if any benefit.

Addition of a T-5 determination:

- PIAC opposes this option.
- The possibility to have a determination at either 5 or 3 years out from a projected shortfall would introduce additional burden and uncertainty on liable parties.
- This is likely to increase risk for liable parties and introduce additional barriers for new participants to enter the market – ultimately leading to increased prices for consumers for little if any benefit.

Continued engagement

PIAC would welcome the opportunity to meet with the ESB and other stakeholders to discuss these issues in more depth. Please contact Miyuru Ediriweera, Senior Policy Officer, Energy and Water, on mediriweera@piac.asn.au or (02) 8898 6525.

Yours sincerely,

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