

Mr John Pierce
Chair
Australian Energy Market Commission

Via the AEMC website using the “lodge a submission” function

7 November 2019

Dear Mr Pierce

RE: ‘Expedited’ rule change request by the Victorian Government – RERT Contracting ERC0283

The Queensland Electricity Users Network (QEUN) appreciates the opportunity to provide a consumer perspective to the Victorian Government’s ‘expedited’ derogation proposal (rule change request) to the Australian Energy Market Commission (AEMC) that will allow the Australian Energy Market Operator (AEMO) to contract for emergency reserves under the Reliability and Emergency Reserve Trader (RERT) on a multi-year basis in that state. This submission specifically questions the need for an ‘expedited’ rule change request, particularly since in May 2019 the AEMC completed an extensive consultation process on RERT which included consultation on standing emergency reserves – the subject of the Victorian Government’s rule change request.

The AEMC’s *Australia-wide* May 2019 consultation on the ‘*Enhancement to the RERT*’ concluded that:

Finding 47

The Commission considers that, on balance, standing emergency reserves would not be appropriate. While allowing for standing reserves (where reserves could be procured for multiple years at a time) could potentially result in cheaper emergency reserves being provided, the Commission considers that the increased costs for consumers would outweigh these potential benefits since:

- *Consumers would pay for emergency reserves every year regardless of whether or not the emergency reserves are required – thereby increasing electricity costs.*
- *In addition, allowing standing reserves would likely disincentivise investment in all forms of generation (and demand response) in the market which would lead to higher wholesale market prices – further increasing costs to consumers.*

Going forward the issue of sufficient dispatchable electricity is a concern for business and residential consumers in all jurisdictions in the National Electricity Market (NEM). However, so too is the current unsustainable price of wholesale and retail electricity. Without quantifiable evidence that supports a material change in conditions since the AEMC’s finding in May 2019, the granting of an expedited rule change request for Victoria sets a dangerous precedent that may be replicated by other state governments in the future.

The QEUN is a consumer advocacy representing small business and residential consumers with a particular emphasis on regional consumers.

In addition to participating in the AEMC’s *Australia-wide* 2019 consultation on the ‘*Enhancement to the RERT*’, the QEUN is also a regular participant in AEMO’s Forecasting Reference Group (FRG). Our participation in the FRG is based on our belief that the accuracy of AEMO’s demand forecasts can be significantly improved with the participation of a diverse range of informed consumer advocates. In particular, we believe AEMO’s demand forecasts for small and medium size businesses require significant improvement. This is pertinent as SMEs account for the majority of the demand for NEM supplied

electricity, hence small and medium size businesses would be significantly impacted by any load shedding event.

AEMO's demand forecasts are a critical input into the Electricity Statement of Opportunities (ESOO). The ESOO forecasts electricity supply reliability in the NEM over a 10 year period to inform decisions by market participants, investors and policy makers. This annual report prepared by AEMO and released in August 2019 appears to be the catalyst for the Victorian Government's rule change request to overturn the AEMC's May 2019 finding that *"standing emergency reserves would not be appropriate"*.

We can fully understand and empathise with the panic felt by Victorian consumers, and possibly the Victorian Government, upon reading in the ESOO's key findings (some of the ESOO's key findings were in **highlighted text** which would only increase the sense of consumer alarm) that:

"However, if both power station outages were extended over the summer, and if no additional supply was secured, involuntary load shedding may be experienced in Victoria during extreme weather events, potentially over multiple events, equivalent to between 260,000 and 1.3 million households being without power for four hours."

The Medium Term Projected Assessment of System Adequacy (MT PASA) is released each week by AEMO and lists the medium term supply/demand prospects for the period two years in advance ie the MT PASA covers the summer of 2019-2020. Since the alarming key findings of the ESOO published in August 2019, the MT PASA has continued to report each week that it *"identifies no Low Reserve Conditions"*.

In addition to the MT PASA continuing to state no breach of the 0.002% reliability standard in any jurisdiction including Victoria, the other new information provided to AEMO and the ASX since the publication of the ESOO is the announcement by AGL on 2nd August 2019 that AGL was seeking permission from the South Australian Government to operate its 480 MW Torrens A Power Station over this summer. Permission to operate Torrens A until March 2020 was granted in October 2019.

On 4 November 2019 at the opening of AGL's 210 MW gas-fired Barker Inlet Power Station, the Chief Executive of AGL Brett Redman is reported in the Adelaide Advertiser as stating that *"part of its Loy Yang coal-fired power station in Victoria which has been out of action will be repaired by December 16"*. This comment is reflected in the MT PASA which continues to show no breach of the 0.002% reliability standard in Victoria this summer.

Consumers are being led to believe that unless this expedited rule change request for Long Notice RERT for multiple years is granted by December 2019, the lights in Victoria may go out this summer during extreme weather events. Our understanding is that under existing national electricity rules AEMO can enter into Short Notice RERT and Medium Notice RERT contracts for emergency reserves providing there is a breach of the 0.002% reliability standard in the MT PASA. In other words, whether or not the expedited rule change request is granted, the lights going out in Victoria this summer is not predicated on the granting of an expedited rule change request for Long Notice RERT over multiple years. We understand AEMO's tender for Short Notice and Medium Notice RERT closed on 2nd September 2019 and Long Notice RERT on 13 September. We are not aware of any formal advice to the market or stakeholders which states that AEMO was unable to procure sufficient Short Notice RERT or sufficient Medium Notice RERT for Victoria.

Australia is already experiencing an energy affordability crisis that is widening and deepening daily. If predictions of a slowing economy come to fruition the death spiral for NEM supplied electricity could accelerate quickly. It is therefore crucial not to over-invest in generation assets or paid demand response as this over-investment will be borne by consumers for multiple years.

Instead of granting an expedited rule change request that will impose extra costs on consumers for multiple years, we urge the AEMC to consider the merits of other cost-effective demand response initiatives that could be implemented prior to the summer of 2020-21 in Victoria and across the NEM.

The QEUN is in discussion with Energy Queensland on the potential implementation of the Traffic Light System (TLS) in Queensland. The TLS is a colour coded warning system that would provide consumers with notification of a potential or actual load shedding event. By delivering consumer friendly messages to subscriber's mobiles, consumers would be encouraged to provide unpaid demand response. The TLS would assist to reduce demand on those few peak demand days where the reliability standard could be breached. At the same time the TLS would provide a much needed reduction in business and residential power bills.

To date there has been too much emphasis by AEMO and the Australian Renewable Energy Agency on paid demand response/RERT contracts which target commercial and industrial consumers. Curtailing commercial and industrial consumers can have an adverse impact on the economy and jobs.

Consumers are increasingly taking an interest in the environment and the TLS has a strong energy conservation message which aims to educate and inform a wide range of business and residential consumers. Importantly, the TLS in a cost-effective and consumer friendly manner will tackle the root cause of rising peak demand – rising residential air-conditioning.

In summary, we understand the Victorian Government's 'expedited' rule change request:

- Will not determine whether the lights stay on in Victoria this summer, rather it is the ability of AEMO to procure sufficient Short Notice and Medium Notice RERT as allowed under the existing national electricity rules
- To date AEMO has not advised stakeholders or the market that it cannot procure sufficient Short Notice or Medium Notice RERT for Victoria for the summer of 2019-20
- Providing AEMO does not identify a shortage of Short Notice or Medium Notice RERT, the granting of an 'expedited' rule change request denies consumers the ability to investigate through a non-expedited rule change process, other more cost-effective initiatives that can be implemented prior to summer 2020-21 such as the Traffic Light System.

Thank you for the opportunity to provide a consumer perspective to the AEMC's consultation paper.

Yours faithfully

A handwritten signature in blue ink that reads 'Jennifer Brownie'.

Jennifer Brownie
Coordinator