



21 September 2021

Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2001

Attention: Mr T Meares

By direct lodgment

**Updating Short Term Projected Assessment of System Adequacy
ERC 0332**

Major Energy Users Inc (MEU) is pleased to provide its views on the Consultation Paper issued in relation to the proposed rule change for the Short-Term Projected Assessment of System Adequacy (STPASA) initiated by AEMO.

The MEU was established by very large energy using firms to represent their interests in the energy markets. With regard to all of the energy supplies they need to continue their operations and so supply to their customers, MEU members are vitally interested in four key aspects – the cost of the energy supplies, the reliability of delivery for those supplies, the quality of the delivered supplies and the long-term security for the continuation of those supplies.

Many of the MEU members, being regionally based, are heavily dependent on locally based staff, local suppliers of hardware and services, and have an obligation to represent the views of these local suppliers. With this in mind, the members of the MEU require their views to not only represent the views of large energy users, but also those interests of smaller power and gas users, and even at the residences used by their workforces that live in the regions where the members operate.

It is on this basis the MEU and its regional affiliates have been advocating in the interests of energy consumers for over 20 years and it has a high recognition as providing informed comment on energy issues from a consumer viewpoint with various regulators (ACCC, AEMO, AEMC, AER and regional regulators) and with

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governments.

While supportive of some aspects of the proposed rule change, the MEU points out that it was involved in the forums implemented by AEMO as it progressed this rule change and was concerned that a number of constructive criticisms made by stakeholders were effectively disregarded by AEMO and its consultants during these forums. The rule change proposal seems to have ignored many of the suggestions made, effectively only reflecting the “inform” level of consultation under the IAP2 framework, rather than actual consultation.

Specifically, the MEU is very concerned that there is a strong trend within AEMO (and state and federal governments)¹ to move to an electricity market that puts a 100 percent reliability of wholesale supply as the determining factor in operating the market, rather than the acceptance implicit in the Reliability Standard that there will be times when the cost of wholesale supply reliability is too great and that a small amount of unserved energy provides an overall more efficient outcome. The proposed rule change submitted by AEMO continues this trend and in doing so exposes consumers to increased costs.

The MEU is concerned that AEMO has not made the case for change, recognising that a case for change needs to exceed a high bar because the benefits of change have to surpass the costs of change, not only those incurred by AEMO, but all other stakeholders, and to ensure the proposed change provides a clear net benefit to the consumers who ultimately incur the costs, both directly and from negative outcomes from the change.

In this regard, the MEU is not convinced that moving to a principles-based framework for the assessment of reliability in the STPASA timeframe is preferable to a prescriptive rules-based framework, noting that, in our view, the flexibility inherent in a principles-based approach could result in AEMO unnecessary triggering the Reliability and Reserve Trader (RERT), leading to considerable but unnecessary costs to consumers and increased uncertainty for market participants.

While the MEU accepts that under the proposed rule AEMO would undertake consultation in the development of its new rules for STPASA, there is no guarantee that this process would necessarily deliver changes more preferable to the current rules-based approach. As indicated above, the MEU was active in the AEMO forums considering the STPASA changes and was quite concerned that the process and conclusions reached by AEMO, and its consultants, tended to ignore the constructive comments and criticisms raised in the forums by well-informed stakeholders with considerable experience of operating in the NEM. This raises a concern that AEMO

¹ The MEU notes that AEMO and governments have a bias to ensuring there are no shortages of wholesale supply arising from reputational concerns rather than balancing between costs and reliability of supply, implying that independent analysis of this critical issue is essential. This was exemplified by the unilateral decision to impose the Interim Reliability Measure of 0.0006% without any stakeholder consultation.

might continue with this observed approach in the initial development of AEMO's STPASA process document prepared under a principles-based approach and in any subsequent changes that AEMO might seek at a later stage.

The MEU considers that AEMO is not necessarily a disinterested party in the issue of STPASA (see observation above and note 1). Having a prescriptive approach to the STPASA rules (as currently exists) would require deeper analysis by an independent party (such as AEMC using the rule change process) to implement any change to setting STPASA input assumptions and outputs. Referencing the point in the paragraph above, under a principles-based approach AEMO could ensure that its changes led to unnecessary increases in wholesale market reliability despite consumer and other stakeholder views to the contrary. The existing approach of a rules-based framework requires much deeper investigation of the cost versus reliability trade off under the auspices of the independent AEMC.

The MEU notes the AEMC observation that a principles-based approach is preferred when there are continual changes in the market, but the MEU points out that the inputs used for development of the STPASA are not affected by the mix of generation or demand response, and so do not need to reflect the changes in technology now being seen in the market. Further, the MEU does not consider that this observation about continual change applies where there are already other tools within the AEMO toolbox to address the changes facing the NEM². While the MEU accepts there will be further change in the NEM, much of this change is already observable so the MEU does not consider increased flexibility for AEMO through a principles-based approach for STPASA is so necessary as to obviate the need for the stability inherent in a rules-based framework or that a principles-based framework will better manage the risks (and therefore costs) faced by consumers and other stakeholders.

The MEU notes that the current approach used by AEMO for its development of STPASA excludes the impact of demand response and the MEU considers that a refinement of the current rules-based approach should require AEMO to include this element in its forecasting inputs whether this be from formal commitments (via WDRM) or informally through observed demand reductions seen in response to price movements.

The MEU was impressed by the ERM (now Shell Energy) observations made during the STPASA forums and supported the points made by ERM at that time. The MEU assumes that any ERM/Shell Energy submission on this issue would reiterate those critical issues raised at the forums and so therefore the points raised in the ERM/Shell submission get support from the MEU.

In conclusion, the MEU is not convinced that a move to a principles-based framework for STPASA is necessary nor has it been demonstrated to better provide for the long-

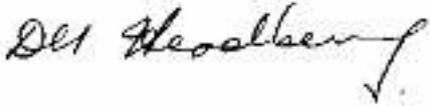
² The changes to the reserve levels declaration guidelines (Clause 4.8.4A) which introduced the forecasting uncertainty measure (FUM) is but one example of additional tools available to AEMO to allow for uncertainty in its STPASA inputs.

term interests of consumers as required by the NEO. Therefore, the MEU does not support the proposed change from the current prescriptive rules-based framework for the STPASA.

Further, based on comments and actions by AEMO during the STPASA forums, we remain concerned that such a change will result in loss of the benefits of a rules-based framework in terms of stability and certainty. The MEU continues to be very concerned about the potential risk to consumers of unnecessary cost increases from the change as AEMO could use the change to chase its implicit zero percent unserved energy outcomes under all conceivable operating conditions, regardless of cost to consumers.

We trust that the foregoing provides sufficient clarity on the MEU views but should you desire further explanation as to why we have responded as we have, we would be pleased to provide more detail, so please contact the undersigned on davidheadberry@bigppnd.com or 0417 397 056

Yours sincerely

A handwritten signature in black ink, appearing to read "David Headberry". The signature is written in a cursive style with a checkmark at the end.

David Headberry
Public Officer