public interest
ADVOCACY CENTRE

Submission to the Reliability Standards and Settings Review guidelines

9 April 2021

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About the Public Interest Advocacy Centre

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in Sydney.

Established in 1982, PIAC tackles barriers to justice and fairness experienced by people who are vulnerable or facing disadvantage. We ensure basic rights are enjoyed across the community through legal assistance and strategic litigation, public policy development, communication and training.

Energy and Water Consumers' Advocacy Program

The Energy and Water Consumers' Advocacy Program (EWCAP) represents the interests of low-income and other residential consumers of electricity, gas and water in New South Wales. The program develops policy and advocates in the interests of low-income and other residential consumers in the NSW energy and water markets. PIAC receives input from a community-based reference group whose members include:

- NSW Council of Social Service;
- Combined Pensioners and Superannuants Association of NSW;
- Ethnic Communities Council NSW;
- Salvation Army;
- Physical Disability Council NSW;
- St Vincent de Paul NSW;
- Good Shepherd Microfinance;
- Affiliated Residential Park Residents Association NSW;
- Tenants Union;
- Solar Citizens; and
- The Sydney Alliance.

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Public Interest Advocacy Centre

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The Public Interest Advocacy Centre office is located on the land of the Gadigal of the Eora Nation.

Introduction

PIAC welcomes the opportunitity to respond to the Reliability Panel's review of the Reliability Standards and Settings. As the consultation paper notes, there are signficiant technological and regulatory changes underway in the National Electricity Market (NEM).

In this context, PIAC supports the Reliability Panel taking a broad scope in reviewing the Reliability Standards and Settings – considering certain aspects to be out of scope of such a review is unlikely to help achieve the long-term interests of consumers.

Level and application of the reliability standard

PIAC supports the current reliability standard, and does not see merit in moving away from the value of 0.002% USE at this time. It represents a level of reliability that, given the cost trade-offs of higher reliability and the impact of lower reliability, is consistent with the Panels second general principle: "Delivering a level of reliability consistent with the value placed on that reliability by customers."[1]

Concerns about the approach to setting Market Price Cap and Cumulative Price Threshold

As noted above, PIAC is of the view that 0.002% USE represents an appropriate target for reliability, given the cost of higher reliability and the impact of lower reliability.

By the same token, PIAC is very concerned that in setting the Market Price Cap (MPC) and the Cumulative Price Threshold (CPT) in the past, the Reliability standard appears not to have been applied in a way that is at all consistent with the Panel's second guiding principle of "Delivering a level of reliability consistent with the value placed on that reliability by customers."

As illustrated in its 2014 review, modelling commissioned by the Panel[2] clearly concluded that, in all NEM regions except for SA, the reliability levels under the price settings in place at the time were forecast to be in the order of ten times higher than the standard[3], suggesting the MPC and CPT could be lowered considerably and still the reliability standard would be achieved.

In PIAC's view, this indicates a risk that the wholesale market is effectively being 'gold plated', with a much higher level of reliability than consumers are prepared to pay for.

PIAC considers that, in this context, the Panel's second principle "Delivering a level of reliability consistent with the value placed on that reliability by customers" makes clear that the actual level

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1 Reliability Panel AEMC, *Consultaion paper: Review of the Reliability Standards and Settings Guidelines,* 4 March 2021, 14.

2 Roam Consulting, *Reliability Standard and Settings Review ROAM Consulting Modelling Outcomes*, http://www.aemc.gov.au/getattachment/c1206b00-86ba-4efe-a9ca-1d4d249fb612/ROAM-Presentation-4-December-2013.aspx

3 As in the predicted USE, under the settings in place at the time, was forecast to be about one tenth of the standard in all regions except SA.

of USE could be much higher than it is and still remain within standard, implying that the MPC and CPT should be lowered.

The function of the Market Price Cap is changing

The Market Price Cap as an investment signal is less relevant

PIAC notes that the Panel views the primary role or function of the MPC to be setting efficient price signals, and a secondary function to be managing participant exposure to price risk. PIAC considers this notion is becoming increasingly outdated and must be reconsidered.

The MPC has become less of a factor in the investment decisions of generation businesses than when it was first established. Since the establishment of the MPC, a number of other factors (such high demand forecasts, low demand forecasts, oversupply, fuel prices, renewable energy incentives, the lack of long term carbon policy) have all played an increasingly material part in incentivising (and disincentivising) new investment.

New markets, such as for frequency response and inertia, will also incentivise future investment and continue to diminish the role of the MPC in signalling to investors. Further, governments are investing in energy generation and storage to maintain reliability, and are unlikely to alter these decisions on the basis of the level of the MPC or CPT.

PIAC recommends that the Panel reconsider the primacy of the MPC as an investment signal.

The Market Price Cap is more relevant for managing risk exposure

Notwithstanding that high wholesale energy prices will also occur at times in a well-functioning and balanced market, PIAC is concerned that many high price events have been caused or exacerbated by strategic bidding behaviour, and even gaming, by existing generators.

In this context, in PIAC's view the MPC should be primarily considered as a mechanism to manage participant exposure to price risk.

Demand Response

PIAC supports the Reliability Panel's view that the settings should allow for the market to send signals needed to support efficient operation and investment decisions. It is important that the Reliability Panel considers the role in the market of demand response proponents, who have historically met reliability shortfalls more efficiently than generation and, behind scale storage, are likley to be the predominant new-entrant scheduled market participants in coming years.

A number of developments will help make use of the considerable untapped potential for DR in the NEM,[4] most notably the implementation of the Wholesale Demand Response mechanism. PIAC considers that in coming years more new 'capacity' will come in the form of 'Negawatts' (of demand response) than 'Megawatts' (of new dispatchable generation). It would be misguided to

[4] A number of estimates have put the potential NEM DR market at over 2GW.

continue setting the MPC and CPT to create or sustain an investment signal for generators (in particular Open Cycle Gas Turbines).

Further, some of the new demand response that is brought to the market as a result of these reforms requires a markedly lower price signal than new generators. This could, in turn, indicate that a lower MPC is appropriate.

Battery energy storage

Between now and when the reliability standard and settings period under review ends, batteries are expected to be deployed at scale and interact in the wholesale market in a number of ways. While they are often described as a “game changer”, their potential interaction with the reliability standard and settings are not yet fully understood. For instance, while many batteries are not currently configured to operate in islanded mode:

- As battery products become prevalent and innovative, more are likely to be coupled with inverters that are able to operate in islanded mode; and,
- In any case, as more batteries are deployed, a great portion of the load on the grid will be interruptible battery charging loads, that have a much lower VCR than average.

Considering this, PIAC recommends the Reliabiilty Panel considers the role of battery energy storage in the reliability and security of the energy market, and specifically the interactions between energy storage and reliability standard and settings, for this review.

Different MPCs and CPTs for different regions

Analysis undertaken for previous reviews, and the outcomes since, have made it clear that different NEM regions have significantly different likelihoods of not meeting the Reliability Standard, particularly over the longer term.

In PIAC’s view, it is entirely inconsistent with the intent of the price settings, and functions of the price settings, to maintain a common MPC across all jurisdictions.

While there is some link between wholesale prices in neighbouring jurisdictions, constraints in interregional trading and the lack of coincident price peaks between regions would appear to limit the extent that it would efficiently act as an investment signal.

Further, it is possible that the lack of distinction between regions with respect to MPC and CPT has led to the perverse outcome of favouring investment in regions that are less in need of generation capacity to meet the reliability standard.

PIAC strongly recommends that the Reliability Panel seeks to set different MPC’s and CPT’s in different regions according to the specific circumstances and needs of each region.

Continued engagement

PIAC welcomes the opportunity to meet with the AEMC, the Panel and other stakeholders to discuss these issues in more depth.