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Information Bulletin
22nd COAG Energy Council Meeting
22 November 2019

Energy Consumers Australia attends, as an observer, the meetings of the Council of Australian Governments (COAG) Energy Council. The three market institutions – the Australian Energy Market Commission (AEMC), the Australian Energy Regulator (AER) and the Australian Energy Market Operator (AEMO) – also attend as observers.

This Information Bulletin draws on the communique issued by the Energy Council on 22 November 2019 and publicly available information about the matters discussed at the meeting. Extracts from the communique are provided in the text boxes below.

ENERGY MINISTERS MET TODAY IN PERTH FOR THE TWENTY-SECOND ENERGY COUNCIL MEETING.

MINISTERS FOCUSSED ON THE KEY PRIORITY OF ENSURING ENERGY SECURITY, RELIABILITY AND AFFORDABILITY FOR ALL AUSTRALIANS.

Ministers were briefed by the Australian Energy Market Operator (AEMO) on its preparations to make sure the energy system is ready for the upcoming summer. Whilst challenging, AEMO remains confident that they have sufficient arrangements in place to minimise the risks to the National Electricity Market (NEM) over the summer season.

1. Security and Reliability

The NEM, and the WA and NT energy markets, are undergoing profound transformation with an accelerating pace of change. Given this, the Council tasked the Energy Security Board (ESB) to provide advice for decision in March 2020 on immediate measures to ensure reliability and security of the electricity system for an in-session meeting in March 2020.

As part of this work, Ministers tasked the ESB to undertake an immediate review of the NEM electricity reliability standard to ensure that it is fit for purpose and to also assess benefits and costs to consumers. The ESB will report to Council with its recommendations by March 2020 such as any change to the reliability standard that is approved will be made in time to inform the Electricity Statement of Opportunities.

Ministers also discussed the Australian Energy Market Commission's (AEMC) work on the Coordination of Generation and Transmission Investment review and agreed that the AEMC present this work for consideration by Council by March 2020.

Ministers also noted the need to engage closely with stakeholders as this work progresses. As a key part of this work, and work being undertaken by the ESB,

Ministers discussed progress and asked the ESB to expedite work on short term actions to progress renewable energy zone connections.

The non-NEM states (NT and WA) look forward to the continuing cooperation of the Commonwealth Government and the Australian energy market bodies on security and reliability.

Summer readiness Plan 2019-20

Critical context for the discussion about the reliability standard is the outlook for the summer (and beyond) and risks to the reliable and secure operation of the power system.

The Australian Energy Market Operator (AEMO) published its Summer Readiness Plan on Tuesday 3 December 2019 on the Energy Live website. The Summer Readiness Report for last summer is available here and assessed the risks for summer based on weather forecasts and other factors and then explained the steps AEMO was taking to manage the system based around on four pillars.

1. Sufficient available resources.
2. Continuing operational improvements.
3. Contingency planning.
4. Collaboration and communication

Simon Frimston, Operations Specialist from AEMO's National Electricity Market (NEM) Real Time Operations team, talks about how AEMO prepares for the summer on a recent podcast on Energy Live available here.

The Electricity Statement of Opportunities

The 'ESOO' – published by AEMO in August each year – is an annual forecast about electricity supply in the National Electricity Market (NEM) over a ten-year period. The ESOO has traditionally served as a source of information for energy companies and investors and informed decisions by AEMO about reserves it might need procure to deploy if there is a shortage. With the introduction of the Retailer Reliability Obligation (RRO), the ESOO is also now the basis for decisions about whether to 'trigger' the RRO mechanism.

The latest ESOO, published in August 2019, is available here. The outlook at that stage was for the reliability standard not to be met in Victoria this summer. Further out, AEMO forecast that the probability of unserved energy – which is how the reliability standard is measured – would approach the 0.002 threshold in New South Wales from 2023-24. Notwithstanding these forecasts, the conditions for the RRO to be triggered were not met, for reasons that AEMO outlines in the ESOO.

Key according to AEMO is the way the 0.002 standard accounts for different kinds of risks, and (in particular), the extent to which it does not capture uncertainty and risks associated with high impact, low probability events, or so-called 'tail risk' events.

These are thought to be more likely as the energy system changes and extreme weather becomes more frequent.

These matters were considered by the AEMC in a rule change for the Enhanced Reliability and Reserve Trader, however AEMO believes there are residual issues with the way the reliability standard is framed and operationalised that need to be addressed. See pages 13-15 of the ESOO for a discussion about the issues.

Ongoing work relating to reliability and system security

There are several other pieces of work already underway which have a bearing on reliability and system security of the NEM but go beyond the question about the appropriateness of the reliability standard itself.

- The Australian Energy Regulator (AER) review of the Values of Customer Reliability (VCR)
- The AEMC Review of the Coordination of Generation and Transmission Investment (COGATI).
- The Energy Security Board Post 2025 Review.
- The AEMO Integrated System Plan.

Further information about the ISP is provided under item 4.

Over the past twelve months the AER has been undertaking a national review of the VCR, to update the last estimates produced by AEMO in 2014. VCR are framed as a signal of what consumers are prepared to pay, as part of their bill, to avoid experiencing power outages. The VCR are used in the National Electricity Market jurisdictions to assess the case for investment to maintain or improve the reliability of the electricity distribution network – which accounts for most of the outages experienced by consumers. Consumers tell us that they are satisfied with the current level of reliability – nationally, 73% rate reliability positively. This compares with satisfaction with the value for money of electricity services, where nationally 53% rate it positively.[1]

The AER intends to publish VCR estimates for the most common power outages in mid-December 2019, while estimates for the less common, wide-spread and longer duration power outages are intended to be published in the first quarter of 2020. These estimates are used to inform the system reliability standard (being reviewed by the ESB) which takes into account the risk of outages due to insufficient generation.

The AEMC describes ‘COGATI’ as being about better coordinating investment in electricity transmission and generation to better reflect the new reality of a system, changing from being comprised of “*a small number of large and more centrally*

[1] The results are reported are for households, in the Energy Consumer Sentiment Survey, December 2019 (forthcoming)

located generators being replaced by a large number of relatively small, flexible, asynchronous and geographically dispersed generators." This is important because the final consumer electricity bill includes the cost of both the generation and the transmission infrastructure.

The AEMC released a discussion paper on 14 October 2019 outlining a proposed set of changes to the way wholesale electricity prices are set (in particular the extent to which prices reflect 'where' electricity is being generated) and the ways generators access the transmission network to transport the electricity they generate.

At the same time, the AEMC also published a discussion paper on Renewable Energy Zones (REZ), which were referred to in recommendations 5.1 and 5.2 of the Finkel Review in June 2017. The Discussion paper describes two general types of REZs – one which can be developed under the current arrangements, and one which is more challenging given that (among other things) even if a group of generators banded together to fund a transmission upgrade, they could not secure privileged access to the asset once it was built.

Following the Energy Council meeting on 22 November, the AEMC has confirmed that it will complete a final report on COGATI in March 2020, ahead of it being considered by ministers that month.

Planning and other policies are also relevant to the development of REZs.

On the day of the Energy Council meeting, the NSW Government announced that it would be developing a REZ in the Central-West of the State, with a view to facilitating 3,000MW of new generation by the mid-2020s. This is one of the elements of a broader NSW Electricity Strategy, that commits the Government to taking ten actions, including:

- Action 5 – reconstituting the Energy Savings Scheme, which offered financial incentives for organisations that invested in energy savings projects, as the 'Energy Security Safeguard. The new ESS will be extended to 2050, with targets increasingly gradually up to 13 per cent by 2030. A new element will be added to the scheme to support investment in peak demand reduction technologies.
- Action 7 – setting an Energy Security Target, equivalent to the maximum demand experienced in NSW in ten years.

2. National Hydrogen Strategy

Ministers agreed to the National Hydrogen Strategy, which will support the development of a clean, innovative, competitive, technology-neutral and safe hydrogen industry that benefits all Australians. Ministers agree national coordination is a key priority to support industry growth. Early actions include responsive regulation, international engagement, skills and innovation. Ministers agreed Australia should take a leadership role in tracking and certifying the origin and emissions intensity of hydrogen.

The National Hydrogen Strategy, agreed by the Energy Council at the 22 November meeting, is available here.

Ministers also released a Joint Statement on the Hydrogen Strategy. The key paragraph reads:

> *The Strategy calls on the Commonwealth, States, and Territories to create the necessary social and regulatory framework that allows the hydrogen sector to expand. It sets out the foundations needed for Australian business to develop a vibrant hydrogen industry that benefits all Australians, while meeting safety and community standards.*

3. Technology and Opportunities

Ministers discussed the Commonwealth's Climate Solutions Package, and its development of a technology investment roadmap.

Ministers also noted the importance of improving transparency in the gas market and approved further work on transparency measures.

4. Integrated System Plan

Noting the importance of the Integrated System Plan (ISP) for the NEM, Ministers discussed updates from the ESB on its work to action the current ISP and agreed the ESB will bring its rules package to action the ISP back to Council in March 2020.

Minsters also noted AEMO's development of the 2020 ISP. Ministers noted that key projects are being progressed, including KerangLink, HumeLink, MarinusLink and Energy Connect as are reforms to modernise the Regulatory Investment Test for Transmission.

Recognising that interconnectors should only proceed based on a positive cost/benefit assessment, the Council has asked the ESB to prepare advice on a fair cost allocation methodology (both in theory and practice) as part of its work to action the ISP.

NSW informed Council of its intention to put in place derogations to ensure reliability and fast track renewable energy zones giving effect to the NSW Electricity Strategy.

AEMO is currently working on the second edition of the ISP, which is updated every two years. The current ISP for 2018-20, is available here.

Recent developments include:

- The ESB is consulting on draft rules to convert the ISP into action. The consultation is open until 17 January 2020 and available here.
- The Australian Energy Regulator (AER) released an issues paper on guidelines to make the ISP actionable. Submissions on the draft guidelines are due by 17 January 2020.

The draft of the 2019-20 ISP is due to be published on 12 December 2019 for consultation. Three workshops are planned in February 2020 to discuss the Draft. The full timeline for the process is available here.

5. Governance

The Council looks forward to the scheduled review of the ESB whilst recognising the value and importance of coordination across market bodies and the role ESB plays in facilitating this.

The ESB was due to be reviewed after three years under its terms of reference that are available on the COAG Energy Council website here.

6. Resources

Australia's resources sector remains a priority for the Council. Resources Ministers welcomed the progress being made toward the Council Strategic Reform Agenda for Resources, which was agreed in December 2018 to facilitate the economic and competitive development of Australia's mineral and energy resources. For example, work has commenced to develop a resources data strategy and a critical minerals work program. As part of a plan to benchmark regulations, the Council noted that the Productivity Commission had commenced a study into resources sector regulation across jurisdictions. Australia's Resources Ministers will discuss progress and future steps on other reform priorities at the next Resources Roundtable meeting in early 2020.

7. Welcome and thank you

Ministers welcomed New South Wales Minister for Energy and Environment, the Hon Matthew Kean MP and the Hon John Barilaro MP, Deputy Premier and thanked the Hon Don Harwin MLC for his contribution to the Council.

Ministers also welcomed Northern Territory Minister for Renewables, Energy and Essential Services, The Hon Dale Wakefield MLA. Ministers thanked the Hon Kenneth Vowles MLA and the Hon Nicole Manison MLA for their contribution to the Council.

Ministers welcomed Ms Clare Savage to her first meeting as Australian Energy Regulator (AER) Chair, and acknowledged Ms Paula Conboy's substantial contribution to the Council, both as AER Chair and a member of the Energy Security Board (ESB).

Ministers thanked Ms Anne Pearson for her valued contribution, to both the Australian Energy Market Commission (AEMC) and the Council, following her announcement to retire as Chief Executive of the AEMC.

Ministers thanked Mr Rob Heferen, Chair of the Council's Senior Committee of Officials, for his contribution to Council and wished him well in his new role.

8. Other developments

a. Smart Appliances

On 22 November 2019, COAG Energy Council agreed to introduce demand response capability requirements for air conditioners, electric storage water heaters (resistive), devices controlling swimming pool pump units, and electric vehicle charger/discharger controllers recommended by the Decision Regulatory Impact Statement.

More information about these changes are available on the E3 Program website here.

b. Trajectory for Low Energy Buildings

Energy Ministers agreed at the meeting on 22 November 2019 to a suite of initiatives to improve the energy efficiency of existing buildings.

This complements the improved energy performance standards for new buildings that Energy Council recommended in December 2018 to the COAG Building Ministers Forum.

Action was strongly supported by a coalition of community, health and research groups, led by ACOSS, who wrote to energy Ministers before the meeting, to encourage their endorsement of the proposed work plan, and to commit to implement the measures quickly. This follows the Housing Summit ECA convened in September 2018.

The report *Addendum to the Trajectory for Low Energy Buildings – Existing Buildings*, available here, outlines a suite of potential policies, proposing a work program that will consider the following over the next 3 years:

- Enabling mechanisms: foundational elements that will enable other policies to be implemented:
    - Practical guidance for household consumers, tailored to different household and industry audiences
    - Industry training, to improve the knowledge and skills of building professionals and trades
    - A home energy rating framework for existing homes
- Targeted residential building policies: addressing barriers at different stages of a homes' life:
    - Energy efficiency disclosure – a national framework that outlines policy parameters for adaptation and implementation by jurisdictions, subject to jurisdiction's regulatory impact statement
    - National framework for minimum energy efficiency, outlining approaches and technical settings for minimum standards to ensure those must vulnerable have access to healthier and more affordable housing
    - Energy efficiency requirements for renovations – strengthen jurisdictional regulation, and provide households with relevant information and tools
- Supporting measures: to support the smooth transition and implementation of policies
    - Further analysis of opportunities in strata titled buildings
    - Investigating targeted financial incentive that could help with the transition – including supporting regulatory measures such as minimum rental requirements, and coordinating energy efficiency obligation scheme and national and state tax incentives
    - Considering the needs of vulnerable households, including those in remote and regional areas, in community and social housing, and those on low-incomes
    - Continual improvements of appliances labelling and performance
    - A national dataset and collection process

The work program will begin in 2020, led by the Commonwealth Department of the Environment and Energy.

c. The National Energy Productivity Plan

It is anticipated that the 2018 National Energy Productivity Plan (NEPP) Annual Report will be released shortly, in line with publication in previous years. The Annual Report will outline progress against the NEPP measures and outline achievements during the year.