

21st November 2018

Dr Kerry Schott AO
Energy Security Board

Submitted via e-mail to: info@esb.org.au

Dear Dr Schott,

Retailer Reliability Obligation

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the Energy Security Board’s (“**ESB’s**”) *Retailer Reliability Obligation Consultation on National Electricity Law Amendments Paper*.

The Energy Council is the industry body representing 22 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Discussion

The Energy Council acknowledges that the majority of comments which industry made in the previous consultation have been accepted and incorporated into this latest draft. Nevertheless the Energy Council feels it is important to draw attention to the fact that the final detailed design of the National Energy Guarantee contained a “double gate” system, where a shortfall had to be identified at both T-3 and T-1 before triggering the retail compliance requirement.¹ The justification for this arrangement was that retailers should obtain reasonable notice of any reliability obligation (hence the T-3 notice), but it would be unreasonable to expect retailers to be able to react readily to an isolated T-1 notice, without the benefit of the T-3 warning, particularly as individual T-1 notices may be as a result of *force majeure* events.

As the Bill is drafted, Section 14H(2)(b) allows for the Australian Energy Regulator to make a T-1 reliability instrument without a related T-3 reliability instrument. The proposed Sections 14I(3)(b) and 14K(1)(b)(ii) are also related to this T-3 exclusion. The Energy Council does not believe it is appropriate to allow this flexibility, since it will not allow retailers the time to take the steps necessary to procure the additional capacity needed (e.g. by installing a battery system or commissioning peaking generation) to meet the reliability obligation.

Despite liable entities monitoring AEMO’s Electricity Statement of Opportunities’ (“**ESoO**”) forecasts as they come closer and closer to the reliability gap year, Year T, the entities may not have entered into the required qualifying contracts when a T-1 determination is sprung upon them, since their internal forecasts, and indeed the most recent ESoO itself, may have indicated no likely reliability shortfall.

Thus allowing isolated T-1 reliability instruments will act to penalise retailers for no improvement in reliability. In addition, the short-term nature of the trigger may unduly affect smaller retailers, who may be unable to react with the speed necessary to meet the obligation, compared with larger retailers with more resources at their disposal. Instead of allowing isolated T-1 triggers, existing last-resort safety-net interventions such as the Reliability and Emergency Reserve Trader (“**RERT**”) should be relied upon to meet any unexpected reliability shortfall.


¹ Energy Security Board, *National Energy Guarantee – Final Detailed Design*, 1st August 2018

Conclusion

In conclusion, the Energy Council believes that the integrity of the “double gate” system should be maintained, and no latitude be given to calling a reliability obligation on the basis of an isolated T-1 trigger.

Any questions about this submission should be addressed to the writer, by e-mail to Duncan.MacKinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Duncan MacKinnon', with a long horizontal stroke extending to the right.

Duncan MacKinnon
Wholesale Policy Manager
Australian Energy Council