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Retailer Reliability Obligation

Submission on the Draft Rules Consultation Paper

BlueScope Steel (**BlueScope**) welcomes the opportunity to provide comments in response to the Energy Security Board on the draft rules for the Retailer Reliability Obligation (**RRO**).

BlueScope is Australia's largest steel manufacturer and the only flat steel producer. We employ 6,500 people in Australian regions and cities to supply our nationwide customers in the building and construction, manufacturing, transport, and agriculture sectors. BlueScope also exports steel products and is a global leader in premium coated and painted steel products, operating in 17 countries.

As a large electricity consumer, energy affordability, reliability and security are fundamental to the competitiveness of our business. Over recent years, BlueScope has transformed its operations to return to profitability. Keeping domestic production costs competitive remains paramount and energy is a major cost in steelmaking. More expensive energy directly affects our capacity to invest and provide employment.

Historically, issues of electricity supply and reliability have not been regarded as particularly high risks to BlueScope's Australian operations, largely due to the reliability and security of supply available within the National Electricity Market (NEM). However, assessments showing a reduction, and potential shortfalls, in the dispatchable capacity in the NEM, and the incidence of load shedding events on low reserve days in Victoria and NSW in the last year, are raising concerns about the increased risk and likelihood of future unserved energy events impacting on the security of BlueScope's process critical operations.

BlueScope supports the intent of the RRO to support a reliable power system by incentivising investment in dispatchable capacity and demand response. Reliable supply is important to BlueScope; unplanned outages would be costly and have long term implications for our operations. But it is also important that the system performs to the reliability standard in the most cost effective and efficient manner.

We commend the ESB on their engagement with stakeholders to date and would strongly encourage the AEMO, AER and AEMC to continue to engage broadly throughout the development of the guidelines and procedures that will be required to operationalise the RRO.

BlueScope does have some concerns however at the speed that RRO is being implemented especially with respect to developing the first Reliability Forecast in the absence of forecasting guidelines and with little time to implement improvements to the forecasting methodology. This concern is further compounded by the proposal of an Opt-In Cut-off Date that prevents large users from accessing the most up-to-date ESOO in deciding whether to Opt-in to directly manage their obligation. Large users need access to timely information to make an informed decision.

Furthermore, once a large user has opted-in to manage the obligation there are no permitted adjustments allowed under the rules of the RRO. If a large user's consumption unexpectedly increases between T and T-1 (for example, via a catastrophic failure of behind the meter generation assets) the large user has no means to adjust its contracting position to cater for this. As there is no express obligation for a retailer to accept a large user's load if they want to opt-out and no mechanism for the retailer to adjust their position for loads over 30MW, there are heavy disincentives for large users to manage their obligation even if they can do it at a lower cost than their retailer. BlueScope does not believe that this supports efficient or cost-effective delivery of reliability.

Please find overleaf more detailed comments on specific sections of the draft rules.

We look forward to continued engagement on the development of the RRO and the related guidelines and procedures.

Please contact BlueScope's Manager Energy Sourcing and Utilisation on (02) 4240 1749 if further comment or clarification is required.

Yours sincerely,

Bridgette Carter
Manager Energy Sourcing & Utilisation

Section	Comments
4. Triggering the reliability obligation	**4.7 Question: Moving from 3 years to 4 years required notice of closure** If a closure notice is given after the cut off for providing a T-3 notice then there is a real risk of inadequate supply, which is the very issue this rule change is designed to address. An alternative approach to extending to 4 years would be to have a limited exception to the requirement that a T-1 instrument can only be issued if there is a related T-3 instrument. Such exceptions were contemplated in the Final Design Paper and in the draft NEL amendments. However, taking this alternate approach may have an impact on the ability of liable entities to sensibly comply with their RRO obligations and also increase the likelihood of having to rely on RERT to close the gap. Taking these factors into consideration, on balance, BlueScope believes that increasing the notice period from 3 to 4 years would be the most appropriate course of action to deal with this issue.
5. Liable entities	**5.2.1 Opt-in Customer threshold for large customers** There is merit in aligning the threshold with the most widely used definition of large customer (100MWh). BlueScope does not believe that this will cause undue administrative burden as given the risk and complexity involved in opting-in, it is unlikely a site this size will opt-in on an individual basis.
	5.2.4 Opt-in Cut-off Day BlueScope notes that the Opt-in Cut-off day is before the T-1 ESOO is released. As such, large customers who wish to opt-in will have to make a decision based on an ESOO that is almost a year out of date. In section 4.2, the ESB recognises that the forecast reliability gap could change substantially between ESOOs as a reason for setting a 3-month notice period for T-3 and T-1 Reliability Instrument Requests. This concern is equally valid for large users who are evaluating their options, their potential liability and also potentially retail offers. BlueScope recognises that the Opt-in Cut-off Day timing attempts to provide retailers with enough time to rebalance their position and that the closer to T-1, the tighter the market may get. However, if a customer does opt-in, this will potentially release contracts into the market and potentially aid liquidity close to T-1 rather than make it more difficult for retailers to secure contracts. Therefore, BlueScope proposes that the Opt-In Cut Off Date be moved to a maximum of 3 months before T-1.

Section	Comments
	5.2.6 Adjusting opt-in status and opting-out As drafted, the combination of an early Opt-In Cut Off Date, discretionary power for the retailer to refuse to allow a large user to opt-out and a lack of flexibility to adjust contract positions post T-1, all accumulate to provide a substantial disincentive for large users to manage their own obligation even if they can do it more efficiently and cost effectively. Having no express right to opt-out increases risk and potentially reduces bargaining power for large users when negotiating with a retailer. And while this is far from ideal, BlueScope recognises that balance is required between giving flexibility to large users and not disadvantaging retailers. As such BlueScope proposes the following compromise: - Maintain the current Opt-out position, - Move the Opt-In Cut Off Date to a maximum of 3 months before T-1, and, - Allow a set of clearly defined permitted adjustments that give large users flexibility to manage their obligation for unforeseen circumstances (see Section 6.7.2 below)
6. Qualifying Contracts and Net Contract Position	**6.4 Grandfathering of Contracts** BlueScope notes that the drafting of the rules and the consultation paper are not consistent with what we believe was the intent of this provision. We believe the intent is for agreements entered into prior to 10 August 2018 to be grandfathered for the original term of the agreement. We strongly support the grandfathering provision under this interpretation as it ensures that customers that entered into contracts prior to this period are not unduly penalised when the RRO could not have been anticipated nor taken into consideration in the evaluation of the sourcing strategy.
	6.5.1 Triggering the MLO - Potential alternative approach to determining whether the MLO is triggered With respect to the potential alternative approach to determining whether the MLO is triggered, a voluntary only MLO does not meet the intent of the ACCC recommendation and causes complications with the determination of compliance under the RRO. As such, even if a voluntary scheme is in place, BlueScope would recommend that the mandatory obligations under the RRO supersede any voluntary activity.
	6.6 Voluntary Book Build BlueScope supports the intent of the book build mechanism in helping liable entities secure qualifying contracts to meet their obligation. In designing the mechanism, BlueScope believes that the market bodies need to be mindful of the following issues: - Incentivising market participants to hold off bilateral negotiations with customers in order to offer contracts via a book build, and - The cost incurred by customers either indirectly or directly through participating. To address these concerns, BlueScope proposes that if there are significant costs associated with running the voluntary book build that these are predominantly paid for by the market participant offering the contract and are not passed through to the end customer.

Section	Comments
	6.7.2 Permitted Adjustments to Net Contract Position While the ESB recognises that that there are instances where a liable entity may need to adjust its contract position that is uses for compliance, the permitted adjustments only seek to provide retailers with options. There are no permitted adjustments for large users. If a large user's consumption unexpectedly increases between T and T-1 (for example, via a catastrophic failure of behind the meter generation assets) the large user has no means to adjust its contracting position to cater for this. Just as the ESB considers it appropriate to allow retailers some flexibility under certain circumstances, BlueScope believes that large users should be provided with a similar level of flexibility. Separately, where a large user has not opted-in, limiting permitted adjustments for existing loads to below 30MW will also increase contracting complexity and reduce bargaining power for large users. It will become even more complicated if there are a string of reliability gaps that need to be straddled by a contract. While this acts as incentive for large customers to contract early, this advantage needs to be balanced against the potential increased cost of acting early, the constraints placed on large users to effectively manage the liability, and the diminishing bargaining power of large users as they get closer to T-1. BlueScope also questions the justification for a lower limit on a retailer's permitted adjustment for new large customers. This could act as a barrier for small retailers taking on new large customers as they will have less ability to absorb a large customer without taking on RRO compliance risk. It could also expose customers from 100MWh to 30MW to materially higher prices if they have limited options and the retailer chooses to price in the RRO risk that taking on this customer would create in the absence of being permitted to adjust their position. BlueScope considers that these constraints are inappropriate taking into consideration the issues that they create in balancing risk and bargaining power for large users, creating unnecessary disincentives for large users to manage their own liability and creating barriers for smaller retailer to service larger customers. We suggest consideration be given to: - allowing a large user that has opted in to adjust its position where its load increases by more than 1%, and, - removing the MW floor for retailers to adjust their position when they take on a new large customer and the cap for when they take on or lose an existing large customer.