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### **Retailer Reliability Obligation (RRO)**

Delta Electricity owns and operates the 1320MW Vales Point power station in NSW and has recently obtained retail licences from the Australian Energy Regulator and the Essential Services Commission of Victoria to sell electricity to large customers across the National Electricity Market. Delta has operated coal and gas fired generating plant in the NEM since its start in 1998 and is an active participant in both the electricity and gas trading markets.

Increasing Variable Renewable Energy (VRE) in the NEM is anticipated to increase spot price volatility and place downward pressure on market prices. This makes investing in high capital cost dispatchable plant in the current environment problematic, particularly with the added uncertainty around energy policy for the electricity sector. Whilst the RRO is designed to facilitate investment in dispatchable generation capacity and demand response where the market has failed to do so, the reserve shortfalls in VIC and SA, and the announced closure of Liddell power station in 2022, may result in the RRO being the primary mechanism for maintaining power system reliability in the medium term.

If the RRO does become the primary mechanism to incentivise new dispatchable generation it is even more critical to ensure the RRO rules do not lead to surplus new dispatchable capacity, incentivise high emission capacity (e.g. diesel reciprocating engines), or place undue compliance obligations on generators that adversely affect the efficient operation of the NEM.

If the RRO processes drive conservative assessments of reliability gaps, then a suboptimal dispatchable response will occur. Obviously, forecasting a reliability gap must be subject to a robust process of review. In this regard it is recommended that in the event AEMO makes an application to trigger the RRO, the AER utilise suitably qualified experts to confirm that best practice forecasting has been applied and that the results of AEMO's modelling are consistent with other independent projections. Consideration needs to be given to the supporting information associated with a T-3 trigger as stakeholders will require information on a reasonable range of projection scenarios and input assumption sensitivities to support risk assessments of potential investment decisions.

In relation to contracting for a trigger period, the firmness guidelines should cover both standard contracts and bespoke contracts. A panel of auditors for bespoke methodologies is supported. To the extent possible, compliance overheads should be minimised. For example, there has been calls to extend MTPASA to 3 years and 3 months. An additional compliance burden on generators to maintain an extended MTPASA will not improve the quality of assumptions in AEMO's modelling as outage plans beyond 12 months are often subject to change. A better approach will be to ensure AEMO obtains each generator's latest outage program (on a confidential basis) just prior to the annual ESOO modelling activity.

Attached are answers to the questions from the consultation paper. For further information please contact Tony Callan on 0408488961 or [tony.callan@de.com.au](mailto:tony.callan@de.com.au).

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## Answers to Consultation Questions

### Questions 4.7: Three year notice of closure:

- **The ESB is interested in stakeholder's views on whether the period of notice of closure of a generator should be extended, for example from three years to four years (or some period of time in between), to provide sufficient time for this information to be incorporated into the ESOO, reliability forecast and T-3 reliability instrument request?**

The obligation to provide advance notice of closure presents governance concerns for company directors, particularly where financial viability is highly uncertain beyond a couple of years. Extending the notice period only compounds these concerns. The notice of closure rule does allow for unforeseen circumstances as a reason to close within the three-year period, but there is a lack of clarity around what circumstance constitute an acceptable reason.

The recent rule change requires generators to formally submit closure dates on an annual basis to AEMO. If forecasting identifies a closure date before for during a reliability gap period, then AEMO should seek formal confirmation of that closure date from the generator. The forecast of a reliability gap may result in that generator reassessing its intentions.

### Questions 5.4: Liable Entities

- **Large Opt-in Customer threshold: This threshold needs to balance the administrative burden with providing the flexibility to opt-in for those that do. The ESB is interested in feedback on the current approach of using the existing large customer definition. In particular, the ESB is interested in feedback on whether this threshold is too low and, if so, at what level an alternative large customer threshold should be set.**

It is highly unlikely that opt-in customer less than 1MW would see benefit in opting-in unless that customer has highly flexible and reliable load management. The minimum 1MW threshold suggestion is a more sensible threshold to balance cost and benefit, however, a lower level (e.g. 0.5MW) could be considered if customers need to opt-in on basis of their load flexibility.

Opt-in Customers of a smaller size could be considered on an exception basis by application to the AER.

- **New Entrant liability threshold: The Rules currently apply the threshold of 100 MWh of anticipated annual consumption to new entrants. The ESB is interested in feedback on whether a different threshold should be defined for the purposes of determining new entrant liability and – if so – how the threshold for new entrant liability should be set.**

To maintain the integrity of the RRO, it is important that new entrants be subject to the obligation. A new entrant is likely to commence operations with no load but could, with marketing campaigns, scale up very quickly over a period of months. Whilst there may be an argument that the new entrant's load may have already be covered by another retailer in some circumstances, accounting for this would be highly complicated. Accordingly, it is appropriate that a new entrant be subject to the obligations of the new entrant contract position day and that the threshold be relatedly low. The 100MWh threshold is appropriate.



## Questions 6.8: Qualifying Contracts and Net Contract Position

- **Firmness methodology:** The Rules currently provide that a liable entity which uses a bespoke firmness methodology must engage an independent auditor to confirm the net contract position submitted to the AER uses a methodology which is consistent with the firmness principles (if not pre-approved) and was calculated using the bespoke methodology proposed. Liable entities can, but don't have to, submit their bespoke methodologies to the AER for approval. A potential alternative approach has been outlined in Section 6.3. The ESB is seeking feedback on these, or alternative, approaches for the purposes of determining bespoke firmness methodologies for qualifying contracts.

The alternate methodology has merit whereby a panel of AER approved auditors would be available to consider and endorse bespoke firmness methodologies. This approach will need to deliver timely assessment of methodologies, and an assurance that a proposed firmness methodology is consistent with the firmness principles.

- **MLO trigger:** The ESB is seeking feedback on the proposal that the MLO only be triggered where sufficient voluntary market-making is not already occurring in the region. Further, feedback is sought on challenges with this approach other than those identified and how to overcome the identified challenges of this approach, if it were adopted.

The MLO will impose a cost and compliance burden on liable parties. Therefore, an MLO would ideally only be triggered where voluntary market-making is not occurring. The AER could be given the responsibility to assess liquidity for the T-3 trigger period on an ongoing basis and decide if an MLO is warranted. Preferably, the market making requirement could be put out to tender (as per the Engie rule change proposal), with costs shared equitably.

- **MLO obligated parties:** The ESB is seeking feedback on the proposal that MLO obligated parties for the first two years of the RRO would be deemed in the Rules.

A deemed approach to obligated parties by region for the first two years of the RRO is a pragmatic implementation to manage the initial transition period.

- **Registered capacity:** The ESB is seeking feedback on whether this is the appropriate measure of generation capacity and, if so, whether it needs to be defined in the Rules.

Registered capacity is the key input behind unserved energy modelling in ESOO processes by AEMO and is an appropriate measure of generation capacity

- **Dispatch control:** The ESB is seeking feedback on this concept for determining trading right holders and the purposes of grouping for the MLO threshold.

The trading right holder is the entity, in respect of a generating unit, who functionally controls or directs the output of the plant. Allocating the MLO to the trading right holder then ensures that the relevant generating unit will be available for dispatch during the identified reliability gap period. A rigorous methodology to identify the appropriate trading right holders(s) under all potential ownership structures for a generating unit is essential. The MLO should not drive unintended ownership structure changes in the market.



- **Control and influence test: The ESB is seeking feedback on the appropriateness of the control and influence test in determining trading groups subject to the MLO.**

The control and influence test defined in the Critical Infrastructure Act 2018 (Cth) provides the appropriate structure for determining the MLO party as it recognises an entity that may exert influence or determine operational or strategic decisions.