

20 May 2020

Dr Kerry Schott AO
Chair
Energy Security Board
By email: info@esb.org.au

Dear Dr Schott

Re: Two-sided Markets Consultation

Aurora Energy welcomes the opportunity to provide feedback on Energy Security Board's discussion paper on the benefits and opportunities of moving to a two-sided market in the National Electricity Market (NEM).

Aurora Energy is a Tasmanian Government owned energy retailer, providing energy services to over 99 per cent of Tasmania's electricity customers. As a stand-alone retailer supplying over 279,000 Tasmanian residential and business customers, Aurora Energy's core focus is to generate value for its customers and the broader Tasmanian community.

Aurora Energy acknowledges the shift in the NEM towards increased distributed energy resources (DER), and recognises that the transition also includes challenges for security and reliability as supply and demand becomes more variable and uncertain. In turn, any new market design needs to realise the benefits and mitigate the risks involved in the transition, whilst also ensuring that the cost to consumers is commensurate with the benefits they receive.

Aurora Energy observes that the paper outlines a range of potential benefits of a two-sided market, but does not articulate potential costs that could ultimately be passed on to consumers. Aurora Energy suggests that, in developing a framework for two-sided markets for consideration by the COAG Energy Council, the ESB's advice should include a cost-benefit analysis to more fully understand the potential costs for consumers that may arise from a two-sided market mechanism.

Aurora Energy's wishes to raise the following additional issues in relation to the questions posed in the discussion paper.

Section 3.5 - Key concepts for two-sided market design

Should a two-sided market be introduced, there needs to be appropriate risk and cost allocation. In particular, credit risk within the industry (including prudential requirements) should be equitably apportioned. Aurora Energy observes that currently, and even under the proposed demand response mechanism, aggregators have limited customer protection or prudential obligations, which continue to be worn by retailers.

In designing a two-sided market framework for the NEM, Aurora Energy urges the ESB to consider how costs for customer protection or prudential obligations can be equitably allocated to all those participating in the market, not just retailers. In particular, consideration needs to be given to:

- consequences for DER that doesn't dispatch;
- hardship programs for aggregators and other two sided participants; and
- appropriate consumer protections applicable to all participants, noting that some types of interactions (e.g. between traders and vulnerable residential customers in respect of certain services) could be restricted or prohibited for very small participants who may have difficulty in achieving certain outcomes.

Aurora Energy is also of the view that there should be little differentiation between categories of traders. As described above, customer protection or prudential obligations need to be shared equally. For example, limited differentiation will assist in avoiding complexity and unintended consequences where one party wears disproportionate credit risk.

Section 5.6 - Who should participate?

Aurora Energy is of the view that the pathway to a two-sided market, should one be introduced, must be clear and structured. Aurora Energy supports a long term transition path (e.g. 5-6 years) due to the significant increase in physical market trading capability that would be required by small and medium retailers. Timeframes should also consider the range of other market design factors currently being considered where there will be interactions (e.g. ahead markets)

Consideration should also be given to transitioning participants that meet a threshold of load being scheduled first to better understand accuracy of bids.

Should you have any questions regarding this submission please contact Hayden Moore, Strategy & Policy Manager at hayden.moore@auroraenergy.com.au.

Yours sincerely



Kane Ingham
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