



EnergyAustralia

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Energy Security Board
info@esb.org.au

EnergyAustralia Pty Ltd
ABN 99 086 014 968

Level 33
385 Bourke Street
Melbourne Victoria 3000

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

EnergyAustralia's submission on the National Energy Guarantee, Reliability Requirement Pre-Condition Options

EnergyAustralia welcomes the opportunity to make a submission to the "*National Energy Guarantee, Reliability Requirement Pre-Condition Options Consultation Paper*".

EnergyAustralia provides gas and electricity to 2.6 million household and business accounts across the National Electricity Market (NEM) with a diverse generation portfolio of coal, gas and renewable energy.

EnergyAustralia continues to support a national and bipartisan approach to climate change and energy policy. We see this as the necessary pre-condition to unlocking efficient investment in reliable and affordable electricity to transition Australian's electricity sector to lower emissions. We continue to support the National Energy Guarantee as an effective policy to achieve this outcome.

We are concerned, however, that without a bipartisan national policy to reduce emissions from the electricity sector, the uncertainty will continue, and the risks associated with future investment decisions are heightened. This is further exacerbated by talk of further government intervention into an already volatile market. Investors will be questioning whether there are less riskier markets to invest in than the NEM.

With respect to the reliability pre-condition options EnergyAustralia supports the original design of "T-3" and does not believe the case has been made to move away from this design. The two-step process whereby the Australian Energy Market Operator (AEMO) identifies a potential gap at T-3, before the triggering of the T-1 requirement to ensure retailers have appropriate contracts to cover their load, is an important precondition that should not be stripped away. It is unreasonable for retailers to anticipate unforeseen or forced majeure events and to expect them to be covered if the trigger is pulled. Hence T-3 provides an appropriate precursor, rather than springing the reliability obligation on participants in conjunction with the Reliability and Emergency Reserve Trader ("RERT") as a safety-net for such unforeseen events.

Of the other options presented in the paper we are most concerned with the notions of "T-5" and "ministerial discretion".

It is impractical for market participants to begin contracting to cover their load five-years in advance with any confidence. The variability that exists in both changes to a retailer's load, as customers come and go, and due to changes to generator availability (i.e. drought conditions limiting hydroelectricity's output) make it difficult to lock in a

contracting position that far in advance, without adding risk and greater cost. AEMO of all agencies know the variability that exists in their own forecasts this far out.

A further concern with this proposal is it does not give the market time to respond. Rather it enables AEMO to centrally procure generation through its "voluntary book build" which is unlikely to be as cost-effective as a market-based solution and will push the risks and costs of new generation investment onto customers, not shareholders. Given the importance of reducing costs for consumers, this surely is not the best approach.

Ministerial discretion and the removal of T-3 have similar concerns that energy companies would be forced to contract, under circumstances they wouldn't otherwise even where there is no material gap to reliability, but because of the threat of the trigger being pulled. This is likely to add to costs. The ability of the electricity sector to plan and make investment decisions based on market outcomes ensures efficient outcomes, but if the trigger can be pulled at any time at the command of a Minister, it may lead to retailers inefficiently investing and contracting to address risks which may never materialise.

As outlined in our previous submissions EnergyAustralia does not support the market liquidity obligation (MLO) as we do not believe the case for a liquidity problem has been made. If this mechanism is to proceed, we think the ACCC recommendation that it be trialled in South Australia is a better approach to test its effectiveness. We would be particularly concerned with a proposal to apply the MLO to a subset of the market and not on an equal basis to all market participants. We remained concerned that an MLO could entrench late contracting behaviour by industrial customers and non-vertically integrated retailers which would exacerbate the reliability problem, not aid it.

In conclusion we continue to support the original design of "T-3/T-1" and believe this will best serve to address any reliability gap that may emerge.

For further information on any issues raised in this submission please contact Lisa Gooding, Team Leader, Policy and Government Affairs on (03) 8628 1467 or at lisa.gooding@energyaustralia.com.au.

Regards

Lisa Gooding
Team Leader
Policy and Government Affairs