

5 September 2018

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Dear Energy Security Board,

Re: Reliability Requirement Pre-condition Options

Thank you for the opportunity to comment on the Guarantee's Pre-Condition's options paper. Hydro Tasmania has appreciated the high level of engagement between the Energy Security Board and industry participants and the strong consultation process that the ESB has run.

Responses to the paper are provided as Attachment 1.

Please contact Colin Wain (03 8612 6443, colin.wain@hydro.com.au) if Hydro Tasmania can provide further assistance or information.

Yours sincerely



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Attachment 1 – Responses to the Options Paper

Overview

The objective of the Reliability Requirement should be to operate effectively without imposing undue cost on the electricity sector. Throughout the consultation period the Energy Guarantee was designed in a way that could provide confidence to sectoral participants and clarity over the operation of the policy. With respect to the Reliability Requirement Pre-Conditions Options paper, the proposals outlined have the potential to introduce additional uncertainty over the operation of the policy. Where the ESB or COAG Energy Council believes there are genuine transitional issues in particular NEM regions (such as South Australia), Hydro Tasmania's view is that these would be better addressed separately and should not alter the application of the Energy Guarantee in other NEM states.

A similar approach has been taken during the consultation phase; the Energy Guarantee has been designed with the objective of avoiding negative impacts on competition rather than attempting to solve all possible issues that may exist in the NEM. This is particularly relevant where there are existing mechanisms which may better address issues (e.g. existing frameworks such as the ACCC).

Addition of a T-5 determination

Hydro Tasmania does not believe there is sufficient justification for the inclusion of a T-5 trigger. As the paper points out, *“the threshold for a material reliability gap at T-5 would be significantly greater than the threshold for a material reliability gap at T-3”*. On this basis, if such a material gap was expected to occur, the electricity sector should already have clear visibility of this through AEMO's annual forecasting process. If there was confidence that such a gap would persist, then suppliers of capacity or of demand response would have the opportunity to initiate a response prior to a T-3 trigger eventuating.

It is not clear that the addition of a T-5 trigger would improve the functioning of the Reliability Requirement, particularly as qualifying contracts are unlikely to be available for the gap period this far in advance. There would however be risks around a T-5 trigger due to the uncertainty in forecasts and the additional regulatory intervention that could cascade from the trigger (MLO, voluntary book build, potential signalling of the RERT).

Removal of T-3 determination

The ESB ran a strong and detailed consultation process in developing the Energy Guarantee. While it is true that most stakeholders took issue with some aspect of the policy, the Guarantee was advanced to the point that the combined Reliability and Emissions obligations had broad industry support. With respect to Reliability this was based on a T-3 trigger which balanced the need to give adequate lead time to participants alongside the need to be responsive to a transitioning sector. Hydro Tasmania supported the T-3 trigger as part of the broader design, and we do not support its removal.

In addition, the proposal to maintain the Market Liquidity Obligation as applying from a T-3 point appears to demonstrate that giving the sector sufficient time to respond to a gap requires this period of notice and adjustment.

In our opinion, if the T-3 trigger were to be removed such that only a T-1 trigger remained, then there is the risk that this may lead to a higher level of contracting and a potential overbuild of capacity in all years. The options paper asks stakeholders to balance the costs and benefits of this change without providing clear evidence that it is needed.

Ministerial Powers to activate the Reliability Obligation

Hydro Tasmania believes that of the options canvassed in the paper, leaving the activation of the Reliability Obligation to the State or Territory Energy Minister would cause the most uncertainty for the sector. Enabling activation to be at the discretion of the Minister, and not reliant on the demonstration of a material gap would require all market participants to be in a state of readiness and would likely increase compliance costs. This is less favourable than relying only on a T-1 trigger and does not appear to be a good outcome for consumers. If there are genuine short-term issues within particular NEM regions, then these would be best addressed outside of the Guarantee without impacting on remaining NEM regions.

Concluding remarks

As has been communicated during the consultation phase, the Energy Guarantee needs to work effectively with the existing market structures. It must operate while minimising the administrative, regulatory or compliance burden on retailers and other market customers.

Ministerial powers to activate the Reliability Obligation would introduce undue uncertainty especially for regions where no short-term shortfall is forecast. Further, a T-5 trigger is unlikely

to provide benefits above those that a well-functioning AEMO annual forecast can provide. If the Reliability Obligation is to rely on a T-1 trigger, this would require well-defined conditions under which it could be activated. It would also require clear and regular communication from AEMO in the years preceding T-1. In this instance, Hydro Tasmania expects that this would inevitably begin to resemble a T-3 trigger. For example, AEMO would need to communicate that: a T-1 trigger may be activated if X MW of generation exits the system over the next 2 years. On this basis, removing the T-3 trigger would not remove the need for clear communication of the expected supply/demand balance or of any reliability concerns that could be caused by material changes during this period.