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Energy Security Board
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Dear Energy Security Board,

National Energy Guarantee – Draft Design Consultation Paper

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (*Meridian*) thank the Energy Security Board (ESB) for the opportunity to provide comments in relation to the National Energy Guarantee (*Guarantee*) draft design consultation paper (*Paper*).

Meridian is the owner and operator of the Mt Mercer and Mt Millar Wind Farms as well as Powershop Australia, an innovative retailer committed to providing lower prices for consumers which recognizes the benefits for consumers of a transition to a more renewable-based and distributed energy system. Meridian has also recently announced a significant investment in the future of the Australian energy market including the acquisition of three hydro plants in New South Wales and underwriting the development of several wind and solar farms in Victoria and New South Wales.

Meridian recognizes the importance of the Guarantee in ensuring that consumers across Australia benefit from a reliable, low emission and low cost energy system. We appreciate the effort taken by the ESB to further progress this solution to a problem which has been vexing the Australian energy market for many years.

We, like the ESB, recognize that in this field the pursuit of the ‘perfect’ has undermined the ability to deliver effective outcomes. Therefore we recognize that the Guarantee is not a perfect solution and its implementation will be challenging. Provided some sensible safeguards are built in however, it has the potential to break the deadlock and deliver policy stability to the market. This will enable the required investment in new generation and technologies that our evolving market demands.

Meridian is keeping its comments focused on the Guarantee as set out in the Paper rather than the emissions reductions target that the Guarantee will be required to support. Meridian is strongly of the view that the Federal Government needs to set challenging emissions reduction targets that meet or exceed our Paris commitments. Indeed many of our customers are demanding that Australia goes further and are backing up that demand by purchasing voluntary GreenPower and supporting our carbon neutral offsets.

Meridian reminds the ESB that any solution needs to be simple, building on existing market frameworks and consistent with the market approach which has supported significant investment in the market to date.

Meridian’s response to the ESBs specific questions are set out below.

1. Section 3: Emissions requirement – Energy Security Board design elements

Paper Ref	ESB Question	Meridian response
3.2.1	What are stakeholders' views on whether the compliance year should be a calendar year or a financial year, noting that EITE exemption processes under the RET use calendar years, whereas emissions reporting obligations relate to financial years?	While this is primarily a matter of administrative ease there are significant potential advantages of aligning requirements with financial years. Most industry participants report on this basis and their contractual positions and reporting are based on these periods.
3.2.2	What are stakeholders' views on the process to calculate a retailer's load.	The simplest answer consistent with a fair outcome is best. Accordingly existing industry practices should be adopted including the use of wholesale settlement data.
3.2.3	What are stakeholders' views on how a retailer's emissions should be determined?	<p>The process set out in the paper appears achievable and appropriate. To make the calculation simpler and more transparent consideration should be given to AEMO including each generator's emissions intensity factor in the wholesale market system management data (presumably sourced from NGRS).</p> <p>Meridian recommends that the proposed method is extensively 'road-tested' to ensure all potential scenarios, incorporating current and future technologies are considered.</p>
3.3.1	<p>What are stakeholders' views on the methods for determining the emissions to assign to contracts where the generation source is specified?</p> <p>If the contract specifies a portfolio of plants and the plants have differing emissions profiles (e.g. some are zero-emissions plants and some are gas plants, used for firming the variable renewable energy), how should the emissions per MWh under the contract be determined?</p>	<p>The proposal as set out appears workable. Consideration may need to be given for a requirement for contracts that specify emissions intensity or specific generators to indicate what generation (either in percentage or MWh terms) are being utilised to achieve the outcome. The calculation could possibly be based on either a ex post (actual data) or an ex ante (forecast) basis.</p> <p>Consideration must also be given to the treatment of contracts entered into prior to the establishment of the Guarantee. Ensuring those retailers who supported the market by taking on the risk of making investments in renewable energy (e.g. PPAs) prior to the establishment of the Guarantee are not disadvantaged by not being able to benefit from their contractual arrangements.</p> <p>We note that the RET, and LGCs created, are part of a separate and time bound scheme. Therefore, the Guarantee emissions reduction obligation, which will extend past the end of the RET (2030) should not be linked to LGCs.</p>
3.3.2	<p>What are stakeholders' views on how to determine the emissions per MWh to assign to contracts that specify an emissions level but do not specify a generation source?</p> <p>What are stakeholders' views on how the contract market may evolve to support this type of compliance with the emissions</p>	<p>We recognise that this a challenging issue. There is value in allowing contracts to be provided prior to the construction of plants as this will provide the certainty needed for construction to proceed. But eventually there is a requirement that actual plants be built to deliver the emissions outcome. This will be best solved if emission reductions from actual plants form the basis of the final calculation of a retailer's obligation. This</p>

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	requirement?	might be logically included in the carry-over/under achievement mechanism.
3.3.3	<p>What are stakeholders' views on the appropriate emissions level to assign to contracts that do not specify an emissions level or generation source?</p> <p>What (if any) impact would these approaches to determining the deemed emissions level have on the liquidity and availability of those types of contracts?</p>	<p>This is also a challenging question.</p> <p>Utilising a market average approach is likely to be counterproductive as retailers will specify emission levels and generation source for all contracts below the target and exclude those that are above. Clearly the emissions intensity of such excluded contracts will be substantially above the average.</p> <p>While there is an administrative advantage in providing market certainty by setting emission levels in advance for uncontracted generation it may be more effective to utilise the actual emissions of uncontracted generation on an ex post basis. This will ensure that retailers who rely on uncontracted generation to meet emission targets are liable for the actual emission outcomes incurred. If a retailer wishes to avoid exposure to this risk of variation they would have the option to utilise contracts which specify emissions intensity.</p>
3.3.4	<p>What are stakeholders' views on how to deal with internal non-contractual arrangements between the retail and generation arms of a gentailer, for the purposes of the emissions requirement?</p> <p>What are stakeholders' views on how to determine the emissions level to assign to contracts between the retail and generation arms of a gentailer?</p>	<p>We do not envisage any difficulty in this area. Clearly a gentailer should be entitled to the actual emissions outcomes of its generation fleet after deducting any contracts with other parties in relation to that fleet. A PPA should be dealt with in the same manner as an owned asset for the duration of the contract. This should be made clear in the rules as many PPA's were put in place prior to the any discussion of the Guarantee.</p> <p>We agree that a gentailer should be entitled to manage its business by either setting in place compliant contracts under the Guarantee between its generation and retail arms or utilise emissions intensity outcomes on a net basis.</p>
3.3.5	<p>What are stakeholders' views on how to determine the emissions level to assign to unhedged loads?</p>	<p>This raises similar if not identical considerations to those raised in 3.3.3. Utilisation of actual emissions of uncontracted generation would provide an incentive for retailers to ensure that they are appropriately contracted to cover their expected load.</p>
3.4.1	<p>Should the emissions requirement allow for unlimited carry-over of overachievement or specify limits on the carry-over of overachievement?</p> <p>If limits are to be specified, what should those limits be and how should they be designed? For example, should the size of limits vary inversely with the size of the retailer's load? This could give more flexibility to smaller retailers.</p> <p>If limits are to be specified, how should overachievement in excess of the limits be</p>	<p>There is a requirement for a carry-over mechanism and given that emissions reductions benefits accrue to society over the very long term, punishing those who over achieve seems counter intuitive. We do recognise that there is value in encouraging an exchange of such additional emissions reduction to assist in lowering costs to consumers. However, we do not believe that a regulatory impost (i.e. risk of cancellation of emission reductions) will be necessary to encourage participants to enter in to logical commercial transactions to exchange excess emission reductions.</p> <p>The complexity of the impact of such a process on small retailers for example, as set out in the Paper highlights</p>

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	<p>treated? Should there be a process by which it is offered to the market?</p>	<p>the risks inherent in imposing such imposts.</p>
3.4.2	<p>What are stakeholders' views on the deferral of compliance?</p> <p>Should all retailers be able to carry forward a fixed amount or should it be set proportionally to a retailer's load?</p> <p>This could give more flexibility to smaller retailers than large ones. If so, would any provisions need to be introduced to prevent large retailers re-organising themselves as several smaller retailers in order to gain the benefit of the higher limit?</p> <p>If the limit on deferral should be a static percentage of load (rather than varying), what percentage is appropriate? That is, what percentage would provide the necessary flexibility without substantially increasing the risk that the overall emissions reduction target would not be met?</p>	<p>Given that the benefits of emissions reductions occur over the long term and prediction of actual emission reductions and customer load is inherently uncertain a deferral mechanism is appropriate. Nonetheless, a simple fixed amount could be misused to simply defer addressing the emissions challenge. The challenge of dealing with small retailers who have inherently less certain forecasts of load and less opportunity to enter into appropriate contracts is real.</p> <p>We consider that this could be addressed by allowing the carry-over to be specified as both a fixed amount and a varying percentage. The fixed amount should be sufficient to enable a small retailer to handle a sudden change in customer load through customer acquisition or loss while the percentage amount should be sufficient to deal with variations in customer numbers and load. We would suggest that an amount equivalent to 15,000 customers (i.e. 87,500MWh or around 10MW) might be an appropriate buffer, with mechanisms in place to ensure that small retailers do not continue to use offsets as a mechanism to comply on a permanent basis. The variable percentage to deal with variations in forecasts etcetera should be in the order of five percent for load above 20MW.</p>
3.4.3	<p>If offsets are permitted by the Commonwealth Government:</p> <p>Should limits on individual retailers' use of offsets be set at an absolute level, regardless of retailer size? An absolute limit would represent a greater proportion of a smaller retailer's emissions than a larger retailer.</p> <p>Or, instead, should limits on individual retailers' use of offsets be based on the size of retailers' loads, such that offsets represent the same proportionate share of retailers' emissions regardless of retailer size?</p> <p>What are the pros and cons of each of the above approaches?</p> <p>If limits on use of offsets are independent of retailer size, how should the risk of large retailers splitting into several smaller entities for the purposes of increasing their overall offset limit be addressed?</p> <p>What (if any) requirements to use within-NEM opportunities before using offsets are</p>	<p>This raises similar issues to 3.4.2 and a similar approach could be utilised.</p> <p>In our view, offsets should only form a minor component of the Guarantee, if at all.</p> <p>Allowing extensive use of offsets to meet Australia's emission objectives has the potential to leave the market without the market signals it needs to ensure the necessary investment in new reliable low-emission generation occurs. Such a failure would have drastic impacts for consumers in terms of price and reliability as well as our long term emissions trajectory.</p> <p>Offsets may have a role to play in ensuring that variations in forecasts etcetera can be managed efficiently and to provide a mechanism to discourage providers of emission reductions failing to deliver best value outcomes for consumers. For this reason we believe there should be very strict limits and these limits should be expressed in a similar manner set out in 3.4.2. This is to ensure investment in new low emission generation occurs in Australia further reducing prices for Australian consumers and adding to reliability. In addition, consideration may need to be given to setting additional limits (e.g. double the annual limits) on a rolling five year basis to ensure there is a fair allocation of their use and to avoid excessive utilisation</p>

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	appropriate?	<p>by any one retailer.</p> <p>The risk of retailers re-constructing their businesses to access additional offsets is highly unlikely but can be addressed by ensuring all related bodies corporate are treated as one entity for the purposes of the Guarantee.</p>
3.5	<p>What are stakeholder views on the interaction between the emissions requirement of the Guarantee and voluntary programs such as GreenPower?</p>	<p>We are a strong supporter of GreenPower and other voluntary programs including NCOS. Our customers choose these options because they wish to make contributions to emissions reductions that are over and above those mandated by the government. Protecting this additionality is important and any emissions reductions associated with GreenPower should be excluded from the Guarantee.</p>
3.6.2	<p>What are stakeholders' views on the need for a compliance registry? What are stakeholders' views on its design? Are there alternative schemes that would allow retailers to monitor and verify compliance with the emissions requirement? How could these alternative schemes work? Are there any additional features which the registry should have? Should any of the data in the registry be made publicly available?</p>	<p>In our view a compliance registry should be unnecessary. Compliance could be monitored if AEMO includes sufficient additional information in the market systems to enable retailers and participants to track the emissions intensity of each generator. Retailers should be required to submit to the AER an annual return setting out their load, contractual position matched to actual generators and any EITE offsets. Naturally, this return would need to be signed off by the retailer and be subject to potential audit and compliance enforcement consistent with the AER's current approach. This approach mirrors that currently undertaken by the various emissions reduction schemes currently in place such as GreenPower, NCOS, VEET and ESCI.</p>
3.6.3	<p>What types of information are likely to be required to be entered into the compliance registry in order for retailers to monitor and assess their compliance with the emissions requirement?</p> <p>Is information on generators' contracting positions also required to be entered into the compliance registry, for the purposes of reducing the chance of either double-counting or attributing generation output to the wrong retailer?</p> <p>Is there a need for retailers or generators to report contract pricing information as part of the input into the registry?</p>	<p>The critical information is the ability to link emissions intensity to generators. There may be a need for the AER to regularly publish details of actual levels of contracting as reported by retailers in their returns to provide the market with an understanding of the availability of spare capacity and the likely impact on uncontracted or unspecified load.</p> <p>We do not believe contracting positions need to be publically reported (other than in aggregate) and see no reason why pricing information would need to be reported at all. Reporting of pricing might have the impact of reducing market liquidity.</p>
3.6.4	<p>Whether this approach provides the appropriate drivers of compliance.</p> <p>The type of information the AER will need to access to ensure compliance.</p> <p>Other possible enforcement tools, such as increased prudential requirements or restrictions on accepting new customers</p>	<p>We support compliance with the scheme to ensure it delivers the expected outcomes and recognise that this will require AER to access a range of compliance tools. However, we do not believe that this will require a heavy handed approach and AER should be able to monitor compliance in accordance with its existing compliance enforcement regime.</p>

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	while emissions requirements remain outstanding.	
3.7.1	What are stakeholder views on how the Guarantee may impact on competitive market?	Clearly any intervention will impact the competitive market but provided the Guarantee utilises existing market mechanisms to the maximum extent possible such impact should be minimised. Creation of new or sub-markets comes with the need to predict liquidity of these markets in advance, which is near impossible. Like the ESB we believe matters of market concentration etc. should be dealt with after the Guarantee design is known and be addressed by appropriate market mechanisms including, if required, by the ACCC.
3.7.2	What are stakeholder views on the operation of the emissions requirement in particular jurisdictions?	<p>We accept that the ACT inclusion within the NSW wholesale market is appropriate and consider that the Tasmanian market can be addressed in the manner suggested.</p> <p>In relation to State based emissions reduction schemes, this, like GreenPower, needs to be assessed against the intention of the scheme. As these schemes are intended to deliver outcomes that are more onerous than the national target, arrangements will need to be made to ensure this additionality occurs.</p>

2. Section 4: Emissions requirement – Commonwealth Government design elements

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4.2.2	Stakeholder views are sought on options for setting the emissions targets under the Guarantee.	The energy market will benefit from having clear direction as to the expected emissions reduction target. There is an advantage and logical basis to the proposal to hit the target consistent with the Federal Governments international obligations over five years. This should not be seen as supporting any limitation on the Government setting higher or more ambitious emissions targets as any such increase could be rolled into the subsequent five year period so as to ensure the full benefit is received.
4.2.3	Whether, and in what circumstances, electricity emission targets already set should be adjusted. The process for making any such adjustments to electricity emissions targets.	Reductions must be avoided so as to ensure market certainty which is required to support significant investment in low emissions technology solutions. A reset should only be contemplated where the target was totally failing to achieve its objective and the issue could not be addressed by modifying future targets. Should appropriately ambitious targets be set, we consider it highly unlikely that such circumstances

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		could arise.
4.2.4	Stakeholder views are sought on the proposed timing for updating the electricity emissions targets, including a five-year notice period.	As stated above, certainty is important and substantial notice of any proposed amendment to the trajectory should be provided whenever possible. The concept of a five year minimum notice makes sense, however when combined with the five year period, this has the potential to lock in a target for up to ten years which may be problematic if the target proves to be inappropriate. Consideration could be given to setting the five year target but allowing for increases in the emissions target in some circumstances.
4.2.5	Stakeholder views are sought on the proposed approach to setting the electricity emissions targets under the Guarantee and interaction with state renewable energy schemes.	This was discussed in 3.7.2. We consider it is important that the additionality of such schemes is maintained.
4.3.2	Stakeholder views are sought on issues to be addressed in exempting EITE activities from the emissions requirement of the Guarantee.	We have no view on this as we have no exposure to this.
4.4	Whether there is a strong rationale for the use for offsets within the Guarantee The impact allowing offsets would have on investment under the Guarantee If offsets were to be used to help achieve compliance with the emissions requirement, what would be an appropriate limit for their use?	As discussed above, we consider offsets should be allowed but their use should be minimised. Their use will assist with ensuring the scheme has sufficient flexibility to meet emissions targets at an appropriate cost to consumers. However, we consider that the development of renewable generation within Australia to be the core benefit of the scheme and accordingly there should be strict limits on the use of offsets so that they are only utilised to deal with issues in variability and availability of Australian based renewable generation.

3. Section 5: Reliability requirement

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5.3.2	<p>What are stakeholder views on the length of the forecasting period?</p> <p>Should the existing ESoO and MTPASA forecasting processes be adapted for determining the gap, or should a separate bespoke process be developed?</p> <p>What elements of the current MTPASA and ESoO processes should be reviewed in light</p>	<p>As previously stated we support the utilisation of existing market mechanics wherever possible and consider the ESoO and the MTPASA to be adequate tools for forecasting potential supply shortfalls. We note that the ESoO currently indicates that is no reliability gap out to 2027. There may be a requirement to ensure that they are sufficiently accurate for this particular purpose and such changes could be implemented utilising</p>

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	<p>of the potential for the process to lead to a compliance obligation? E.g. how should AEMO treat inputs from generators such as their forced outage rate or summer capacity if these assumptions could lead to a triggering of an obligation?</p> <p>Should AEMO be able to determine assumptions independently or should responsibility for the accuracy of assumptions be placed on the market participant?</p> <p>How should the forecasting methodology and assumptions be consulted on?</p>	<p>existing AEMO consultation frameworks. Clearly there needs to be a balance between a short time frame, which will be more accurate, and a longer time frame which may be necessary to ensure there is sufficient time for the market to respond to any projected shortfall. Our preference is to adopt the shorter time frame so as to protect customers from unnecessary costs and to give the market the opportunity to demonstrate an ability to respond within such timeframes. There may be a requirement to allow an adjustment to the timeframe if actual experience demonstrates a failure to respond within time and too much reliance is placed on less appropriate, more expensive and unpredictable solutions such as reserve markets and/or AEMO intervention through the RERT or other means.</p>
5.4	<p>How frequently should the forecast be updated?</p>	<p>At a minimum, yearly updates will be required and certainly no more than quarterly updates would be sensible. A mechanism where AEMO is required to publish annually and to produce updates when it considers changes in market conditions would make that forecast no longer appropriate could be considered. Such a mechanism already applies under the rules for AEMO's Energy Adequacy Assessment Projection.</p>
5.5	<p>What trigger point would be most appropriate and proportionate to the identification of the reliability gap?</p> <p>Should a multi-year gap trigger a compliance requirement in only the first year of the gap or over the full duration of the gap?</p> <p>What is the minimum feasible time period for the market to alleviate a potential shortfall?</p> <p>If the length of the trigger period is such that the market is not given this minimum feasible time, is it appropriate for the Guarantee to contain the flexibility to have a shorter term trigger to provide sufficient time for the market to have an opportunity to respond to the shortfall?</p>	<p>The trigger point may need to be developed based on a combination of single and multi-year shortfalls. For example, a significant shortfall in a single year might trigger the Guarantee whereas a lower shortfall over multiple years could also be a trigger point.</p> <p>The minimum feasible time period is clearly dependent on the size of the shortfall. As recently demonstrated, significant additional generation and reserve were able to be added to the Australian energy market with less than one years' notice. A more substantial shortfall requiring the construction of large generation may require a longer time period to complete construction. The market should be given every opportunity to meet the shortfall before other options for addressing it are adopted. The market has consistently demonstrated the ability to deliver outcomes in a manner and at a pace not previously capable of being forecast and the introduction of the Guarantee should not prevent the</p>

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		<p>market from continuing to deliver such customer benefits where possible.</p> <p>The current reliability settings provide a balance between the provision of reliable power and the cost of that provision. It is critical that the Guarantee includes equivalent mechanisms to ensure that there is not an incentive to ‘gold plate’ reliability. Separation of duties between forecasting, triggering the Guarantee requirement and acquisition of services may be required.</p>
5.6.1	<p>What are stakeholder views on the types of contracts that should be considered eligible for the purposes of the requirement?</p> <p>Do stakeholders consider eligible contracts should be financial, or have a link to physical capacity?</p> <p>What do stakeholders think of the approach to certify financial contracts back to a physical asset?</p> <p>To what extent does the design choice about eligible contracts influence different types of retailers, and so market structure?</p> <p>What are stakeholder views on the proposed approach of determining the generation source in a vertically integrated business?</p>	<p>In this case, we consider financial contracts would be appropriate as the parties to such contracts will have a very clear and very large financial motivation to ensure that they can support such contracts with appropriate and actual market responses, including both additional generation and/or demand response style mechanisms. Alternatives such as mandating physical generation will harm competition and limit the opportunity for innovation especially in the demand response area.</p> <p>As discussed above, it may be unnecessary to link financial contracts to physical capacity. The financial motivations alone should ensure that there is physical support for such contracts and it would be difficult to implement in cases where those contracts are supported by innovative market approaches such as demand response.</p> <p>Ideally, the use of financial contracts currently available in the market and/or likely to be developed should minimise any such implications in relation to types of retailers and market structure.</p> <p>As discussed above, we consider financial contracts alone should be sufficient and hence generation source should not be relevant. We recognise that the treatment of integrated businesses may be challenging however, a treatment similar to the emissions guarantee where integrated businesses scan rely on contracts between their generation and retail arms would be appropriate.</p> <p>It should be noted that dispatchability of any individual plant cannot be guaranteed at any particular time owing to fuel, network and operational constraints. At a</p>

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		<p>system level most plants will operate when required again supporting the fact that financial contracts are suitable.</p>
5.7.3	<p>What are stakeholder views on the proposed method of allocating the gap to retailers?</p> <p>Should the gap be allocated based on AEMO's forecasts or on the retailers' own view of their hedge positions?</p> <p>How should C&I load be treated?</p> <p>How should load met by interconnectors be treated?</p>	<p>We consider retailer's forecasts should be appropriate but as is the case with the emissions guarantee, the AER should have a compliance role to ensure that retailers have complied with their obligations to produce and rely on reasonable forecasts.</p> <p>There may be a requirement to treat the forecasting of large C&I loads separately from a retailers standard residential and small business loads. A scheme where retailers are required to forecast load separately for very large customers and industry groups for remaining large customers may be appropriate, noting that we do not believe that any customer types should be excluded from the Guarantee.</p> <p>In relation to the treatment of load met by interconnectors, we are not sure that this is relevant as this load would have already been included in AEMOs forecast. Any utilisation of generation from outside of the region affected by the shortfall could only be utilised to the extent that interconnector constraints would not make it unavailable to meet the expected shortfall.</p>
5.7.4	<p>Should a different level of compliance and/or reporting requirement be required for large energy users who are registered Customers?</p> <p>What are stakeholder views on extending the reliability requirement to large energy users that are <i>not</i> market customers?</p> <p>If the reliability requirement should be extended to large energy users that are not market customers, what would be an appropriate definition of 'large energy user'?</p>	<p>This should not a significant issue particularly if large customers are already required to be separated in retailer reporting.</p> <p>We agree that there is a significant risk that the benefits to be gained by extending the obligations to large customers who are not market customers may be outweighed by the significant administrative burden and associated risks. An obligation placed on retailers to report separately in relation to individual very large customers and individual portfolios of large customers based on industry type would deliver many of the benefits while avoiding these burdens and risks.</p> <p>We consider this to be irrelevant for this purpose. For retailer reporting purposes a customer whose total load at all connection points exceeds one terawatt hour should be managed and reported separately by a</p>

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		retailer.
5.8.1	<p>What are stakeholder views on an <i>ex ante</i> or <i>ex post</i> approach to compliance?</p> <p>What are stakeholder views on the implications for the assignment of the gap, given an <i>ex ante</i> or <i>ex post</i> approach?</p> <p>What parameters should be taken into account when deciding between these two options?</p> <p>Does an <i>ex post</i> or <i>ex ante</i> approach impact different retailer types?</p> <p>Could an <i>ex post</i> approach be effectively implemented while retaining a credible procurer of last resort function?</p>	<p>It is difficult to form a view on the appropriate treatment without more detail on the expected time frames associated with the Guarantee. Variations between <i>ex ante</i> and <i>ex post</i> results will increase over time and the consequence of the choice of approach will also increase.</p>
5.9	<p>What are stakeholder views on the including a procurer of last resort function in the reliability requirement?</p> <p>When should the last resort function be triggered?</p> <p>How should a significant and enduring gap be resolved?</p>	<p>We do believe that the need for a procurer of last resort has been demonstrated. Until recently the reliability settings have worked as designed to ensure new generation is available to the market as required. The Guarantee, both the emissions element (which will remove barriers to new investment) and the reliability element (which will support dispatchable generation) will only add to the existing reliability framework. When the ESB's work stream in the security area is added it is very hard to see why a procurer of last resort would ever be necessary.</p> <p>The reliability settings are designed to ensure that significant and enduring gaps are resolved and that is where the solution to any such gap should be found.</p>
5.10	<p>Do stakeholders consider that retailers not meeting the requirement should be charged a penalty or allocated costs or a penalty plus costs?</p> <p>Are there other enforcement tools that would be appropriate?</p>	<p>Ensuring effective compliance will be important. Provided that the Guarantee is structured appropriately such that retailers have sufficient time and information to be able to comply then a penalty for non-compliance would be appropriate. This could include being required to fund any direct costs arising a consequence of their non-compliance including costs associated with last resort AEMO interventions such as directions and activation of the RERT.</p>
5.11.1	<p>What are stakeholder views on how the Guarantee may impact on competitive markets?</p>	<p>There is a very real risk that requiring retailers to fully hedge for Guarantee purposes may require the provision of prudential capital greater than some currently have access to. If this led to the exit of these retailers from the market there would be obvious competitive market impacts. This is one of the many examples where the balancing of the community's desire for reliable electricity supply and low energy</p>

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		costs will need to be sensibly balanced.
5.11.4	What are stakeholder views on the operation of the reliability requirement in the ACT and Tasmania?	We do not participate in these markets.

If you have any queries or would like to discuss please do not hesitate to contact me.

Yours sincerely,



Ed McManus
 Chief Executive Officer
 Meridian Energy Australia & Powershop Australia