



MINERALS COUNCIL OF AUSTRALIA

SUBMISSION ON THE NATIONAL ENERGY GUARANTEE DRAFT DESIGN CONSULTATION PAPER

8 MARCH 2018

TABLE OF CONTENTS

1. EXECUTIVE SUMMARY	3
2. KEY ISSUES.....	5
The Guarantee and the proposed complementary instruments must put Australia on a pathway to restoring Australia's international comparative advantage in reliable, low cost energy.	5
The Guarantee needs to drive investment in lowest cost dispatchable energy available 24/7.	5
AEMO's forecasts need to be accurate and reliable.....	6
Reliability Guarantee.....	6
Emissions Guarantee.....	7
The need for policy transparency in developing the proposed Complementary Measures.....	7
3. SPECIFIC RESPONSES TO QUESTIONS.....	8

1. EXECUTIVE SUMMARY

The Minerals Council of Australia (MCA) welcomes the opportunity to provide comments on the National Energy Guarantee Draft Design Consultation Paper.

When the Guarantee was released November 2017, the MCA's initial view was that it represented 'a constructive approach to addressing the long-running energy policy challenge confronting Australia.' The MCA's view in that regard has not changed.

The MCA wants the Guarantee to work, delivering lower costs for Australian energy consumers, ensuring system reliability while contributing to meeting Australia's international climate change obligations. As such, the MCA considers the Guarantee and related policy mechanisms should provide for:

- **A technology neutral approach for all low emissions energy sources** - including renewables, gas, nuclear, advanced coal technologies (such as HELE) and CCS.
- **Clean Energy Finance Corporation funding** to address any gaps in the financing. This should be made available to all low emissions energy sources.
- **Measures to address the policy risk** stopping investment in new least cost 24/7 dispatchable energy supplies to ensure Australia has the generation it needs under a coordinated climate and energy policy.

The Consultation Paper says that the Guarantee will provide a clear investment signal so that the cleanest, cheapest and most reliable generation gets built in the right place at the right time. The MCA agrees that is the right goal. However, the details underpinning the operation of the Guarantee will be critical to ensuring the policy framework will actually achieve its purpose.

There are five critical issues arising from the Consultation Paper for the minerals industry:

1. The Guarantee and the proposed complementary instruments must deliver reliable and affordable energy at least cost while putting Australia on a pathway to meeting its emissions reduction targets.

Australia needs to restore its international comparative advantage in reliable, low cost energy. Over the past decade, Australia has moved from having some of the lowest to some of the highest energy costs in the developed world.

As a sector which consumes more than 11 per cent of Australia's power, increases in the cost of electricity have impacted on the resources sector's international competitiveness.

Australian manufacturing, minerals processing and other energy intensive activities are facing energy cost pressures that reduce their international competitiveness.

Wholesale electricity prices at around \$100 per MWh are unsustainable. Further increases would have a profound impact on the viability of Australian industry, along with households already struggling to pay their bills.

Lowering energy costs and restoring international competitiveness must be the result along with ensuring system reliability while also meeting our international climate change obligations.

All sectors of the economy have a role to play in meeting the challenge of Australia's emissions reduction targets, not just the power generation sector.

2. The Guarantee needs to drive investment in lowest cost dispatchable energy that is available 24/7.

The National Electricity Market (NEM) is facing serious challenges including the erosion of baseload generation capacity which is already adversely impacting Australia's industrial sector and households.

Approximately 8,000MW of ageing baseload power generation is likely to retire by 2030.

A key issue is whether the Guarantee will provide the policy certainty that enables investment in a broad range of power generation types that together deliver a system that is lowest cost, dispatchable and available 24/7.

Replacing Australia's ageing baseload fleet with sufficient levels of lowest cost dispatchable power generation available 24/7 will be critical in imposing downward pressure on wholesale prices.

If not, Australia will face a high cost energy future; one that will cause real problems for all energy consumers.

3. The Australian Energy Market Operator's forecasts need to be accurate and reliable.

The success of the Reliability Guarantee depends on the accuracy of AEMO's forecasts.

AEMO should provide regular updates of how accurate its forecasts are against actual outcomes.

4. Issues around how the Reliability and Emissions Guarantee contracts will work in practice need to be resolved.

There are many questions about how the contracts underpinning the Reliability and Emissions Guarantee will work in practice.

Of particular concern is whether this contractually-based system will lead to a greater concentration of market power within the power sector, putting at risk the expected outcomes of the Guarantee.

A least cost approach to abatement should include access to international and domestic offsets, which must be a feature of the Emissions Guarantee.

5. The need for policy transparency in developing the proposed Complementary Measures.

The paper refers to the development of 'complementary measures' – demand response, strategic reserve, and day-ahead markets. There are very few details available on these important measures – yet they will clearly affect reliability, price and possibly emissions requirements.

A full public consultation process should be undertaken by the ESB prior to enacting any of these Complementary Measures.

Proposals to change the way the NEM operates need to be tested in an open and transparent manner. Ultimately, in whatever way the system is designed, it is paid for by consumers.

2. KEY ISSUES

The Guarantee and the proposed complementary instruments must put Australia on a pathway to restoring Australia’s international comparative advantage in reliable, low cost energy.

The Australian resources sector uses more than 11 per cent of Australia’s power. Over the past decade, Australia has moved from having some of the lowest to some of the highest energy costs in the developed world.

Australian manufacturing, minerals processing and other energy intensive activities are facing energy cost pressures that reduce their international competitiveness.

Over the period 2015 to 2017, the average wholesale price of electricity in the NEM rose sharply, reflecting the close of baseload plant. In the case of Victoria, it increased 173 per cent, while NSW experienced a 145 per cent rise. Queensland, Tasmania and South Australia all experienced increases of 100 per cent or more.

Table 1 – Average Wholesale Electricity Prices - A\$/MWh

	NSW	VIC	QLD	SA	TAS
2015	39	34	52	50	48
2016	59	47	68	80	96
2017	96	92	103	106	98
% change 2015 - 2017	145%	173%	100%	114%	106%

Source: Global-Roam NEMreview

For a country which has depended on low energy costs as a source of international comparative advantage, these prices are not sustainable.

Any further increase in prices would likely have a profound impact on the viability of Australian industry, along with households already struggling to pay their bills.

Lowering energy costs and restoring competitiveness must be the result along with ensuring reliability while meeting our international climate change obligations.

In this regard, it is important to recognise that all sectors of the economy have a role to play in meeting the challenge of Australia’s emissions reduction targets, not just the power generation sector. The reduction in power sector emissions need to be viewed as part of Australia’s overall emission reduction efforts.

The Guarantee needs to drive investment in lowest cost dispatchable energy available 24/7.

The NEM is facing serious challenges including the erosion of baseload generation capacity which is already adversely impacting Australia’s industrial sector and households.

Since 2012, 5,700MW of baseload plant has closed. By 2030 another 8,000MW of ageing baseload power generation is likely to retire.

In 2016, 76.5 per cent of the NEM’s power was provided by low cost coal-fired generators; 33 per cent of this will likely retire by 2030.

The Guarantee must deliver sufficient levels of lowest cost dispatchable energy supplies available 24/7 with the objective of lowering prices and meeting Australia’s emissions reduction targets.

In the absence of investment in 24/7 dispatchable electricity supply to replace retiring plant, Australia will become more reliant on intermittent energy sources which may impact the security and reliability of the NEM.

Consequently, Australia will face a high cost energy future; one that will cause real problems for all energy consumers.

As such, the Guarantee and related policy mechanisms should provide for:

- **A technology neutral approach for all low emissions energy sources** - including renewables, gas, nuclear, advanced coal technologies (such as HELE) and CCS,
- **Clean Energy Finance Corporation funding** to address any gaps in the financing. This should be made available to all low emissions energy sources.
- **Measures to address the policy risk** stopping investment in new least cost 24/7 dispatchable energy supplies to ensure Australia has the generation it needs under a coordinated climate and energy policy.

AEMO's forecasts need to be accurate and reliable

The paper outlines a broad range of possibilities as to how the many contract types will work in practice.

The success of the Reliability Guarantee depends on the accuracy of AEMO's forecasts.

Determining the gap should be more than an engineering exercise to achieve a specific reliability outcome. There should be a clear focus on the costs associated with any gap.

The recent increase in wholesale energy prices reflects the fundamental shift to under capacity in low cost power generation sources. AEMO could consider using a methodology that views prices in the wholesale market as a function of the market's view on the gap.

In determining the assumptions underpinning its reliability forecasts, AEMO should be making these through a public process involving market participants.

AEMO should also provide regular updates of how accurate its forecasts were against actual outcomes. These could be done on a monthly, quarterly and annual basis.

Reliability Guarantee

Many MCA member companies have concerns that the multitude of contract varieties proposed may pose operational challenges, particularly in the case of smaller retailers and their capacity to offer contracts in circumstances where they do not have their own broad portfolio of generation.

Further, a change in the nature of financial instruments from being homogenous to source or fuel specific could result in a reduction of market liquidity, resulting in higher costs for market participants and a barrier to entry to further participants.

Concentration of market power within the power sector is an issue acknowledged in the Consultation Paper.

It is critical this issue should be considered at the forefront of any decisions taken by the ESB. Unless it is addressed in a meaningful way, the Guarantee may not deliver the expected outcomes and energy consumers will be short-changed.

Regarding the length of time for identifying the reliability gap, the longer the timeframe, the broader range of technology choices would be available for meeting that gap.

If the time frame is too short – less than five years – technology choices for new build would be constrained to currently high cost options such as renewable energy combined with thermal peaking plant (gas and/or diesel).

Even the extension-of-life of existing plant, depending on the scale of investment required, would be expected to need five years.

Emissions Guarantee

A key challenge will be to deliver the policy certainty required. While the Consultation Paper proposes a five -year notice period for updating the electricity emissions targets, a major challenge will be how to incorporate State-based targets that are being considered by a number of jurisdictions.

The challenges posed by this inherent uncertainty, along with the need to minimise costs associated with the Emissions Guarantee provide a clear rationale for allowing the use of international and domestic offsets.

The need for policy transparency in developing the proposed Complementary Measures.

The Consultation Paper refers to the development of ‘complementary measures’ – demand response, strategic reserve, and day-ahead markets. These will clearly affect reliability, price and possibly emissions requirements. Yet there is little detail in the paper in how they will be designed.

For instance, the description of reliability no longer being exclusively about ‘supply-side’ solutions suggests a major role for demand side solutions. While that may be the case in some circumstances, many minerals producers need reliable power available 24/7.

The role ‘demand-side’ solutions can play needs to be informed by its cost. Without that information, it is difficult to tell whether the system objectives - reliable power delivered at lowest possible cost – can in fact be met.

While demand-side management can be a low-cost and efficient mechanism under certain circumstances, the recent activation of the Reliability and Emergency Reserve Trader 30 November 2017 and 19 January 2018 saw users paid \$50 million to reduce demand¹. It remains unclear how much demand was reduced by, and at what cost per megawatt hour. Informal industry estimates suggest it was as much as \$60,000 MWh.

The costs of these measures need to be made publicly available in close to real time so that a full assessment of the costs of the system can be made.

Similarly, any consideration of a strategic reserve should be done via an extensive public consultation process within the existing rule change process of the Australian Energy Market Commission.

It should not rely on a confidential process conducted only through AEMO’s Expert Advisory Panel.

Indeed, the introduction of a strategic reserve and day-ahead markets may suggest a fundamental shift from the NEM as an ‘energy only’ market to one with elements of a capacity market.

The extension of capacity payments in return for remaining operational and providing ‘firm’ capacity available when needed would involve a transfer of at least some of the risks associated with power station investments from investors to consumers. We therefore need to understand these elements better.

The international experience of capacity markets is, at best, mixed. While this type of approach may ensure reliability, it does not address the need to deliver power at the lowest cost - an equally important objective of the NEM.

In summary, those advocating major changes to the way the NEM works need to make the case in an open and transparent manner which explicitly takes into account the benefits for consumers. The current rule making process overseen by the Australian Energy Market Commission does that.

Ultimately, in whatever way the system is designed, it is paid for by consumers.

¹ The Australian, [Big firms get \\$50m in bid to keep lights on](#), 12 February 2018.

3. SPECIFIC RESPONSES TO QUESTIONS

Questions	MCA Response
<p>3.2.1</p> <p>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?</p>	<p>Ideally, the two compliance time frame requirements should be brought together.</p> <p>However, if that is unachievable, then using the current EITE compliance time frame should be used.</p>
<p>3.2.2</p> <p>What are stakeholders' views on the process to calculate a retailer's load?</p>	<p>This should recognise deductions for power delivered to EITE operations.</p>
<p>3.2.3</p> <p>What are stakeholders' views on how a retailer's emissions should be determined?</p>	<p>What is proposed is reasonable.</p>
<p>3.3.1</p> <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 (eg 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>These should be based on the actual emissions intensity of the power generation.</p> <p>These should be based on a weighted average of emissions from the varying sources.</p>
<p>3.3.2</p> <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 requirement?</p>	<p>The referenced value in the contract should be recognised.</p>

<p>3.3.3</p> <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>The average emission intensity for the NEM region for which the contract is priced against should be used for those contracts which do not specify the emissions level or generation source.</p>
<p>3.3.4</p> <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>Such contracts should be dealt with in the same way as external non internal contracts are dealt with, otherwise this will result in fewer contract available for hedging in the market and lower levels of retail competition. Large users who have their own generation and are not retailing the electricity would need to be exempt from this requirement.</p>
<p>3.3.5</p> <p>What are stakeholders' views on how to determine the emissions level to assign to unhedged loads?</p>	<p>The emissions level should be based on the NEM average for the region in which the energy was generated.</p>
<p>3.4.1</p> <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 treated? Should there be a process by which it is offered to the market?</p>	<p>It should allow for unlimited carry-over.</p>
<p>3.4.2</p> <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? This could give more flexibility to smaller retailers than large ones. If so, would any provisions need to be introduced to prevent large</p>	<p>Deferral should be allowed for compliance, consistent with the rules applied under the Renewable Energy Target for the LRET</p>

<p>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>3.4.3</p> <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 appropriate?</p>	<p>Offsets should be permitted.</p> <p>No limit should be placed on the use of offsets.</p> <p>Allowed offsets should be consistent with Australian Carbon Credit Units and designated UNFCCC offsets.</p>
<p>3.5</p> <p>What are stakeholder views on the interaction between the emissions requirement of the Guarantee and voluntary programs such as GreenPower?</p>	<p>GreenPower programs should be included in determining the emissions requirement.</p>

<p>3.6.2</p> <p>What are stakeholders' views on the need for a compliance registry? What are stakeholders' views on its design?</p> <p>Are there alternative schemes that would allow retailers to monitor and verify compliance with the emissions requirement? How could these alternative schemes work?</p> <p>Are there any additional features which the registry should have?</p> <p>Should any of the data in the registry be made publicly available?</p>	<p>Any compliance registry should be based on existing approaches in order to minimise compliance costs.</p> <p>Rather than use the Australian Energy Regulator, it may be appropriate to utilise the existing infrastructure and expertise of the Clean Energy Regulator.</p>
<p>3.6.3</p> <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>Minimising costs should underpin the design of reporting and compliance processes.</p>
<p>3.6.4</p> <p>What are stakeholder views on the proposed approach to compliance with the emissions requirement and particular:</p> <p>Whether this approach provides the appropriate drivers of compliance.</p>	<p>Further detail is required before the MCA can meaningfully comment on this proposal.</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 while emissions requirements remain outstanding.</p>	
<p>3.7.1</p> <p>What are stakeholder views on how the Guarantee may impact on competitive market?</p>	<p>If the Guarantee structure creates multiple different classes and types of contract version / structures, it will reduce the market liquidity for risk management hedges and consequently have a material negative impact on the ability for new entrants or for existing retailers whom do not own suitable generation portfolios from providing retail offers.</p> <p>The design of the Guarantee will need to ensure this does not occur otherwise it will have a significant negative impact upon competition.</p> <p>Depending on the interaction between the emissions and reliability requirements of the Guarantee this also has the potential to penalise those States with higher emission intensity power generation fleets. This could impact on the overall competitiveness of the NEM.</p> <p>The Guarantee discussion paper also does not consider the complexity associated with interregional flows of power and interregional hedges, which are key risk management tools used to manage market risks for retailers.</p> <p>Depending on the detailed design of the reliability requirement in particular there may be a range of issues if the reliability requirement is triggered in one region but not others.</p>
<p>3.7.2</p> <p>What are stakeholder views on the operation of the emissions requirement in particular jurisdictions?</p>	<p>Jurisdictions which impose a higher emissions requirement should face the full cost of that requirement.</p>
<p>4.2.2</p> <p>Stakeholder views are sought on options for setting the emissions targets under the Guarantee</p>	<p>The emissions target should be based on the least-cost path of meeting Australia's international emission reduction obligations. A proportional</p>

	approach may be inconsistent with least cost.
<p>4.2.3</p> <p>Stakeholder views are sought on:</p> <p>Whether, and in what circumstances, electricity emission targets already set should be adjusted.</p> <p>The process for making any such adjustments to electricity emissions targets.</p>	<p>Given the power sector involves investment in long-life assets, existing targets should not be adjusted.</p> <p>Any adjustment needs to recognise the effective asset life of power generation.</p>
<p>4.2.4</p> <p>Stakeholder views are sought on the proposed timing for updating the electricity emissions targets, including a five-year notice period.</p>	<p>Electricity sector adjustments may need a longer time frame than the five years proposed.</p> <p>Power generation involves investment in long life assets. Short time frames will likely encourage a continuation of the response behaviours where the market invests in short term peaking (just in time solutions) which would be expected to result in higher prices in the market.</p>
<p>4.2.5</p> <p>Stakeholder views are sought on the proposed approach to setting the electricity emissions targets under the Guarantee and interaction with state renewable energy schemes.</p>	<p>The Commonwealth Government is responsible for setting Australia's international emission reduction obligations.</p> <p>States and Territories which decide to impose higher emission reduction targets should face the full cost of these within their jurisdiction.</p> <p>States with their own renewable energy schemes should face higher larger Reliability Guarantee requirements.</p>
<p>4.3.2</p> <p>Stakeholder views are sought on issues to be addressed in exempting EITE activities from the emissions requirement of the Guarantee.</p>	<p>EITE businesses need to be fully exempt.</p>
<p>4.4</p> <p>Stakeholder views are sought on whether retailers should be allowed to use external offsets to meet a proportion of their emissions requirement. In particular,</p>	<p>Access to offsets are critical to minimising the cost of the meeting Australia's international emission reduction obligations.</p>

<p>views are sought on:</p> <p>Whether there is a strong rationale for the use for offsets within the Guarantee</p> <p>The impact allowing offsets would have on investment under the Guarantee</p> <p>If offsets were to be used to help achieve compliance with the emissions requirement, what would be an appropriate limit for their use?</p>	<p>Retailers should be allowed to access international and domestic offsets.</p> <p>There should no limit the amount of offsets which can be used to comply with the emissions requirement.</p>
<p>5.3.2</p> <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 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>The success of the Reliability Guarantee depends on the accuracy of AEMO's forecasts.</p> <p>Determining the gap should be more than an engineering exercise to achieve a specific reliability outcome. There should be a clear focus on the costs associated with any gap.</p> <p>The current increase in wholesale energy prices reflects the fundamental shift to under-capacity in low cost power generation sources. AEMO could consider using a methodology that views prices in the wholesale market as a function of the market's view on the gap.</p> <p>In determining the assumptions underpinning its reliability forecasts, AEMO should be making these through a public process involving market participants.</p> <p>AEMO should also provide regular updates of how accurate its forecasts were against actual outcomes. These could be done a monthly, quarterly and annual basis.</p> <p>AEMO needs to better engage with a wider range of stakeholders to improve its understanding of the cost impacts on energy consumers.</p>
<p>5.4</p> <p>How frequently should the forecast be updated?</p>	<p>Forecasts should be updated regularly, reflecting the fast evolving nature of demand.</p>
<p>5.5</p>	

<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>AEMO should consider taking into account increases in wholesale prices as an indicator of an emerging reliability gap.</p> <p>The longer the timeframe, the broader range of technology choices would be available for meeting that gap.</p> <p>If the time frame is too short – less than five years – technology choices for new build would be constrained to currently high cost options such as renewable energy combined with thermal peaking plant (gas and/or diesel). Even the extension of life of existing plant, depending on the scale of investment required, would be expected to need five years.</p>
<p>5.6</p> <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>Contracts should be based on existing contract structures.</p> <p>A change in the nature of financial instruments from being homogenous to source or fuel specific could result in a reduction of market liquidity, resulting in higher costs for market participants and acting as a barrier to entry.</p> <p>Any deviation from existing contract structures may pose challenges, particularly for smaller retailers to offer contracts where they do not have their own broad portfolio of generation.</p>

<p>5.7.3</p> <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>Further detail is required before the MCA can meaningfully comment on this proposal.</p>
<p>5.7.4</p> <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 not 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>No, any changes here will result in increased cost for customers and lower levels of competition as these customers are forced to use a registered market retailer to comply with the obligations.</p> <p>There appears to be no practical pathway to implement having the reliability requirement apply to large energy users who are not market customers. This raises the very real possibility that extending these obligations to large energy users will increase costs for these customers, reduce competition for these customers and reduce incentives for on-site generation due to the higher costs of managing these risks.</p> <p>Creating a specified definition for large customer will inevitably create issues for those just either side of the boundary. For example it may create a perverse incentive for certain customers whom are on the border of some arbitrary measurement of what defines a large customer usage from not growing. This would create a perverse incentive to industry in Australia not to grow and have a negative impact upon economic growth, GDP and general wealth in Australia.</p>

<p>5.8</p> <p>What are stakeholder views on an ex ante or ex post approach to compliance?</p> <p>What are stakeholder views on the implications for the assignment of the gap, given an ex ante or ex post approach?</p> <p>What parameters should be taken into account when deciding between these two options?</p> <p>Does an ex post or ex ante approach impact different retailer types?</p> <p>Could an ex post approach be effectively implemented while retaining a credible procurer of last resort function?</p>	<p>Each option has potential issues - an ex ante compliance can result in costs to consumers and users that cannot be offset post the event, while ex post compliance creates a basis risk to the pricing of energy in the market which will create and inherent price premium in all contracts which will be passed onto consumers</p> <p>An ex-post approach cannot be effectively implemented while retaining a credible procurer of last resort.</p>
<p>5.9</p> <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>Having AEMO as procurer of last resort is problematic. It represents a rejection of the notion that the market is the means through which investment is delivered when and where it is needed.</p> <p>It also casts an obligation of AEMO to make accurate and reliable forecasts of demand and supply. An assessment of AEMO's track record in related forecasting functions would provide some empirical data on which to make an assessment of AEMO's capability in this regard.</p> <p>Furthermore, vital design features such as introduction of a strategic reserve should only be evaluated through a fully transparent public process rather than a review internal to AEMO.</p> <p>Market intervention has rarely if ever produced a more economic outcome for consumers and is a clear sign of market failure</p> <p>Ultimately, in whatever way the system is designed, it is paid for by consumers.</p>

<p>5.10</p> <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>There is a risk that such penalties may present a lower cost of compliance for retailers whom may simply pass on these costs to customers</p>
<p>5.11.1</p> <p>What are stakeholder views on how the Guarantee may impact on competitive markets?</p>	<p>Depending on how the Guarantee is implemented this is a major concern.</p> <p>A change in the nature of financial instruments from being homogenous to source or fuel specific could result in a reduction of market liquidity, resulting in higher costs for market participants and acting as a barrier to entry.</p> <p>Also, what is proposed may pose challenges, particularly for smaller retailers to offer contracts where they do not have their own broad portfolio of generation. This in turn will create competition issues.</p>
<p>5.11.4</p> <p>What are stakeholder views on the operation of the reliability requirement in the ACT and Tasmania?</p>	