



5 April 2019

Dr Kerry Schott
Independent Chair
Energy Security Board

Submitted by email: info@esb.org.au

Dear Dr Schott,

Origin Response to National Electricity Rules Amendments – Retailer Reliability Obligation

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the draft Rules to implement the Retailer Reliability Obligation (RRO).

We generally support the legislative structure of the RRO which includes a package of changes to the National Electricity Law, Rules and associated guidelines. We are disappointed that key guidelines are not yet available, as this makes informed comment on the drafts Rules package more difficult. These include details on fundamental issues such as forecasting and qualifying contracts. We note also that with an upcoming Federal election in May, time for COAG Energy Council to approve the final Rules package before intended scheme start on 1 July is tight. We therefore suggest a prudent option would be to delay a decision on approval of the Rules package until after key guidelines are finalised.

Part of our concern is driven by the particular provisions that are proposed for South Australia which allow the South Australian Minister to potentially truncate a T-3 notice and provide only 15 months' notice.

Our key points on the draft Rules include:

- **Review:** we suggest that as the RRO is a new type of scheme with little precedent, it would be prudent to include a scheduled review after the first two years of operation.
- **Material gap definition:** this should include a buffer to ensure any forecast of the reliability gap is indeed material. We believe this is important for the first year of the scheme as the forecasting guidelines will not yet be ready for AEMO to follow.
- **Firmness factors:** we would encourage the methodologies for applying firmness factors to be released in guidelines as soon as possible and that further consultation with liable parties take place.
- **Net contract position:** we support the availability of possible adjustments to net contract position between T-1 and T, especially for C&I customers. This provides for some flexibility which will help reduce the costs of hedging and ultimately the costs for customers.

- Market Liquidity obligation (MLO): we support voluntary arrangements in the first instance and suggest that the ASX market-making platform be tailored to address any concerns raised by the ESB. The key features of the MLO should also be subject to an annual review.

Review

The RRO is a new type of scheme that is relatively complex. We expect that it will involve some trial and error to modify certain elements of its design. Whilst the Rule change process may be appropriate for one-off changes, we believe it would be prudent to include a scheduled review of the scheme's operation after about the first two years. This would provide the AEMC (or similar body) with an opportunity to undertake a more holistic assessment of whether the scheme is meeting its intended objectives. Further, related energy and climate policy may evolve over this period and require the RRO to be significantly modified.

Definition of material gap

We support the current Reliability Standard being used as the basis for any gap period. We understand that the ESB has chosen a definition of material gap based simply on Unserved Energy (USE) which was Option A from the consultation papers in late 2018. Whilst we understand why the ESB has chosen this simple approach we believe that some form of buffer should be built into the test so that any gap is truly "material". For example, a buffer of at least 50-100 MW, depending on the region. This is especially important in the first year of the scheme when the forecasting guidelines will not yet be available.

Qualifying contracts

We generally support the approach to qualifying contracts and associated firmness factors which will include methodologies being established in guidelines. It would have been beneficial for this round of consultation to have had interim guidelines available for comment, at least in draft form. However, we understand the time pressures that the ESB is working under. We would encourage such guidelines to be ready as soon as possible and support a further round of consultation with participants.

For bespoke contracts, we support the alternative approach as described in the consultation paper which would establish a panel of AER pre-approved auditors. This could allow for a more timely response.

Net contract position

Origin understands that the obligation to provide a net contract position at T-1 is intended to drive a higher proportion of contracting with firm generation. We also note that the ESB has acknowledged that retailers load may change significantly between T-1 and T and has proposed possible adjustments to the net contract position that may occur over this period. This includes for material changes to mass market and C&I customers (under 30 MW peak load). We support the flexibility provided by these potential adjustments and believe they will be important to contain the costs of the scheme.

We would suggest that the 15% threshold for adjustments to mass market customers be reduced. As a large retailer we would expect and plan for some level of churn to our retail load. However, a 15% change to our mass market customer load would represent approximately 2.5 TWh. By contrast, the threshold for changes to C&I customers appears quite reasonable and is supported.

Market liquidity obligation

We support a voluntary approach to market making arrangements, such as being developed by the ASX. We note that the ESB has some residual concerns with voluntary arrangements including ensuring that sufficient volume is available if a T-3 notice is given for a region. We would suggest that the ASX scheme is used as the basis for any potential MLO and that volumes in the scheme be subject to audit. If a T-3 notice is given, and liquidity reduces by a significant margin, then the Rules could then provide for a mandatory MLO to then be put in place.

One major advantage of a voluntary market making arrangement is that it avoids the need for a test of obligated parties. The proposed "MLO group" test in the consultation paper is complex and appears difficult to apply.

The draft Rules consultation paper contains specific features of a market making obligation. We generally support these features and provide the following comments:

- Product type – flexibility to choose the type of product depending on generation type is supported.
- Bid/offer spreads – appear reasonable and are supported.
- Net sales limits – we would suggest lower total limits. For example, a total limit of 5% over the MLO period. We would also suggest that this be referenced to summer capacity as that is a better measure of the plant likely to be available during any gap period.
- Trading sessions – whilst the overall number of sessions appear reasonable, we suggest that further flexibility is provided, as described below.
- Significant events – we believe some form of trading halt in the market making arrangement should be allowed if a significant event such as a generator closure, smelter closure or significant new Government policy is announced. Sustained plant outages should also be taken into account.
- Further flexibility – another design option to consider is for the bid/offer spread to be increased if certain market events occur. We understand this occurs in some overseas market making arrangements. The circumstances to allow broader spreads could be further investigated as the MLO guidelines are developed.
- Review – we suggest that the key design features of the MLO be subject to an annual review. We expect that the MLO will involve a degree of trial and error and it would be prudent to plan for modifications to key features.
- Implementation – we recommend that the MLO should not be able to be implemented until the related guidelines have been published and the ASX arrangements are in place. This is important for reducing the risk to potentially obligated parties.

We encourage these features to be further consulted on as the guidelines for the MLO are developed.

Other

- Opt-in process for large customers: we support the option being provided for large customers to opt into the RRO. As a retailer, we also support the timing of various notice provisions which have been included in the draft Rules. This is important, as the operation of the RRO is intended to drive contracting over longer terms and retailers have limited ability to make adjustments to their net contract position after T-1. We believe the thresholds are probably too low and could prove to be a burden for the regulators to manage. Specific provision could be included in the draft Rules to review thresholds at regular intervals.
- Cost recovery: ideally, non-compliant liable entities must be exposed only to the cost of RERT procured to match AEMO's forecast reliability gap at T-1 as AEMO may procure more RERT based

on revised demand/supply forecasts. According to the proposed rules total RERT costs will be multiplied by the ratio (Reliability Gap/Total RERT procured or dispatched) to calculate the cost of RERT to be recovered by non-complaint entities. As these calculations are performed in the Settlements time frame, we are of the view that the exact cost of RERT (to fill the reliability gap only) could be calculated. Additional cost of RERT which is procured/used over and above the reliability gap at T-1 should be socialised.

If you wish to discuss any aspect of this submission further, please contact Matthew Kaspura at matthew.kaspura@originenergy.com.au or on 02 9503 5178.

Yours sincerely,



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