



19 December 2018

Dr Kerry Schott
Independent Chair
Energy Security Board

Submitted by email: info@esb.org.au

Dear Dr Schott,

Retailer Reliability Obligation – consultation papers

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on this set of three consultation papers regarding the Retailer Reliability Obligation (RRO):

- Material reliability gap definition and communication
- Compliance/procurer of last resort cost recovery
- Firmness principles for qualifying contracts

Origin is concerned that the consultation on the legislative package for the RRO is being rushed and consulted on in an ad hoc fashion. We note that only two weeks was given for this consultation process, which is also occurring in late December. As stated in our previous submission to the draft law for the RRO, we believe a more prudent approach would be to consult on the complete package of law and Rules at the same time, so that stakeholders can make more informed comment.

We are a member of the Australian Energy Council (AEC) and support their submission on these three consultation papers. Our key points on the three papers follow below.

Material reliability gap definition and communication

- **Support current reliability standard** – we support a definition of the material reliability gap which references the current reliability standard. This includes the proposed Metrics A and B. Of these, our preference would be for Metric B as it adds a buffer that will effectively allow a sensitivity to key inputs.
- **Discretion for AER** – we support the AER being given discretion to refuse a request by AEMO to trigger an obligation under the RRO. We generally agree with the criteria suggested by the ESB, including the proposal to test the sensitivity of key inputs to the calculation of Unserved Energy (USE) and for a cost-benefit analysis of triggering the obligation.

- **Notice periods** – we generally agree with the minimum notice period of three months to be provided by AEMO for any request to trigger an obligation (both T-3 and T-1). Whilst we understand the trade-off in allowing time for the AER to review a request to trigger an obligation, we note that the proposal may result in only one month's effective notice of any final decision by the AER to trigger a T-1 obligation. We suggest a best endeavours clause be added so that any decision by the AER is made in a timely manner.

Compliance/procurer of last resort cost recovery

- **Simple cost recovery design** – we suggest that the discussion of different cost recovery calculations in the consultation paper may be over-complicating the issue. As noted, the link between total RERT costs in a period and any liability under the RRO may be uncertain. A better approach is to socialise the cost of the RERT (as currently occurs) and penalise any non-compliance with the RRO through a clearly defined \$/MW penalty. This penalty, if clearly defined up-front, will act as a significant incentive to procure sufficient contractual cover for any gap period.

Firmness principles for qualifying contracts

- **High level principles for firmness factors** – we generally agree with the four principles stated in the consultation paper. However, we note that the fourth factor implies a link be found to physical generation underpinning a given financial contract. Whilst we understand the point being made this could be viewed as a departure from the definition of qualifying contracts previously agreed to in the high-level design. We encourage the ESB to consult further on how certain financial contracts such as weather derivatives and SRAs may be treated. Consideration should be given to specific jurisdictional examples, including South Australia and Victoria, as these are the regions where a gap period may be more likely to arise in the next few years.
- **AER guidance** – we also support a process which allows for the AER to provide guidance to liable entities regarding their firmness factors before the T-1 period, as this should promote increased confidence in complying with the RRO.

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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