

Dr Kerry Schott  
Chair  
Energy Security Board

CC: Clare Savage, Deputy Chair, Energy Security Board

Via Email: [info@esb.org.au](mailto:info@esb.org.au)

23 April 2019

Dear Dr Schott

**RE: Feedback on the Retailer Reliability Obligation**

The Queensland Electricity Users Network appreciates the opportunity to participate in the recent discussions on the Retailer Reliability Obligation. The format of the Sydney forum and workshop allowed us to understand the framework required to support the RRO.

The QEUN is a consumer advocacy representing small business and residential consumers with a particular emphasis on regional consumers.

Our advocacy is based on the premise that affordable electricity is not dependent on more state and federal government energy concessions.

We advocate that the pace of the transition to a renewable energy future should not be at the expense of the economy, jobs or reasonable living standards.

We firmly believe this energy crisis can be resolved if consumers are able to sit at the energy policy table. Consumer resourcing is a major issue, particularly for consumer advocates not receiving government funding.

We hope the following feedback will assist the Energy Security Board in its deliberations on the Retailer Reliability Obligation.

**FORECASTING THE RELIABILITY REQUIREMENT**

The aim of the Retailer Reliability Obligation is to ensure there is sufficient dispatchable generation in the National Electricity Market to meet the reliability standard.

The reliability standard requires at least 99.998 per cent of forecast electricity demand to be met each year.

The higher the reliability standard, or the higher the cost to maintain the '*existing*' reliability standard, the higher the cost to consumers.

Consumers fear Australia is building a national power system that consumers cannot afford.

Consumers also fear that the national power system is not resilient and as a consequence will have greater periods of time with insufficient dispatchable generation.

There is a real risk that without proper planning the future national power system will suffer the same fate as the nbn network; overtaken by technology before the system has been fully installed. This has long term implications for consumers who have to pay for under-utilised long life network assets in their power bills.

At the core of the Retailer Reliability Obligation are the supply and demand forecasts of the Australian Energy Market Operator (AEMO).

Understanding consumer demand requires AEMO to have a strong relationship with a diverse range of consumers, particularly business consumers who represent the majority of the demand for network supplied electricity.

There are 2.25 million businesses in Australia of which 97 per cent have less than 20 employees. AEMO's efforts are concentrated on the 3 per cent of businesses with 20 plus employees. AEMO lacks visibility on the engine room of the economy – small business. This does not auger well for the accuracy of AEMO's forecasts which are the trigger for the RRO.

It is risky to assume that AEMO's past record on forecasts is an indication of the accuracy of its future forecasts ie when a commodity is in ample supply and prices are low, consumers are happy and forecasts are less vulnerable to shocks.

However, electricity rationing has occurred recently, prices are at unsustainable levels across the National Electricity Market and consumers are considering alternatives to network supplied electricity. Stocking the shelves with an overpriced commodity does not stimulate demand. It is also pointless to have a fire sale after consumers have taken the step to invest in long life capital intensive alternatives such as diesel generators and batteries.

AEMO has taken steps to update its forecasting methodology including the employment of meteorologists. However, it still maintains a somewhat rusted on approach to consumer engagement. This impacts on the accuracy of the Electricity Statement of Opportunity, the actual trigger for the RRO.

Forecasting a shortfall that doesn't exist, failing to forecast a shortfall, or underestimating the size of a shortfall, all adversely impact on the reliability and affordability of electricity to consumers.

The lack of consumer participation in the development of the scenarios for the 2019 ESOP shows the dominating influence of generators, networks and retailers in AEMO's forecasts. Of the 24 submissions received by AEMO not one submission was provided by consumers. The scenarios are critical to the ESOP particularly since it is mooted that the ESOP release in August this year will trigger the RRO.

AEMO also needs more visibility on proposed or committed new generation projects. Being limited to information from market participants is a serious impediment to their supply forecasts. A national rule change lodged by the Australian Energy Council needs urgent consideration to ensure AEMO is able to capture information from 'intending' market participants.

## MARKET LIQUIDITY OBLIGATION

We are concerned that the Market Liquidity Obligation does not effectively obligate the entity that is the ultimate decision maker for an individual scheduled generator, or the holder of the trading rights for an individual scheduled generator. In essence, companies may be able to avoid being declared an obligated party and as such the legal gaming of the wholesale market will continue.

For example, the ESB's initial potential MLO Groups include CS Energy (36.6%) and Stanwell (31.7%) (see Table 1).

As per Step 2B in the ESB's Table 2 the MLO must "*identify the entity (or entities) that control or influence the dispatch of the capacity*".

The key words in the above statement are "***or influence***".

As per the following excerpts from a Queensland Government media release on 28 February 2019, it is the Queensland Government, not the Board of Stanwell Corporation that is controlling "or influencing" the dispatch of capacity from Stanwell power stations.

*"Energy Minister Dr Anthony Lynham said today's draft determination by the Queensland Competition Authority (QCA) showed the **Palaszczuk Government's interventions** to put downward pressure on electricity prices were working....."*

*The QCA has also **confirmed the Government's direction to Stanwell Corporation to adjust its bidding behaviour** has also reduced wholesale electricity prices."*

The Queensland Government has recently established a third generation company CleanCo by transferring some of the generation assets of CS Energy and Stanwell to CleanCo.

Hypothetically, the Queensland Government could break up its 68.3% share in such a manner that no single company under its ownership would have more than 15 per cent of Queensland's scheduled capacity. This means that under the MLO the 5 Queensland Government owned companies would not be obligated parties.

The question we would pose is:

*If 5 companies owned by the Queensland Government are able to avoid being declared an obligated party as they each constitute less than 15% of Queensland's scheduled capacity, why could a private company not implement the same avoidance strategy?*

The determination of who can be declared an obligated party should be independent of whether the company is in private or government ownership. The potential MLO groups in Table 1 imply that the Queensland Government does not influence the decisions of CS Energy and Stanwell.

The current ability of the Queensland Government to control or influence the Queensland wholesale electricity price is evident in the Queensland Budget and the AEMO spot price.

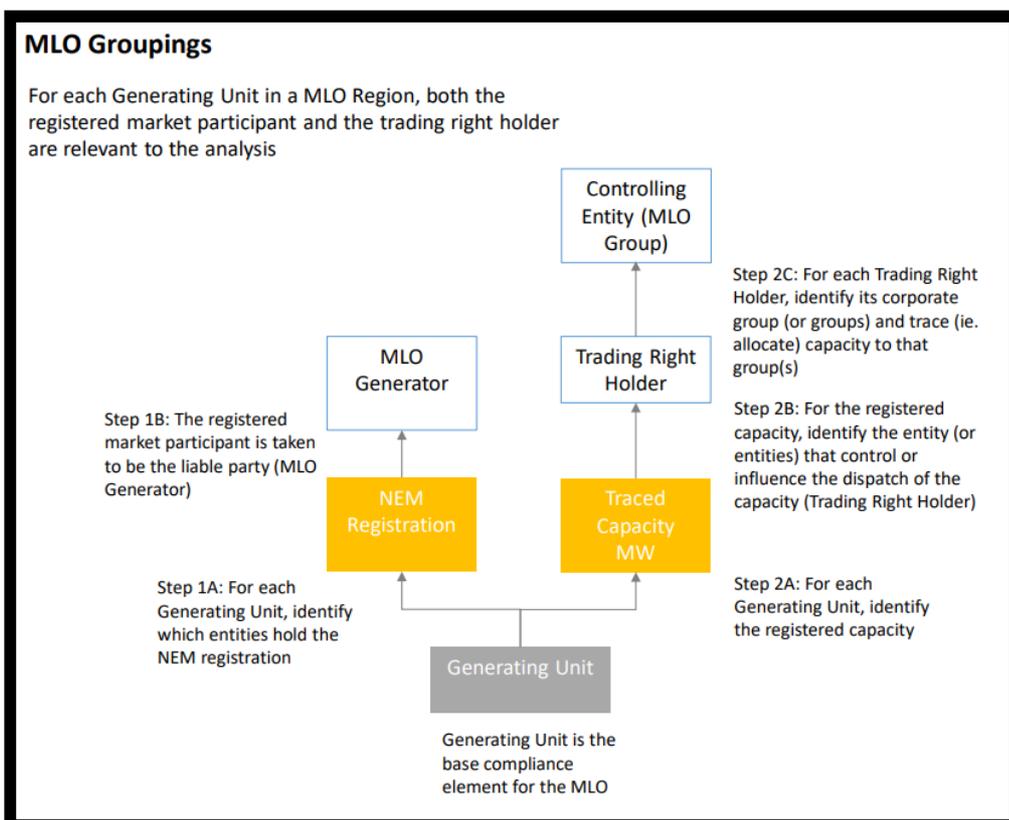
For example, in 2016-17 the Queensland Government expected its electricity generation assets to earn \$482 million before interest and tax (see Table 3). The actual earnings of its electricity generation assets before interest and tax was \$1,241 billion (see Table 4).

**Table 1: Initial potential MLO Groups**

Initial potential MLO Groups		
Region	Potential MLO group	Regional capacity share (scheduled)
Victoria	AGL	32.5%
	Energy Australia	26.6%
	Snowy Hydro	22.7%
New South Wales	AGL	31.7%
	Origin	25.6%
	Snowy Hydro	20.1%
South Australia	AGL	42.3%
	Engie	27.8%
	Origin	15.8%
Queensland	CS Energy	36.6%
	Stanwell	31.7%

Source: Presentation on Retailer Reliability Obligation, Energy Security Board, March 2019

**Table 2: Market Liquidity Obligation Groupings**



Source: Presentation on Retailer Reliability Obligation, Energy Security Board, March 2019

**Table 3: Earnings before interest and tax for Queensland Public Non-Financial Corporations**

	2015-16 Actual \$ million	2016-17 Budget \$ million	2016-17 Est. Act. \$ million	2017-18 Budget \$ million	2018-19 Projection \$ million	2019-20 Projection \$ million	2020-21 Projection \$ million
Electricity Networks	2,573	2,533	2,823	2,064	1,933	1,941	1,869
Electricity Generation	382	482	892	1,070	858	750	564
Rail	447	409	354	291	335	371	379
Ports	218	212	191	188	212	227	232
Water	352	409	452	438	482	460	483
Other	(59)	13	19	1	(8)	(10)	(10)
<b>Total PNFC sector earnings before interest and tax</b>	<b>3,913</b>	<b>4,059</b>	<b>4,731</b>	<b>4,053</b>	<b>3,811</b>	<b>3,739</b>	<b>3,517</b>

Note:  
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Source: Public Non-Financial Corporations Sector, 2017-18 Queensland Budget Strategy and Outlook Paper

**Table 4: Earnings before interest and tax for Queensland Public Non-Financial Corporations**

	2016-17 Actual \$ million	2017-18 Budget \$ million	2017-18 Est. Act. \$ million	2018-19 Budget \$ million	2019-20 Projection \$ million	2020-21 Projection \$ million	2021-22 Projection \$ million
Electricity Networks	2,888	2,064	2,331	1,899	1,914	1,937	1,965
Electricity Generation	1,241	1,070	1,230	1,009	804	695	598
Rail	328	291	304	325	326	365	389
Ports	206	188	178	203	248	251	266
Water	470	438	477	556	573	540	414
Other	36	1	(44)	(16)	(10)	(11)	(10)
<b>Total PNFC Sector</b>	<b>5,169</b>	<b>4,053</b>	<b>4,476</b>	<b>3,976</b>	<b>3,855</b>	<b>3,777</b>	<b>3,621</b>

Note:  
1. Numbers may not add due to rounding and bracketed numbers represent negative amounts.

Source: Public Non-Financial Corporations Sector, 2018-19 Queensland Budget Strategy and Outlook Paper

**Table 5: Queensland Government owned generation assets – earnings and revenue (\$ millions)**

QUEENSLAND ELECTRICITY GENERATION ASSETS	2015-16			2016-17			2017-18			2018-19		
	Budget	Est. Actual	Actual									
Earnings before interest and tax	320	372	382	482	892	1,241	1,070	1,230		1,009		
Dividends	125	160	175	216	378	383	463	645		535		
Tax Equivalent Payments	84	66	86	91	152	190	154	249		236		
Competitive Neutrality Fee Payments	30	26	23	21	21	21	22	20		17		
Revenue to Qld Government	239	252	284	328	551	594	639	914		788		

Source: Compiled from 2016-17 to 2018-19 Queensland Budget Strategy and Outlook Papers

The massive jump in earnings allowed the Queensland Government to receive \$594 million in revenue from its electricity generation assets, an increase of \$266 million compared to the original \$328 million in the 2016-17 Budget (see Table 5).

The windfall gain is directly correlated to Queensland's average spot price rising by \$33.16/MWh to \$93.12/MWh in 2016-17.

Over the same one year period all states except Tasmania experienced an increase in the average spot price. However, Queensland had an abundance of surplus generation capacity and still managed to achieve a significant premium to the average spot price in every state of the NEM except South Australia (see Table 6).

The surplus generation capacity in Queensland continues to provide a 1,300 MW reserve supply to the NEM.

If the Queensland Government owned generators can avoid being declared an obligated party, there is a real risk to the wholesale price in Queensland and to the wholesale price in every state in the National Electricity Market.

The question we pose is:

*How does the Tasmanian legislation avoid the Tasmanian Government being declared an obligated party? Should Queensland have same derogation as Tasmania?*

**Table 6: Average spot price by state**

<b>AVERAGE SPOT PRICE</b>	<b>2015-16</b>	<b>2016-17</b>	<b>2017-18</b>	<b>YTD 2018-19</b>
Queensland	59.99	93.12	72.87	81.51
NSW	51.60	81.22	82.27	90.29
Victoria	46.14	66.58	92.33	113.84
SA	61.67	108.66	98.10	115.36
Tasmania	102.70	75.40	86.98	89.15

Source: Average price tables, AEMO Data Dashboard, 17 April 2019

## **THE RRO COULD ADVERSELY IMPACT PRICE VOLATILITY AND STORAGE PROJECTS**

The high and increasing quantity of intermittent solar and wind generation being connected to the national grid is causing supply and stability issues, particularly during periods of peak demand. To prevent load shedding and to stabilise the national grid, it is necessary to urgently plan the connection of sufficient dispatchable generation. As the coal-fired generation fleet retires there will be increasing emphasis on the construction of gas-fired power stations and electricity storage.

Electricity storage can be in the form of batteries or Pumped Hydro Storage.

Regardless of the type of storage project, any new storage project will require price volatility to finance the new projects.

Price volatility is fuelled by the expectation of a shortfall in generation. If the RRO ensures no shortfall for least three years in advance, the appetite to invest in storage projects without a Power Purchase Agreement for at least part of the output could be limited.

Failure to attract investment in storage projects and gas-fired generation will place the national grid at risk of failing to meet the reliability standard, particularly during the summer months.

## **FORCE MAJEURE**

We understand the RRO rules do not include a force majeure clause.

This could have implications for retailers who have in good faith contracted with generators that are no longer able to fulfil their contractual obligation.

Examples:

- The Barron Gorge *run of the river* hydro power station is listed by AEMO as a scheduled generator. Due to the local government area being drought declared, generation from the Barron Gorge Hydro Station could be curtailed as water is prioritised for urban and agricultural purposes
- A coal-fired power station may be unable to operate during a drought due to a lack of cooling water
- The Queensland Government has provided a delegation to the Queensland Competition Authority to investigate the reduction of reliability standards for Ergon and Energex. A distribution outage may result in battery storage connected to a wind farm or solar farm from being dispatched.

The question we pose is:

*If a retailer enters into a contract with a generator that is accepted as a compliant contract by the Australian Energy Regulator but the generator is subsequently unable to generate or supply during the declared reliability gap, what are the consequences to the affected retailer and all the other retailers in the National Electricity Market?*

Once again, thank you for the opportunity to provide a consumer perspective to the discussions on the Retailer Reliability Obligation.

Yours faithfully

A handwritten signature in blue ink that reads 'Jennifer Brownie'.

Jennifer Brownie  
Coordinator