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South Australian Council of Social Service

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Dr Kerry Schott
Independent Chair
Energy Security Board
C/o COAG Energy Council Secretariat
Department of the Environment and Energy
GPO Box 787
CANBERRA ACT 2601

Lodged online to: info@esb.org.au

5 April 2019

Dear Dr Schott,

RE: SACOSS Response to National Electricity Rules Amendments – Retailer Reliability Obligation

Thank you for the opportunity to provide a response to the *Retailer Reliability Obligation Draft Rules Consultation Paper*.

As the peak body for the health and community services sector in South Australia, the South Australian Council of Social Service (SACOSS) has an established history of interest, engagement and provision of proposed advice on the necessary market mechanisms for and regulation of essential services. Our research shows that the cost of basic necessities like electricity impacts greatly and disproportionately on vulnerable people. Our advocacy is informed by our members and direct consultations with consumers and other consumer organisations: organisations and individuals who witness and experience these impacts in our community.

As we have expressed in our previous submissions to the Energy Security Board (ESB), market concentration in South Australia and its effect on inhibiting the formation of a competitive and liquid wholesale trading market, and investment in new dispatchable energy resources is of particular concern to SACOSS. We support the introduction of the RRO and the associated compulsory Market Liquidity Obligation (MLO) to address these structural market issues.

SACOSS does have concerns around the interaction of the RRO with the South Australian Government's Ministerial Reliability Instrument Amendment Bill as we believe it may cause inconsistency in the application of the RRO, and in achieving the goals of greater market liquidity and dispatchable energy resource investment in the region. We strongly encourage the ESB to actively engage with the South Australian Government to ensure the effectiveness and workability of both legislative arrangements.

Our response to the RRO design and draft Rules, and specific questions raised in the Consultation Paper is detailed in the following section.

We thank you in advance for consideration of our submission. If you have any questions relating to matters raised, please contact SACOSS Senior Policy Officer, Jo De Silva on (08) 8305 4211 or via jo@sacoss.org.au.

Yours sincerely,

Ross Womersley, Chief Executive Officer

Section 2: Forecasting the Reliability Requirement

SACOSS supports the enhancement and expansion of AEMO's ESOO forecasting processes to meet the forecasting requirements of the RRO as specified in the draft Rules. We acknowledge that this will take some time to develop given the structural changes occurring in the National Electricity Market (NEM), the development and commercialisation of new technologies (in managing supply and demand), and the additional information requirements placed on market participants.

We also support the proposal that AEMO's reliability forecasting processes be governed by a Forecasting Best Practice Guideline published and managed by the AER. It is important that the quality and transparency of forecasts is high to ensure the market can be confident in the forecasts produced and that the RRO operates effectively. The guideline will also provide scope for development over time as forecasting techniques and processes are enhanced.

Section 3: Updating the Reliability Forecast

SACOSS has no specific comments on draft Rule provisions for updating the reliability forecast other than to state it supports the undertaking of "out of cycle" forecast updates in the event AEMO becomes aware of a material change to the supply-demand outlook.

Section 4: Triggering the Reliability Obligation

The quality of information being included in the reliability forecast will be key to its accuracy and effectiveness in identifying reliability gaps to trigger the RRO. A key element in this will be knowing the planned closure timeframes for existing generating plant. As the proposed three-year minimum notice period for plant closure may impact on the measure for maximum expected unserved Energy (USE) at the T-3 level, it is important that all generator closures within this timeframe are known when the reliability forecast is undertaken.

Given the ESOO is published annually in August, information included in the forecast must be gathered well in advance of the publication date. SACOSS supports the proposal identified in the Consultation Paper that the minimum notice period for generator closure be extended to enable its impact to be included in the ESOO and ensure a T-3 trigger can be called in the appropriate timeframe (and enable the commencement of the Market Liquidity Obligation (MLO). Earlier notification would also avoid a subsequent update to the ESOO being undertaken.

SACOSS supports the ESB's view that the AER issuing a T-3 or T-1 reliability instrument with at least one month's notice is sufficient for market participants to meet compliance requirements. All will have advance notice of the ESOO forecast outcome and AEMO's Reliability Instrument Request to the AER so will have at least three months' visibility that a reliability instrument is likely to occur. At the T-1 level, liable entities will have been aware of the potential for a T-1 reliability instrument being called for almost two years following the issuance of the related T-3 reliability instrument for that forecast gap period.

SACOSS believes that it is premature to tightly define the parameters of the reliability gap in the Rules, at least until AEMO's final Reliability Forecast Guidelines are established in 2021, and that AEMO should be given scope to appropriately specify the boundaries of a gap (i.e. dispatch interval, day, month, or quarter) as its reliability forecasting methodology evolves during the early years of the RRO. Given the contracts market trades on a quarterly and (less frequently) monthly duration, and that the MLO will mandate the making of a market in these contract types when a reliability instrument is issued, striving for increased granularity in the definition of a reliability gap before AEMO has the processes and systems in place to manage it is unnecessary. A reasonable balance between flexibility and compliance cost should be sought.

Section 5: Liable Entities

Whilst SACOSS supports the principle that large customers should be able to opt in to manage the reliability obligation associated with their load, we question the rationale of establishing different consumption thresholds for eligibility for Large Opt-In Customers (at >100MWh to >160MWh, depending on the NEM region), and Prescribed Opt-In Customers (at 5MW annual peak demand out of a minimum 30MW). The threshold for Prescribed Opt-In Customers is unreasonably high, given customers of 1MW to 5MW annual peak demand are more likely to be active managers of their energy procurement than smaller customers and would be disadvantaged if they are ineligible to opt-in to manage their associated reliability obligation. We recommend a consistent application of the large customer threshold be applied to both Large Opt-In Customers and Prescribed Opt-In Customers.

The cost implications of enabling opt-in provisions for customers meeting the large customer consumption threshold needs to be managed. Whilst it is unlikely that a high proportion of the estimated 80,000 eligible individual customers in the NEM in this category will elect to manage their own reliability obligation (and a reliability instrument may only apply to a single NEM region and therefore to a smaller subset of these eligible customers), the administrative cost and burden created may be unwarranted. SACOSS expects that the majority of opt-in customers electing to manage their own reliability obligation will do so via demand response, rather than taking on market risk via the purchase of qualifying contracts through intermediaries or via OTC or ASX markets (where the minimum parcel size is 1MW). The ability to undertake demand response is also likely to be restricted to a smaller proportion of the total 80,000 eligible individual customers, reducing the cost of the opt-in register and RRO administration. We believe the large customer definition is appropriate for opt-in customers to maximise flexibility and to lower the potential cost of RRO compliance.

Under the draft Rules, a new entrant will be a liable entity under the RRO where they are a Market Customer and their estimated annual consumption exceeds 100MWh. As a Market Customer, SACOSS would expect such participants to have the necessary skills and resources to manage RRO requirements. We would anticipate that such customers would also have significantly higher annual consumption than 100MWh, though for the sake of consistency in application with the opt-in provisions, we recommend that the large customer threshold for each NEM region be applied.

Section 6: Qualifying Contracts and Net Contract Position

SACOSS supports the development of Contracts and Firmness Guidelines to set out a number of default methodologies for determining the firmness factor of standard contracts. The guidelines would be expected to cover the majority of the standard qualifying contracts available to liable parties. We recognise that bespoke contract types, and contract forms that may evolve in the future cannot necessarily be approved under the default methodology process. We endorse the proposal to enable liable entities with the flexibility to engage an approved auditor to work with them in developing the firmness methodology that would apply to a bespoke contract, and ensuring it is in line with the firmness principles set out by the AER.

SACOSS has concerns around the proposal for the MLO to be triggered under a reliability instrument only where sufficient voluntary market making is not occurring in a region. We believe the RRO should be backed by a mandatory MLO to ensure the measure operates as intended, and compliance can be effectively monitored.

The proposal to deem MLO obligated parties in the Rules for the first two years of the RRO is supported to enable the detail around grouping and control of generating units, and assessment of market share

to be developed in a comprehensive manner (given the limited amount of time until the RRO comes into effect).

The market making requirements of obligated parties is well defined in the draft Rules, though SACOSS has the following concerns and comments:

- MLO obligated parties are rightfully able to offer contracts that suit their generation profile or portfolio requirements under the draft Rules, however, we believe this may lead to a predominance of one type of contract being offered via the MLO that may not meet the compliance or risk management goals of liable entities. Whilst we do not advocate for prescriptive limits on the proportion of caps and swaps that must be offered by MLO obligated parties, the issue may need to be addressed in the future to ensure the MLO operates as intended in increasing liquidity in periods where a reliability instrument applies.

- We would encourage the AER to approve OTC contract markets in all NEM regions to operate as MLO Exchanges from commencement of the RRO legislation. This is an issue relevant to South Australia in particular, where a greater proportion of traded contracts are transacted on the OTC market, as opposed to other regions where ASX/futures trading activity is higher. Smaller market customers may not participate in the futures market due to onerous initial and variation margin requirements so should be given the flexibility to access complying0 contracts via other trading facilities.

Section 7: Compliance

In determining a liable entity's share of one-in-two year peak demand, SACOSS supports the proposal to apply a single scaling factor to all applicable dispatch intervals. This is consistent with our view that reliability gap specifications will take time to develop as AEMO's reliability forecasting methodology evolves. It may be appropriate to review the introduction of a shaped scaling factor in future once forecasting accuracy and liable entity RRO compliance implications are better understood.

Section 8: Procurer of Last Resort

Where a retailer is found to be non-compliant under the RRO SACOSS does not believe the associated Procurer of Last Resort (POLR) costs assigned to the retailer should be passed on to the customer. The ability to pass on non-compliance costs disincentivises retailers from purchasing their full forecast volume of qualifying contracts prior to the T-1 period to meet their total RRO liability. RRO compliance is directly within the control of the retailer, and having customers pay for their non-compliance is akin to retailers passing on wholesale or spot electricity market costs incurred for bad risk or portfolio management decisions (to customers on fixed price contracts).

POLR pass through provisions should be excluded from retail contracts, except for where the customer did not meet demand response obligations specified in their contractual agreement with the retailer and actually contributed to their RRO non-compliance. Then a pass-through of POLR costs, in proportion to the customer's contribution, is appropriate. SACOSS believes that provisions to adjust or refund POLR costs should therefore only apply to customers who directly contributed to the retailer's RRO non-compliance via appropriate retail contract provisions.