



Dr Kerry Schott
Independent Chair
Energy Security Board

By email info@esb.org.au

3 September 2018

Dear Dr Schott,

RE: Submission to NEG Reliability Requirement Pre-condition Options

Thank you for the opportunity to comment on the alternative policy options for activating the reliability obligation under the National Energy Guarantee. This submission is presented by St Vincent de Paul and the South Australian Council of Social Service (SACOSS).

St Vincent de Paul and SACOSS have consistently advocated for market mechanisms which protect the long term interests of consumers. In this context, we do not support the proposed alternative options presented in the pre-conditions options paper for activating the Reliability Obligation in the National Energy Guarantee.

On balance, St Vincent de Paul and SACOSS prefers the design of the reliability requirement as set out in the Final Detailed Design paper, which has largely been agreed with in general consultation.

Ultimately, the best value proposition for the consumer is one where there is the least cost provision for end-users. We note that uncertainty of current policy arrangements in the energy sector may result in unintended consequences which are not in the best interests of consumers. Absent of more modelling demonstrating the impacts of shifting the reliability pre-condition horizons, we would like to offer the following comments to the Energy Security Board on the three alternative options presented in the pre-conditions options paper.

Addition of a five years ahead (T-5) Determination of a Reliability Gap

The addition of a T-5 determination may place greater administrative and compliance burden on smaller participants being able to manage their market risk and reliability obligations. St Vincent de Paul and SACOSS reserve our support for this option as it potentially acts as a barrier to entry and/or expansion for new and existing small retailers in favour of larger incumbent market participants.

Given issues related to accuracy of forecasting, there is a risk that the addition of a 5-year determination may distort market signals, even with a higher threshold for a material reliability gap. We note that the Energy Security Board has flagged that AEMO's forecasting procedures for the Electricity Statement of Opportunities (ESOO) will be put under more scrutiny. However, the pace of change of our transitioning energy market makes long-term forecasting inherently difficult.

This is further compounded with other policy objectives such as implementation of the Integrated System Plan (ISP) which is yet to be finalised. St Vincent de Paul and SACOSS consider that the ISP will, as a matter of course, change the nature of the energy market and as such the overall reliability. Similarly, if State governments proceed to pursue policy objectives such as renewable energy targets or large scale subsidies for domestic solar within a single electoral cycle (all which are under a 5-year window), it adds further uncertainty to the T- 5 forecasting.

Removal of T-3 Determination of a Reliability Gap

St Vincent de Paul and SACOSS agree with the assessment of the Energy Security Board that a removal of the T-3 trigger could further smooth contracting within the NEM and result in more contracting than is required. We also have concerns around reducing the minimum notice for liable entities to show compliance to 3 months. As such, St Vincent de Paul and SACOSS consider that the best option is to retain the T-3 trigger.

In terms of timing, we suggest that the 3-year forecasting horizon may work best in conjunction with the current AEMC rule change for generators to give at least three years notice of closure, and other energy cycles.

Ministerial Powers to Activate the Reliability Obligation

St Vincent de Paul and SACOSS do not support this option as it may lead to further unknown outcomes and potential unintended consequences. Specifically, we are concerned that giving Ministers the power to make a T-1 reliability instrument for their region at any stage would add political risk to investment signals and potentially undermine the existing reliability framework.

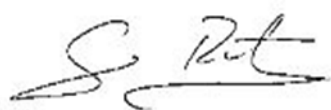
There is also a potential risk of 'gold-plating' the generation system at the cost of consumers to meet political objectives such as a higher level of reliability than the current .002 per cent.

Noting that this option has been proposed as an alternative to removing the T-3 determination as a transitional arrangement, St Vincent de Paul and SACOSS would prefer the retention of the T-3 trigger to avoid the above concerns. We support the views made in the Public Interest Advocacy Centre's submission suggesting that there are other existing frameworks designed to deal with short-term reliability shortfalls such as the Reliability and Emergency Reserve Trader (RERT).

In summary, our preference is to support the original mechanism which already received broad support from general consultation and on face value, looks to deliver the best value outcomes for consumers.

We thank you for consideration of our comments. If you have any questions, please contact Mr Gavin Dufty, Manager Policy and Research, St Vincent de Paul via gavind@svdp-org.au or Ms Jo De Silva, Senior Policy Officer, SACOSS via jo@sacoss.org.au.

Yours Sincerely,



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Ross Womersley
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