6 September 2018

Dr Kerry Schott
Chair
Energy Security Board
info@esb.org.au

Dear Kerry

Re: National Energy Guarantee (NEG) Reliability Obligation policy options

Thank you for the opportunity to provide feedback on the Reliability Obligation policy options. Stanwell continues to support both the Emissions and Reliability component of the NEG.

Stanwell suggests that no matter which policy option is adopted, that the Market Liquidity Obligation should apply in all regions in all years, regardless of whether there is a reliability gap. This would support liquidity, transparency and fair access to market for all participants. Stanwell, as one of the largest market participants in Queensland already provides support for price transparency and liquidity, but considers these elements of market design could be improved. Stanwell suggests that the MLO be implemented in a manner that enables participants to meet their obligation through involvement in the current ASX Market Making Incentive Scheme[1]. This reduces the regulatory burden on both the participant and the AER.

Stanwell notes that each of the proposed Reliability Obligation policy options, and the draft NEL[2], are a departure from the Final Detailed Design. Stanwell supported the Final Detailed Design which provided a predictable framework and an appropriate time period for market participants to respond to notices and declarations. If this is no longer acceptable, Stanwell supports, as a second best alternative, the model drafted in the NEL rather than any of the alternate options.

Compared to the Final Detailed Design which provided a predictable compliance obligation, the new options give either an unexpected notice of a reliability determination[3] (the model drafted and the option of the Ministerial power to activate), or an ongoing compliance requirement (the removal of the T-3

[1] See https://www.asx.com.au/products/market-maker-arrangements.htm
[2] Draft NEL 14ZG3(b). AEMO may initiate the reliability obligation in accordance with circumstances defined in the Rules even if a T-3 reliability determination was not made.
[3] Alleviated a little by the minimum notice period

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determination). In both cases this may result in increased costs to obligated participants. In the case of a surprise trigger, the amount of time to secure hedges is reduced, potentially creating a short squeeze. In the case of an ongoing obligation, liable entities will need to continuously hedge in a manner that may not align to their own cost-minimising strategies.

The addition of a T-5 determination does not appear to add any additional certainty to policy makers who are concerned the Reliability Obligation will never trigger. Participants monitor AEMO's Electricity Supply of Opportunities (ESOO) forecast and do not require an official T-5 determination to be spurred to provide a market response to alleviate a reliability gap.

Thank you for considering Stanwell's response to the NEG Reliability Obligation policy options. If you would like to discuss this submission, please contact me on 07 3228 4546.

Regards

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