22 November 2018

Dr Kerry Schott
Chair
Energy Security Board
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Dear Kerry

Re: National Electricity (South Australia) (Retailer Reliability Obligation) Amendment Bill 2018 Part 2 Amendment of National Electricity Law

Thank you for the opportunity to provide feedback on the National Electricity Amendment Bill to implement the Retailer Reliability Obligation (RRO).

Stanwell has concerns with the drafting of the *Net Contract Position* clause 14O 3(b). The net contract position clause is the key provision in the RRO which directly determines a retailer's compliance with the obligation. It is important that there is no ambiguity in the understanding of the intention of this clause. In Stanwell's review of the draft NEL amendments we have encountered different understandings of the meaning and application of this clause.

Consider a scenario where a reliability gap is defined as 4-8pm working week days in February. A hypothetical retailer has a forecast 350MW peak demand at the time of the reliability gap. The retailer has the following contracts:

1. 100MW wind farm Power Purchase Agreement (PPA), 5 year duration; and,
2. 50MW standard priced cap, Quarter 1 duration.

The retailer also retains 200MW of spot price exposure.

The National Energy Guarantee Final Detailed Design and Qualifying Contract Working Paper defined the "firmness" of a contract to be the extent to which the contract provides coverage over the period of the reliability gap. In this hypothetical example, the retailer must determine to what extend the contract can be relied upon to support generation or demand response from 4-8pm working week days in February.

Using the approach understood from the ESB's previous papers, the "firmness" adjustment of the hypothetical retailer's contracts are as follows:

Contract	Notional volume (MW)	Volume after firmness adjustment	Comments
Wind farm power purchase agreement	100MW	20MW	Analysis is conducted of the hypothetical wind farm's output over the last 3 years to determine its average capacity factor during 4-8pm working week days in February. It was determined that on average, the wind farm had a 20% capacity factor at that time, therefore a 20MW "firmness"-adjusted volume is assumed. Note, the analysis would be conducted in accordance with the AER's firmness adjustment guideline or an auditor-approved methodology.
Standard priced cap	50MW	50MW	The Qualifying Contracts Working Paper stated that standard priced caps (and swaps) should receive a "firmness" factor of 1. Therefore there is no discounting of the notional 50MW volume.

Therefore, after firmness adjusting each contract, the retailer should report a "net contract position" to the AER of 70MW (20MW firmness adjusted PPA + 50MW cap). In accordance with the RRO, if the peak demand exceeds the one in two year peak demand, the AER would later compare the 70MW net contract position reported against the retailer's actual peak demand exposure. In this case it is likely that the retailer has under hedged.

The drafting of the *net contract position* clause is

> 14O(3) A liable entity's **net contract position** during a particular period is –
> (a) the number of megawatts of electricity to which the liable entity's qualifying contracts under section (1) relate for the period; and

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(b) adjusted in accordance with the Rules to account for the likelihood that, despite the qualifying contracts, the liable entity retains exposure in relation to the volatility of the spot price during the period.

Stanwell is concerned with part (b). The liable entity may "retain exposure in relation to the volatility of the spot price during the period" for other reasons (apart from the unique characteristics of each contract) and the MW adjustment to each contract should not account for this. For example, in the example above, the retailer has retained 200MW of spot price exposure but this should not affect the firmness adjustment of the PPA or cap contract. Each contract is to be "firmness" assessed based on its unique characteristics and the extent to which it provides coverage during the period of the gap. Other contracts and other spot price exposures do not affect the calculation.

Stanwell's suggestion to avoid future misinterpretations of the net contract position clause is

14O(3) A liable entity's ***net contract position*** during a particular period is –

(a) the sum of the notional number of megawatts of electricity to which each of the liable entity's qualifying contracts under subsection (1) relate for the period; ~~and~~

(b) with such notional number adjusted in accordance with the Rules to account for the likelihood that~~, despite the qualifying contracts,~~ the liable entity retains exposure in relation to the volatility of the spot price during the period under the terms of each qualifying contract.

Thank you for considering Stanwell's response to the draft NEL Amendment Bill. If you would like to discuss this submission, please contact me on 07 3228 4546.

Regards

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