

22/11/2018

Dr Kerry Schott AO
Independent Chair
Energy Security Board

Lodged via email: info@esb.org.au

Dear Kerry

Retailer Reliability Obligation - consultation on National Electricity Law amendments

TransGrid welcomes the opportunity to respond to the Energy Security Board's consultation on amendments to the National Electricity Law relating to the Retailer Reliability Obligation (the Reliability Obligation).

TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that allows for interstate energy trading.

Australia is in the midst of an energy transition. This is primarily driven by changing community expectations and choices, advances in renewable energy technologies, retirement of existing generation, and the adjustments required in Australia's economy to meet our international climate change commitments. These changes raise complex issues for the design of the National Electricity Market and have led to a greater focus on ensuring reliability of supply and where that supply comes from.

As the transmission planner in New South Wales and operator and manager of electricity infrastructure with long operating lives, TransGrid is interested in the development of the Reliability Obligation as it is a significant reform in the electricity sector. Its implementation will impact TransGrid's customers (i.e. generators and large energy users) and the costs, and any benefits, will ultimately affect consumers.

In this context, TransGrid supports reforms that promote robust competitive wholesale and retail market frameworks to meet consumer demand for electricity at least cost, through an efficient mix of generation and demand response.

The design of the Reliability Obligation should take into account its context within a broader set of current arrangements, and reforms to them, to support a lowest cost pathway to meet consumer demand to a standard of reliability that consumers value. The regulatory framework should facilitate a well-planned and integrated transmission system and the timely connection of new least cost generation.

A robust and well planned transmission system, built upon a regulatory framework that supports timely investment in transmission services, should reduce the likelihood that a T-3 reliability instrument, as proposed in the Reliability Obligation, is made. Further, if a T-3 reliability instrument is made, liable entities may be left with higher cost solutions to close the forecast reliability gap would be available if the appropriate transmission infrastructure is in place.

Accordingly, TransGrid supports reforms to complement the proposed Reliability Obligation, including making the Integrated System Plan an actionable strategic plan. Through this process the strategically planned connection of large scale energy zones will best support competition to provide lower cost generation to consumers.

The proposed amendments provide for a liable entity's net contract position to be 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. TransGrid considers this mechanism should recognise the natural firmness provided by a range of renewable technologies and locations linked by a strong transmission system. This natural firming can occur even where the liable entity itself retains exposure in relation to the volatility of the spot price. We look forward to continuing the discussion on the role of transmission and interconnection in providing firmness and reliability in electricity supply as the detailed design of the Reliability Obligation is progressed.

Finally, TransGrid considers it is important that the Reliability Obligation supports liquidity and price discovery in contract markets. Greater transparency in contract markets, together with more strategic planning in transmission services, should help market participants better understand the costs and risks associated with the different options available to meeting consumer demand for electricity.

We appreciate the opportunity to comment on this consultation paper and look forward to engaging with the Energy Security Board further on the Reliability Obligation. If you would like to discuss this submission, please contact Neil Howes, Acting Head of Public Policy on 02 9284 3748.

Yours faithfully



Caroline Taylor
Acting Executive Manager, Policy and Corporate Affairs