16 May 2019

Department for Energy and Mining
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Dear Sir/Madam,

Proposed Operation of the Retailer Reliability Obligation Rule Changes in South Australia

We welcome the opportunity to make a submission in response to the Department of Energy and Mining's (the Department) Consultation (the consultation paper) on the proposed operation of the Retailer Reliability Obligation (RRO) rule changes in South Australia[1].

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, solar and wind assets with control of over 4,500MW of installed generation capacity in the National Electricity Market (NEM).

EnergyAustralia remains seriously concerned about the compressed timeline for implementation of the RRO which creates significant challenges for participants (generators, retailers and large loads) as well as market bodies. The ability for the South Australian Minister to make a T-3 reliability instrument with only 15 months' notice before it takes effect creates additional risk and challenges for all participants. We consider that this power will only place additional compliance burden on large loads, generators and retailers with no associated improvement in reliability. Instead of allowing isolated T-1 triggers (without any associated T-3), existing last-resort safety-net interventions such as the Reliability and Emergency Reserve Trader (RERT) should be relied upon to meet any unexpected reliability shortfall. Under the AEMC's recent determination on the Enhanced RERT[2] AEMO can now procure reserves up to 1 year out from a projected shortfall. These changes should give confidence to the Department that any risk of Unserved Energy (USE) can be managed.

Further, it is challenging for the industry to get a holistic view of the entire set of rules, AER guidelines and additional South Australia powers and their interaction given the varying timelines specified in the rules for interim and final guidelines, potentially meaning complex issues are overlooked or unresolved. To complicate matters further the

[1] http://www.energymining.sa.gov.au/__data/assets/pdf_file/0005/342068/190502_Application_of_RRO_Rules_in_SA_-_Consultation_Paper_Version_Final.pdf
[2] https://www.aemc.gov.au/rule-changes/enhancement-reliability-and-emergency-reserve-trader

Energy Security Board (ESB) has now released final rules (the final rules) to give effect to the RRO[3] but this consultation paper is based on previous draft rules (the draft rules).

Given the above we would encourage the Department to provide clarity to market participants around the operation of the RRO in South Australia as soon as possible.

Contract position day, reporting day and adjustments

Under the final RRO rules package[4] the contract position day is 12 months (at T-1) before a deemed reliability gap period. On this day liable entities will be obligated to hold sufficient qualifying contracts to satisfy their forecast 1-in-2 demand. Should the South Australian minister make a T-3 instrument 15-months before a deemed reliability gap period this will only leave liable entities a very short time (~ 3 months) to finalise contract positions (if the AER was to make a subsequent T-1 instrument). This will likely result in a squeeze of contracts for this period and potentially limit the ability for parties to access contracts, resulting in increased prices for customers. We suggest that the contract position day should be 6 months before a deemed reliability gap period (i.e. 9 months after the Minister makes a T-3) with any reporting day at least 1 month after. Liable entities should also have the ability to adjust their submitted contract position by ±15% up until the gap period. This would ensure that distortionary impacts on the market are at least minimised and that unintended impacts to customers are limited.

The consultation paper notes that nothing prevents both the AER and the South Australian Minister from making T-3 reliability instruments that cover overlapping reliability gap periods. Given the already significant compliance burden that the RRO place on obligated parties consideration should be given to minimise any duplication of compliance requirements by liable entities if this was to occur.

Opt-in cut-off date

Currently the final rules allow for large loads to opt-in to manage their own reliability obligation provided they do so 6-months before a T-1. The final rules also do not allow for any large loads to opt-in before the AER publishes their Opt-in Guideline by the 30th of June 2020. Given that the South Australian Minister can call a T-1 with only 3 months' notice the Department suggests that the South Australian Minister should have the power to access applications to opt-in. It will be imperative that retailers have as much advance notice of what loads have opted-in to manage their own RRO requirements so as to understand their forecasted 1-in-2 demand. EnergyAustralia considers that the Department should seek to provide similar timelines to that which is provided for in the RRO final rules. Therefore, depending on what decision is made on the contract position day the opt-in cut-off date should be 6 months before the contract position day. For example, if the contract position day is 6 months before a deemed reliability gap period then the opt-in cut-off day should be 12 months before the gap period. This should give both large loads and retailers sufficient time to understand their contracting requirements.

Market Liquidity Obligation

[3] http://www.coagenergycouncil.gov.au/publications/retailer-reliability-obligation-rules

[4] http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/Retailer%20Reliability%20Obligation%20Rules%20Package_0.pdf

It is imperative that obligated parties under the Market Liquidity Obligation (MLO) are given notice that a liquidity period is commencing. Obligated parties need to be notified as soon as possible by the Department (by email and on the AER website) if the South Australian Minister is considering making or has made a T-3 instrument and that obligated parties will be required to start market making 5 business days later. Further, there will be significant challenges in parties implementing sufficient systems and compliance procedures to ensure they can comply with an MLO if the South Australian Minister calls a T-3 soon after the RRO commences. The Department should consider the significant challenges that this short notice could create for these parties.

Additionally, the potential that a liquidity period could be further extended past any contract position day (i.e. until the reliability gap period starts) would only impose additional compliance costs and risks on obligated generators and would likely only increase costs to consumers with limited benefit. For this reason, EnergyAustralia does not support any extension of the MLO liquidity period past the contract position day. Any MLO volume limits should also be prorated, for example if the MLO only operated for 3 months then an obligated party should only have to transact 1.25% of their registered capacity in the region.

If the South Australian Minister and the AER have made overlapping reliability instruments then EnergyAustralia strongly suggests that one MLO volume limit prescribed in the final rules be shared across these instruments, provided that the MLO contracts cover both reliability gap periods. For example, if the South Australian Minister has made a reliability instrument for South Australian that covers Q1 2023 for weekdays between 2pm and 8pm while the AER's instrument covers the same period but between 2pm and 6pm, provided obligated parties transacted MLO products covering both periods (for example Q1 base swaps) then the MLO volume limits under both instruments should be shared across overlapping obligations: MLO obligated parties should not be required to transact double the number of contracts (before hitting the threshold) due to overlapping reliability gap periods.

Qualifying Contracts and Firmness Methodology

EnergyAustralia is concerned about the suggestion that the Department would select pre-approved auditors to review firmness methodologies for obligated parties given the likely very short timeframes that obligated parties will have to finalise qualifying contract positions. Given the short timeframe we would suggest that if the South Australia Minister was to make a T-3 instrument before the publication of the interim AER Contracts and Firmness guidelines that obligated parties should be able to engage independent auditors without approval from the Department.

If you would like to discuss this submission, please contact Andrew Godfrey on 03 8628 1630 or by email andrew.godfrey@energyaustralia.com.au.

Regards

Sarah Ogilvie
Industry Regulation Leader