Department of Energy and Mining
Lodged via: rro@sa.gov.au

Monday 20 May 2019

Dear Sir/Madam,

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

ENGIE in Australia & New Zealand (ENGIE) welcomes the opportunity to make a submission in response to the Consultation on the Proposed Operation of the Retailer Reliability Obligation (RRO) Rule Changes in South Australia (the proposed rule changes).

ENGIE is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to more than 690,000 retail customer accounts across Victoria, South Australia, New South Wales and Queensland.

While ENGIE remains concerned that the overarching drivers of the Retailer Reliability Obligation (RRO), it is aware of the challenging dynamics in South Australia and understands the rationale for the proposed rule changes. This submission focuses on implementation challenges that ENGIE may face as an active South Australia market participant.

Discussion

Exercise of proposed new powers

ENGIE would prefer the ability for the Minister to make a T-3 reliability instrument for a specified period is appropriately constrained. While the consultation mentions “reasonable grounds” this approach seems overly broad. To provide market participants with greater certainty and maintain some degree of alignment between the South Australian changes and the RRO more broadly, the Government may wish to consider reasonable

grounds be explicitly defined. For example, where the Minister forms a view based on the Electricity Statement of Opportunities in the period following its release by the Australian Energy Market Operator.

In relation to the power to make regulations to modify the RRO rules, ENGIE has concerns this will give rise to ongoing modifications and changing. This is not desirable.

Reliability Instruments

The South Australian changes seem to ignore the drivers of the RRO in the first place. Part of the rationale for obligating retailers to purchase contracts was to provide a strong investment signal for new entry. If the mandated purchase does not do this then there is no value in forcing retailers to make such purchases.

Further, the drivers behind the timings proposed to be imposed on participants because of the South Australian amendments suggests the framers of these changes believe that financial contracts will be managed physically. There is plenty of reasons to believe this is not the case. Financial derivatives are not physical bilateral contracts and even those sold by physical participants may not provide a strong incentive to generate where the loss associated would be greater than the impact of not running.

Taking these two points into account, the there is no reason not to provide affected parties with maximum flexibility in satisfying the South Australian changes and to minimise penalties for non-compliance. This means compliance dates should be flexible or at least pushed back as far as possible. For example, T-1 compliance dates could be assessed later and for shorter periods of time, say 6 months out.

As for when an AER reliability instrument is issued, ENGIE believes it would be undesirable to have overlapping obligations placed on market participants. ENGIE is quite surprised this possibility has not been ruled out. Perhaps one should override the other.

Qualifying contracts and firmness

Given the contract has a tenuous connection with new investment in such a short timeframe the rationale for strong controls over the form of qualifying contracts is weak. Nonetheless, ENGIE suggests South Australia relies upon the current AER guideline development process.

Market liquidity obligation

The practical elements of the market liquidity obligation have not been well articulated. Reporting arrangements, trading platforms where trades should be entered, and other issues of implementation remain unclear. A short timeframe for implementation will not resolve this uncertainty, even if South Australia directly notifies affected parties which is ENGIE's preferred approach to managing communication.

ENGIE wishes to reiterate its earlier concerns and note the view that the MLO is unneeded and inappropriate.

First, the detailed and significant points raised with the Energy Security Board and in the context of the *Market Making Arrangements in the NEM Rule Change* have not been adequately resolved. This includes the broad preference for a voluntary mechanism over compulsion.

Second, the situation where a generator is unable to offer physical coverage for contracts that it is obligated to trade due to the MLO means the Energy Security Board and South Australian are supporting a policy position that may require those generators to become financial speculators. This is an inappropriate position to place those companies in and is likely to be in direct conflict with company boards who are unwilling to permit speculative trading.

Deeming MLO Generators and Groups

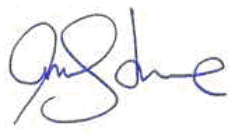
ENGIE appreciates the rationale for deeming and supports a technology neutral approach to deeming to ensure all parties that can affect the market are captured.

Operation of the market liquidity obligation

Once again it appears that the framer of the South Australia changes is treating the market liquidity obligation as some form of must run physical bilateral contract. If not the case, then ENGIE cannot understand not only the reason for forcing affected generators to sell contracts with such short notice (5 days) but also the proposal that the obligation remain in force until the day before the liability period commences or some other such fixed period nominated.

Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 03 9617 8415.

Yours sincerely,



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