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## Consultation on Retailer Reliability Obligation

### Detailed Design Issues

BlueScope Steel (**BlueScope**) welcomes the opportunity to provide comments in response to the Energy Security Board on the detailed design issues related to the Retailer Reliability Obligation (**Obligation**).

BlueScope is Australia's largest steel manufacturer and the only flat steel producer. We employ 6,500 people in Australian regions and cities to supply our nationwide customers in the building and construction, manufacturing, transport, and agriculture sectors. BlueScope also exports steel products and is a global leader in premium coated and painted steel products, operating in 17 countries.

BlueScope is very concerned that electricity has become increasingly unaffordable and potentially unreliable for large, energy-intensive manufacturers.

As a large electricity consumer, energy affordability, reliability and security are fundamental to the competitiveness of our business. Over recent years, BlueScope has transformed its operations to return to profitability. Keeping domestic production costs competitive remains paramount and energy is a major cost in steelmaking. Rising energy costs represent the single largest increase in BlueScope's local production costs. More expensive energy directly affects our capacity to invest and provide employment.

Historically, issues of electricity supply and reliability have not been regarded as particularly high risks to BlueScope's Australian operations, largely due to the significant reserve capacity within the National Electricity Market (NEM). However, recent assessments showing a reduction and potential shortfalls in the dispatchable capacity in the NEM, along with load shedding events last year, raise concerns about energy reliability for BlueScope's process-critical operations.

BlueScope supports the underlying objectives of the Retailer Reliability Obligation and the ESB's approach to consulting broadly on the design. Getting the design right will be critical to ensuring the scheme provides the optimal outcome for consumers – safeguarded reliability at lowest cost. As such, we offer the attached responses to the questions posed in the three design issue consultation papers and would welcome further engagement as the design, legislation and guidelines continues to be developed.

Thank you again for the opportunity to provide feedback on the detailed design issues of the Obligation. If further comment or clarification is required please contact Bridgette Carter, Manager Energy Sourcing & Utilisation on 02 4240 1749 or David Jenkins, Manager Government Relations on 03 9666 4022.

Yours sincerely

A handwritten signature in blue ink that reads "BCarter".

**Bridgette Carter**  
Manager Energy Sourcing & Utilisation

## Material Reliability Gap Definition and Communication

Question	Response
Which metric should be used to assess materiality?	<p>BlueScope believes that a combination of metrics should be used to assess the materiality of a reliability shortfall:</p> <ul style="list-style-type: none"> <li>• Metric B: that the expected USE will be breached the reliability standard by a material amount.</li> <li>• Metric C: that the probability of that breach is above a likelihood threshold.</li> </ul> <p>This combination will not only identify how material the breach is expected to be but also that there is a higher chance than not that it will actually occur. This provides for a more rigorous assessment than just using one metric.</p>
How much discretion should be provided to the AER in confirming or rejecting a recommendation from AEMO to make a reliability instrument?	<p>Any discretion should have clearly articulate boundaries and if the AER exercises this discretion, it should make public the rationale behind the decision.</p> <p>The AER should consult with the Reliability Panel at a minimum on any decisions associated with gap materiality assessment.</p>
How should a reliability gap period be defined? Should there be flexibility for this period to change between T-3 and T-1? In what circumstances should this be allowed?	<p>The reliability gap period should be as granular as possible to ensure that compliance is targeted and lowest cost.</p> <p>Given the inherent uncertainty in forecasts, particularly those further out, there should be flexibility for this period to change between T-3 and T-1 where the T-3 gap period or forecast inputs materially differ from the most up to date information. There may need to be a sunset date on allowable changes though to ensure that liable entities have sufficient time to fine tune their compliance instruments.</p>
What time constraints should be placed on a request from AEMO to the AER to make a reliability instrument and for the AER to consider such a request?	<p>The ESBs preliminary position on time constraints seems reasonable.</p>
In what circumstances should updates to AEMO's reliability forecasts be required? Would extending the MTPASA to 3 years support this process and if so how should AEMO treat outages that are moveable?	<p>Updates should be provided where a material error or change to the inputs is identified.</p> <p>Extending the MTPASA to three years to support the reliability forecast seems a sensible approach.</p>
What information should be included in requests from AEMO to the AER to make a reliability instrument?	<p>Any and all information used to derive the reliability gap.</p>

## Compliance / Procurer of Last Resort Cost Recovery

Question	Response
How should a non-compliant entity's compliance shortfall be determined?	<p>Approach 4 – Aggregate non-compliance would provide for an equitable split of costs as well as drive a focus of compliance at all times. Other averaging or peak non-compliance approaches may distort the allocation of costs and also drive the wrong behaviour. E.g. if a liable entity has one interval of non-compliance equal to 5MW and</p>

	another has ten periods of non-compliance of 1MW, under both peak and averaging approaches the entity with a 5MW non-compliance will receive 5 times the cost of the 10 x 1MW entity even though their non-compliance is lower overall. We question whether this will drive a culture of consistent compliance or whether it will incentivise entities to “cut it fine”.
How should the \$ costs linked to AEMO’s Procurer of Last Resort function be distinguished from other RERT costs?	AEMO should specify the underlying reasons for the procurement of each RERT contract at the time of procuring and use this to log the amount of RERT procured for the Procurer of Last Resort function and other functions. Where the procurement of RERT is to solve more than one function, AEMO should estimate and record the expected split of costs between the functions.
How should Procurer of Last Resort function costs be assigned to non-compliant liable entities? How should costs recovered from non-compliant entities as fees for AEMO’s Procurer of Last Resort service be allocated to compliant entities?	BlueScope does not agree that RERT costs should be socialised in the first instance and then reallocated to non-compliant entities. This requires twice as much effort for retailers and customers to allocate and reconcile costs than if the costs were allocated correctly in the first instance. AEMO should ensure their processes are as efficient as possible to remove delays in the process and minimise cash flow impacts of having to pay for RERT prior to being paid by liable entities.
How should non-compliant entity default be dealt with?	No comment

#### Firmness principles for qualifying contracts

Question	Response
Are there any principles that should be added or removed from this high-level list?	The detailed design of the reliability obligation included a grandfathering provision for contracts entered into prior to the August COAG meeting. To operationalise this provision, the date the contract was entered into should be a key factor for firmness of qualifying contracts. Those contracts entered into prior to the grandfathering cut-off date should be automatically allocated with a firmness factor of 1.
What level of detail would liable entities consider necessary to support the principles?	The level of detail needs to strike a balance between completeness and complexity in order to ensure that compliance costs are minimised. The potential cost of auditing needs to be a key consideration when setting the level of detail required.
Are participants comfortable with the approach proposed by the ESB, with high-level principles for the adjustment of firmness to be included in the Rules, and the AER providing additional information for liable entities through the development of a guideline?	The approach seems practical. BlueScope would expect that the AER would carry out meaningful consultation prior to finalisation of any guidelines.
Do stakeholders consider the ESB’s proposal for liable entities seeking approval of their firmness methodology from the AER prior to T-1 decreases uncertainty and provides an appropriate level of transparency for compliance with the obligation?	It makes sense to remove uncertainty by having an approved methodology ahead T-1. There will need to be target timeframes for the AER to respond to liable entities and the AER will also need to ensure that it is well enough resourced to carry out the approval process in a timely manner.