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21 December 2018

Dr Kerry Schott
Chair
Energy Security Board
By email to info@esb.org.au

Dear Dr Schott

Energy Security Board – Consultation on Retailer Reliability Obligation Detailed Design Issues

Ergon Energy Queensland Limited (Ergon Energy Retail) welcomes the opportunity to provide comment to the Energy Security Board (ESB) in response to its consultation on Retailer Reliability Obligation Detailed Design Issues. Attached to this letter are the following documents:

- Ergon Energy Retail's Response to the Material Reliability Gap Definition and Communication Paper
- Ergon Energy Retail's Response to Firmness Principles for Qualifying Contracts
- Ergon Energy Retail's Response to Compliance/Procurer of Last Resort Cost Recovery Paper

Should you require additional information or wish to discuss any aspect of Ergon Energy Retail's submissions, please do not hesitate to contact either myself on (07) 3851 6787 or Don Clunes on (07) 3664 4969.

Yours sincerely

A handwritten signature in cursive script, appearing to read 'Trudy Fraser', enclosed in a light grey rectangular box.

Trudy Fraser
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Energy Security Board (ESB) – Retailer Reliability Obligation – Detailed Design Issues

Ergon Energy Retail’s Response to Material Reliability Gap Definition and Communication Paper

ESB Question	Ergon Energy Retail’s comments
Material Reliability Gap Definition	
<p>What objective metric should be used to assess the materiality of a forecast reliability gap?</p>	<p>Ergon Energy Retail acknowledges each of the proposed metrics have benefits and deficiencies and agree with the ESB’s view that Metric A is reasonable, being a well-known and understood metric.</p> <p>However Ergon Energy Retail is concerned that in the case where no potential issues are identified at T-3, following which, a then significant event such as a major weather/supply side event leads to a T-1 change, there needs to be a mechanism for dealing with this.</p> <p>Ergon Energy Retail’s preference is that if the event is not triggered at T-3 then T-1 cannot be triggered and an alternative mechanism like RERT should be used.</p>
<p>What level of discretion should be provided to the AER in deciding whether to issue a reliability instrument? What minimum consultation requirements should be established in the Rules to support such decisions?</p>	<p>Ergon Energy Retail is comfortable with the AER having discretionary power to not trigger the obligation in instances where the materiality requirements have been met.</p> <p>Ergon Energy Retail also supports the requirement that the AER issue a guideline on its planned approach to reviewing AEMO’s decision to make a request to the AER to trigger the obligation and to consult with stakeholders on whether a request from AEMO should be confirmed or rejected, having regard to these criteria.</p> <p>We consider there needs to be sufficient time for both the AER to undertake its assessment and for other market participants to be able to provide comments to the AER on whether the request aligns to the</p>

ESB Question	Ergon Energy Retail's comments
	criteria established.
<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>	<p>Ergon Energy Retail is of the view that at the T-3 stage, two years should be allocated (until T-1) to allow retailers the flexibility to secure contracts at the most efficient prices to establish their required positions.</p> <p>The shorter the period of time allowed to purchase contracts the greater the ability of generators/other sellers to increase contract prices with the consequence of increased retail electricity prices should liquidity in the contract market restrict.</p> <p>Additionally, if circumstances change within those two years and there is no longer a reliability gap forecast, retailers will be able to cease purchasing now unnecessary contracts.</p>
<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>	<p>Ergon Energy Retail considers the default constraint would be for AEMO to only make an annual request to the AER. However, this should be provisioned with the flexibility for AEMO to revisit the situation based on material event occurrence.</p> <p>We consider a period of 3 months for the AER to consider AEMO's request would allow market participants to provide comment to the AER on any issues they believe have arisen as a consequence of the request.</p>
<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>	<p>Ergon Energy Retail recommends that only significant material events in the market should trigger updates to the reliability forecasts.</p> <p>We agree that increasing the MT PASA from 2 years to three years would assist in AEMO's forecasts in relation to the Retailer Reliability Obligation.</p> <p>However we are concerned that outages that are moveable may lead to reliability gaps appearing and have the potential to lead to the</p>

ESB Question	Ergon Energy Retail's comments
	<p>situation where generators could cause a T-3 trigger through a planned outage. This brings with it the possibility of the generator profiting from the situation through offering to move the outage to a time that does not lead to a forecast reliability gap.</p> <p>The onus should be on the generator to not cause T-3/T-1 events through discretionary outages and Ergon Energy Retail considers that the AER should have powers to stop such T-3/T-1 events arising in this way.</p>
<p>What mandatory information should be included in requests from AEMO to the AER to make a reliability instrument and reliability instruments issued by the AER?</p>	<p>Ergon Energy Retail agrees with the information requirements established in the ESB exposure draft legislation and that the further information requirements outlined in the consultation paper should form a minimum level of information that would be required.</p> <p>Ultimately the information provided should be sufficient to allow liable entities to comment on the requests from AEMO to the AER to make a reliability instrument and any reliability instruments issued by the AER.</p> <p>Until the policy development behind the rule matures, Ergon Energy Retail considers there is not enough information to make any further recommendations at this time.</p>

Energy Security Board (ESB) – Retailer Reliability Obligation – Detailed Design Issues

Ergon Energy Retail’s Response to Compliance/Procurer of Last Resort Cost Recovery Paper

ESB Question	Ergon Energy Retail’s comments
<p>How should a non-compliant entity’s compliance shortfall be determined?</p>	<p>Ergon Energy Retail is concerned that whilst it is proposed that the National Electricity Rules will set high-level principles for the development of a firmness adjustment methodology, there does not, for example, appear to be any guidelines or mechanism considered for an assessment of a retailer meeting their share of the P50 events prior to their occurrence.</p> <p>As a consequence of the non-compliance being determined ex post, and in the absence of confirmation from the AER that the net contract positions submitted by liable entities meets their proportion of the forecast P50 event, there is a risk that retailers will be consistently long in their contract positions to mitigate any risk of a reliability gap at peak load, being exposed to non-compliance with the obligations and any costs of AEMO exercising its Procurer of Last Resort function. This too has the potential to increase retail electricity prices.</p> <p>Noting this, Ergon Energy Retail considers Approach 2 would seem to be a reasonable approach to determining a compliance shortfall at this stage of the consultation process.</p>
<p>How should the \$ costs linked to AEMO’s Procurer of Last Resort function be distinguished from other RERT costs?</p>	<p>There should be transparency in the costs linked to AEMO’s Procurer of Last Resort function under the Retailer Reliability Obligation and other requirements that are met under the RERT.</p> <p>Ergon Energy Retail will await further consultation on the Rules (along with related guidelines) that will establish the criteria that will support</p>

ESB Question	Ergon Energy Retail's comments
	the advice from AEMO to the AER.
How should Procurer of Last Resort function costs be assigned to non-compliant liable entities?	Costs should be assigned to non-compliant entities in line with their share of the actual demand gap in each trading interval exceeding the one in two-year system peak.
How should costs recovered from non-compliant entities as fees for AEMO's Procurer of Last Resort service be allocated to compliant entities?	No comment.
How should non-compliant entity default be dealt with?	No comment.

Energy Security Board (ESB) – Retailer Reliability Obligation – Detailed Design Issues

Ergon Energy Retail’s Response to Firmness Principles for Qualifying Contracts

ESB Question	Ergon Energy Retail’s comments
<p>Are there any principles that should be added or removed from this high-level list?</p>	<p>Ergon Energy Retail notes the factors being considered for high-level principles for determining the firmness of qualifying contracts and will provide specific feedback as part of the anticipated consultation with the AER as it develops the guideline to provide guidance on the treatment of various financial products.</p> <p>In the interim we provide the following comments:</p> <p>As noted by the ESB “the development of demand response contracts that qualify under the reliability obligation will be central to ensuring the reliability requirement of the Guarantee is met at least-cost.”¹</p> <p>Ergon Energy Retail is mindful of the potential treatment of demand response contracts as it has historically been challenging to determine the firmness of these instruments and the broader demand response mechanism is currently the subject of an AEMC consultation paper.²</p> <p>As mentioned above Ergon Energy Retail also suggests that the AER look to develop an assessment framework to assist liable entities in determining if their contract positions will cover their forecast share of the P50 event.</p> <p>Ergon Energy Retail is of the view retailers risk appetite forms the basis of how it develops its hedge book. Specifying principles such as strike price have the potential to lead to adverse outcomes for</p>

¹ Energy Security Board National Energy Guarantee Final Detail Design 1 August 2018.

² AEMC Wholesale Demand Response Mechanism Consultation Paper November 2018.

ESB Question	Ergon Energy Retail's comments
	<p>customers by influencing what is considered to be a 'firm contract'.</p> <p>Retailers contract both directly with generators and through intermediaries. While these financial instruments can be considered 'firm', ultimately the intermediary is responsible for securing its' own contracts with generators.</p> <p>It is expected that financial intermediaries not aligned to specific generation activities but who provide risk mitigation instruments to retailers may withdraw from the market. This has financial viability issues for particularly second tier retailers, who are not vertically integrated, and as a consequence, for market contestability.</p> <p>To ensure market liquidity and transparency persist, the role of financial intermediaries in the contract market, and the firmness of these contracts will be an important consideration in the guidelines.</p>
<p>What level of detail would liable entities consider necessary to support the principles?</p>	<p>Ergon Energy Retail considers that the principal level of detail required is proof that the retailer has sufficient contracts in place to meet AEMO's forecast shortfall for that retailer i.e. primarily hedge volume.</p> <p>Firmness can be extremely hard to determine depending on whether a retailer contracts with a baseload generator, renewable generator, demand response provider or an intermediary as well as the location of any generation.</p> <p>The level of detail in the principles and subsequent guidelines should be designed in such a way as to provide liable entities with a high level of confidence as to how the AER will approach the assessment of their methodologies and so develop methodologies in line with that approach.</p> <p>Ergon Energy Retail supports a review process to account for changing market conditions however this review should be balanced against the need for a level of certainty for liable entities and reduce</p>

ESB Question	Ergon Energy Retail's comments
	the frequency in which they will need to revisit their individual methodologies.
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?	Ergon Energy Retail is supportive of this approach.
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?	Ergon Energy Retail considers this approach to be reasonable and we reiterate our previous comments that the AER should not only carry out an assessment of liable entities firmness methodologies but that their contract positions will meet their liabilities under a P50 event.