



420 Flinders Street, Townsville QLD 4810
PO Box 1090, Townsville QLD 4810

ergon.com.au

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Dr Kerry Schott AO
Independent Chair
Energy Security Board
COAG Energy Council Secretariat
Department of Industry, Science, Energy and Resources
GPO Box 2013
CANBERRA ACT 2601

Submitted via email: info@esb.org.au

Dear Dr Schott,

Energy Security Board: *Interim Reliability Measures – Reliability Reserve*

Ergon Energy Queensland Pty Ltd (Ergon Energy Retail) welcomes the opportunity to provide a submission to the Energy Security Board (ESB) in response to the Draft Rules *Interim Reliability Measures – Reliability Reserve* (Draft Rules).

Ergon Energy Retail acknowledges that energy market reform is a complex undertaking, and efforts to transform the National Electricity Market (NEM) to enable a high number of non-synchronous, renewable generators to operate in a dynamic environment is difficult. We also note that the implementation of many separate but interrelated initiatives which seek to resolve individual problems are resulting in a more complex but potentially fragmented market.

Ergon Energy Retail notes that a proposed interim reliability measure of unserved energy of 0.0006 per cent cannot be achieved with an energy-only market without increasing the market price cap (MPC) by a factor of three¹. To avoid this outcome, the ESB is proposing what is essentially a capacity market where the Australian Energy Market Operator (AEMO) will procure energy and pass associated costs to market customers through NEM fees. Ergon Energy Retail is of the view that managing a capacity market in parallel with an energy-only market is not ideal and suggests such an outcome should be avoided in the post 2025 market design. It is noted in the ESB *Reliability Standard Review*, March 2020, that in the longer term the ESB, in collaboration with the market bodies and industry, is developing more enduring approaches to ensuring reliability and security.

We note that the proposed interim reliability reserve does not appear to impose extra risks on the wholesale market or retailers, except where contracted plant is dispatched in competition with the energy only market requiring intervention pricing. Ergon Energy Retail expects that investors in peaking plant or demand response that is currently out-of-market

¹ Australian Energy Market Commission, *Assessment of potential market impacts associated with moving to a higher reliability standard*, 6 May 2020, p.14.

will seek reserve contracts from AEMO rather than compete in the wholesale market where the MPC is too low to provide a sufficient return for higher-cost peaking plant. This could entrench the need for the 'interim' reliability reserve and lock the NEM into two markets - an energy only market and a reserve capacity contract market. Should this occur, Ergon Energy Retail is concerned how this scenario will be resolved in the ESB's post 2025 market design.

Ergon Energy Retail is also concerned with the proposal to enable a T-1 instrument to be made without first requiring a T-3 instrument, meaning retailers will have less than 12 months to procure contracts. This timeframe is too short to enable a retailer to procure contracts from new generating plant given readily available out-of-market peaking plant and demand response are likely to have been procured by AEMO for reliability reserve. Not having a new entrant option could increase costs to Retailers to meet their retailer reliability obligations. We also note the penalties for retailers remain consistent, even if the T-3 instrument is not triggered.

Given the financial risks to retailers of such an amendment, it is our firm view that a T-3 instrument should be a prerequisite for a T-1 instrument, and the requirement for a T-3 instrument should remain. However, as the decision to remove the prerequisite for the T-3 trigger has been taken, Ergon Energy Retail suggests that the retailer penalty be reduced due to the risk inherent in meeting the shorter compliance timeframe.

Should you require additional information or wish to discuss any aspect of this submission, please call Laura Males on 0429 954 346 or myself on 0467 782 350.

Yours sincerely



Trudy Fraser
Manager Regulation

Telephone: 0467 782 350

Email: trudy.fraser@energyq.com.au