

20/12/2018

Dr Kerry Schott AO
Independent Chair
Energy Security Board

Lodged via email: info@esb.org.au

Dear Kerry

Retailer Reliability Obligation – firmness principles for qualifying contracts

TransGrid welcomes the opportunity to respond to the Energy Security Board's consultation on the firmness principles for qualifying contracts under the Retailer Reliability Obligation (the Reliability Obligation).

TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that allows for interstate energy trading.

Australia is in the midst of an energy transition. This is primarily driven by changing community expectations and choices, advances in renewable energy technologies, retirement of existing generation, and the adjustments required in Australia's economy to meet our international climate change commitments. These changes raise complex issues for the design of the National Electricity Market and have led to a greater focus on ensuring reliability of supply and where that supply comes from.

As the transmission planner in New South Wales and operator and manager of electricity infrastructure with long operating lives, TransGrid is interested in the development of the Reliability Obligation as it is a significant reform in the electricity sector. Its implementation will impact TransGrid's customers (i.e. generators and large energy users) and the costs, and any benefits, will ultimately affect consumers.

In this context, TransGrid supports reforms that promote robust competitive wholesale and retail market frameworks to meet consumer demand for electricity at least cost.

TransGrid supports the proposed high level framework for firmness adjustment. This approach is likely to provide sufficient flexibility for the Australian Energy Regulator to adjust its guidelines on calculating firmness over time in line with experience. This is particularly important throughout periods of significant wholesale market reform, such as the impending move to five minute settlement, and as the power system, generation mix, and enabling and supporting technologies evolve over the coming years.

TransGrid also supports the four proposed high level principles to be set in the rules for the determination of the firmness of qualifying contracts. These principles articulate that the concept of firmness is grounded in the extent to which a contractual or other hedging arrangement is likely to result in a physical response on the power system.

Furthermore, TransGrid supports these principles because they allow for a wide range of factors to be taken into account and recognised as affecting the firmness of power supply in a region. TransGrid considers it is particularly important that the principles are broad enough to take into account:

- the role of inter-regional power transfers, and

- the natural firming that occurs when considering a portfolio of variable generators together, rather than individually.

To provide a hypothetical example, a portfolio of contracts with geographically dispersed wind and solar generators that physically covers around 90% of a liable entity's load profile during a material reliability gap in a one-in-two year system peak demand event should be treated as having a high level of firmness. Indeed it should be treated the same as a contract on the same terms with a fully dispatchable generator that is expected to cover only 90% of load, due for example to planned or unplanned maintenance shutdowns, during the same period.

We appreciate the opportunity to comment on this consultation paper and look forward to engaging with the Energy Security Board further on the Reliability Obligation. If you would like to discuss this submission, please contact Neil Howes, Acting Head of Public Policy on 02 9284 3748.

Yours faithfully



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