



The Australian Industry Group
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Energy Security Board
Submitted via email: info@esb.org.au

Dear Sir/Madam

Retail Reliability Obligation –Draft Rules Consultation Paper: March 2019

The Australian Industry Group (Ai Group) welcomes the opportunity to make this short submission to the Energy Security Board (ESB), regarding the Retailer Reliability Obligation Draft Rules Consultation Paper (the Consultation Paper).

Ai Group's members comprise businesses of all sizes across Australia. While some of our members are involved in energy supply, the vast majority are energy users. They have a strong interest in ensuring the supply of affordable, reliable and clean energy. Although Ai Group has a strong preference for efficient market clearing mechanisms, we support the need for measured and proportionate market intervention if it provides the correct signals to secure further investment in affordable, reliable and clean energy generation. Ai Group has consistently argued for long term policy continuity and stability to lower investment risk in the National Electricity Market (NEM). We believe that policy frameworks need to be flexible, sustainable and adaptable to accommodate rapid technological evolution. The Retailer Reliability Obligation (RRO) represents a move in this direction, which we believe will facilitate further investment in generation technologies, storage and demand response.

Ai Group commends the ESB for its ongoing engagement with stakeholders in the development of the RRO. Given the inherent complexity of wholesale and retail electricity markets in Australia, we recognize the challenges the ESB faces in finalizing the draft rules to support the implementation of the RRO. We further recognize that there is a considerable amount of detail to be worked through in relation to the effective functioning of the RRO. We understand that the ESB will work closely with the Australian Energy Regulator (AER), the Australian Energy Market Commission (AEMC) and the Australian Energy Market Operator (AEMO) in the development of the interim guidelines underpinning the RRO. We further understand that there will be significant ongoing consultation with stakeholders in the development of these interim guidelines. The consultation paper alludes to some flexibility in deciding how the guidelines will operate together with the pre-existing framework of guidelines and procedures. We believe that deep and meaningful stakeholder consultation and collaboration is vital to ensure that the RRO achieves its ultimate objective of enabling greater investment in dispatchable capacity and demand response. Since, there is considerable further engagement required on the RRO, our submission focuses on a few key issues, where we have received feedback from our members. We understand that some of our members will be making separate submissions and will maintain ongoing contact with the ESB in the development of the guidelines. We support this ongoing opportunity for public consultation. However, we note that determining the ultimate effectiveness of the RRO will only be possible when it has been operational for a significant period of time.

The Consultation Paper seeks stakeholder feedback (at section 4.7) on whether the existing generator closure notice period should be extended from three years to either four years or a timeframe somewhere in between, to allow such information to be incorporated into AEMO's reliability forecasts and to better align with the T-3 reliability instrument. We agree that it would be best if gap forecasts and trigger decisions could be based on the most up-to-date picture of potential generator closures.



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We believe that, on balance, the extension of the closure notice timeframe to four years is sensible. Extension is unlikely to materially impact the operational and financial viability of energy generators. The vast majority of entities have the technical, operational and logistical wherewithal to accommodate this timeframe. Further, under the proposed draft rules the AEMO will be able to seek information from registered participants for preparing the ES00, which in addition to information regarding existing generators and new committed generators, may also require further details regarding proposed but not yet committed generation capacity. These additional information requirements will necessitate registered participants to maintain an accurate ongoing projection of changes to their generation capacity. However, we note that the notice of closure rule, even at three years, may not be effectively binding in circumstances where a generator suffers a catastrophic failure or its owner opts to withdraw entirely from the NEM. Thus gap forecasts will still be made with some uncertainty.

The Consultation Paper asks at section 5.2.1 about how to set the opt-in customer threshold for large customers. We see no convincing reason to depart from the existing large customer definition in the National Electricity Retail Law and National Electricity Retail Rules. While we recognise this definition is expansive enough to potentially allow tens of thousands of businesses to opt-in, we do not believe there is any risk of an unmanageable number of entities opting to manage their own obligations. Opting-in may be very useful for businesses who are willing to take on substantial (or full) spot price exposure and have either a sophisticated capability for electricity financial contracting, or sufficient demand response potential to cover their full expected load. However, most businesses do not have these characteristics. For them, the logistical, technical and operational costs associated with opt-in will far exceed any actual or perceived benefits to them. They are also likely to think carefully about opting in given the clear warnings they will be given of the potential liability they face if they do not meet their obligations. We also understand that a lot of the detail regarding opt-in has yet to be worked out through the AER's Opt-in Guidelines, which will establish the factors that the AER will employ in its assessment of Opt-in applications. These Guidelines offer a further opportunity to ensure that energy users who opt-in are well informed, able to meet obligations, and likely to derive value from their choice.

The Consultation Paper asks at Section 8.5 about apportioning Procurer of Last Resort costs. Our overarching observation is that the treatment of these costs by retailers, their distribution to end users and impacts on retailer behavior will depend heavily on the nature of retail contractual arrangements that arise in response to these Rules. We will have to see what happens and be ready to amend and improve the Rules in response. Notwithstanding this, the proposal that the AER would publish a list of non-compliant retailers should be very helpful. It would also be of use if the same publication could alert energy users that they may be entitled to a refund if their retailer during the relevant RERT event was not listed as non-compliant. Pass-through by noncompliant retailers may be a matter left for contract. A rule forbidding pass-through might only be able to prevent named line items in bills, rather than pass through by other means.

Should you wish to discuss the matters raised in this letter, please contact our adviser Ali Rahman on 02 9466 5443 or ali.rahman@aigroup.com.au.

Sincerely yours,

Peter Burn
Head – Influence and Policy