9 June 2021

Dr Kerry Schott AO
Chair
Energy Security Board

By email: info@esb.org.au

Dear Dr Schott

**Post-2025 Market Design Options Paper**

Aurora Energy welcomes the opportunity to provide feedback on the four design reforms outlined by the Energy Security Board (ESB) in the Post 2025 Market Design Options Consultation Paper (the Consultation Paper) released on 30 April 2021.

Aurora Energy is a Tasmanian Government owned energy retailer, providing energy services to over 99 per cent of Tasmania's electricity customers. As a stand-alone retailer supplying over 280,000 Tasmanian residential and business customers, Aurora Energy's core focus is to generate value for its customers and the broader Tasmanian community.

The Tasmanian energy system is unique compared to other National Electricity Market (NEM) jurisdictions in that it is not capacity constrained and is supplied predominantly by dispatchable renewable hydro-electric generation. A number of the reforms identified in the Consultation Paper are aimed at addressing security and reliability issues in mainland jurisdictions that are not present in Tasmania. For example, options for the modification of the Retailer Reliability Obligation (RRO) are designed to address an event that is unlikely to eventuate in Tasmania in the foreseeable future. Similarly, issues associated with the integration of distributed energy resources (DER) are less apparent in Tasmania due to a relatively lower uptake of solar by both residential and business customers compared with mainland jurisdictions.

In this context, Aurora Energy considers that it is important that the proposed reforms do not impose new compliance obligations or increased costs on Tasmanian customers for no commensurate benefit, particularly if they are in response to issues that are not present and are unlikely to emerge in the State in the foreseeable future. Aurora Energy proposes this could be achieved by allowing for regional variation where the proposed reforms will impose new compliance obligations and other costs in response to problems that do not exist and would provide no consequent benefits to Tasmanian customers.

Aurora Energy notes the ESB's intent to undertake modelling to assist with understanding the costs and benefits of the proposed reform pathways, including how implementation costs will be recovered. Aurora Energy suggests that this assessment should consider costs and benefits at a jurisdictional level such that reforms are only implemented where it is clear that the customer benefit outweighs the cost of implementation. Importantly, interdependency modelling across the reforms should explore whether some of the key assumptions about outcomes for customers (e.g. consumer participation, price dynamics) will actually eventuate.

With regard to the four reform directions, Aurora Energy wishes to raise the following issues.

***Resource adequacy mechanisms***

Jurisdictional investment schemes

Aurora Energy supports the desire to implement a NEM-wide approach to jurisdictional investment schemes. A NEM-wide approach would send a longer term investment signal to the market than the RRO, as applying a liability on retailers will only ever send a short term investment signal. However, alignment may be difficult to achieve given differing priorities across jurisdictions.

Modified Retailer Reliability obligation (RRO)

Aurora Energy does not support removing the T-3 trigger from the existing financial RRO (Option 1). Removal of the T-3 trigger will further remove retailers' flexibility and inherently result in a convergence of wholesale strategies, with potentially significant impacts on retail competition and choice for customers. An expanded RRO where more onerous and conservative hedging requirements are placed on retailers will also increase forward prices. This will inevitably increase costs to customers and potentially necessitate further action to maintain downward pressure on prices.

Aurora Energy is conditionally supportive of an ongoing physical RRO that changes the definition of qualifying contracts to newly created physical certificates (Option 2), as it provides a retailer with the flexibility to separate the RRO from its hedging position. This support is conditional on the physical RRO being an ongoing obligation, but only to the extent that an ongoing market signal is required. Should the transition to renewables be more seamless than anticipated, the physical RRO obligation should be removed so as to not overcompensate existing thermal generation.

Aurora Energy also cautions that the wrong investment signals could occur should the scheme be poorly designed, as there is a risk that retailers will purchase certificates from existing lower cost providers such as incumbent non-renewable generators. Aurora Energy proposes that this may be overcome by regulating the price of certificates (for example by setting a floor price based on the cost of pumped hydro or wind plus battery storage) to send an investment signal and not favour incumbents.

Regardless of the option adopted, Aurora Energy is of the view that a modified financial or physical RRO should not apply in jurisdictions with no projected capacity constraints during periods of peak demand in the foreseeable future (e.g. Tasmania).

Enhanced exit mechanisms

Aurora Energy supports expanded and more detailed generator exit mechanisms to provide timely information relevant to mothballing and seasonal shutdowns of generators.

***Integration of distributed energy resources (DER) and flexible demand***

Aurora Energy agrees with the ESB's observation that the opportunities for DER are still emerging, and suggests that a potential barrier to more active demand response and participation by DER in the market is a lack of customer engagement.

Aurora Energy notes the ESB's approach to developing a transitional pathway that sets out additional action to take now for DER integration and develops further reforms for later implementation appears to take this into account. Aurora Energy also observes the potential for unbundling of services delivered by active DER resources (e.g., solar PV, batteries or smart hot water appliances) from energy supplied by DER, which will reduce the barriers to entry to becoming a retailer or other service provider.

As more service providers enter the market, of concern to Aurora Energy is how credit risk and costs for customer protections or prudential obligations can be equitably allocated to all those market participants, not just retailers. For example, aggregators currently have limited customer protection or prudential obligations, which continue to be worn by retailers. Key considerations that should be addressed as part of any future reforms include hardship programs for aggregators and other service providers, potential consequences for DER that doesn't dispatch and appropriate consumer protections applicable to all participants.

Aurora Energy appreciates the ESB's inclusive approach taken for consultation on the four reform directions. Should you have any questions regarding this submission, please contact Corinna Woolford, Strategy and Policy Manager at corinna.woolford@auroraenergy.com.au.

Yours sincerely

Kate Gillies
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