

7 September 2018

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

Dear Dr Schott

Re: National Energy Guarantee Reliability Requirement Pre-condition Options

Aurora Energy welcomes the opportunity to provide feedback on alternative policy options for activating the National Energy Guarantee (NEG) reliability obligation, as outlined in the *National Energy Guarantee Reliability Requirement Pre-condition Options* paper (Options Paper) released by the Energy Security Board (ESB) on 17 August 2018.

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 279,636 Tasmanian residential and business customers, Aurora Energy's core focus is on its customers, by creating valued outcomes and providing sustainable returns to the Tasmanian community.

Aurora Energy acknowledges that the ESB has presented alternative policy options for activating the reliability obligation in response to a concern raised at the 10 August 2018 COAG Energy Council meeting. However, Aurora Energy is concerned that the options presented differ from the final detailed design presented in the ESB's *Final Detailed Design of the National Energy Guarantee* (Final Design), which included a pre-condition that a shortfall had to be identified at both T-3 and T-1 in order for the reliability obligation to be triggered. This precondition was established to support liable parties predict their potential obligations and close the gap as efficiently as possible.

All options presented in the Options Paper will increase the wholesale market risk for retailers, which will ultimately be reflected in higher costs to consumers. For this reason, Aurora Energy does not support any of the options presented in the Options Paper. Aurora Energy's specific concerns with each of the options are detailed below.

National Electricity Rules to provide for circumstances under which a T-1 determination may be made without a T-3 determination

Aurora Energy notes that the draft amendments to the National Electricity Law (NEL), which are currently being consulted on and are summarised in the Options Paper, include a new provision to allow the National Electricity Rules (NER) to provide for circumstances when liable entities would be obliged to submit their contract position at T-1 without a T-3 determination. This provision was not included in the ESB's Final Design, and no consultation has been undertaken with industry as to what these circumstances might be.

Aurora Energy does not support this approach as, depending on the circumstances allowed for in the NEL, it creates a risk for liable entities that a T-1 determination could be applied at any time and they will be consequently be required to submit their contract position at any time. This has the potential to impose an ongoing requirement on liable entities to ensure they have sufficient qualifying contracts one year out to meet the AEMO assessed one in two year peak demand.

In effect, this could see the obligation apply to all jurisdictions on an ongoing basis and would impose a significant ongoing compliance obligation on all retailers. Retailers will be more inclined to longer contract positions to manage this increased wholesale market risk and may adopt less innovative and conservative approaches to managing this risk. This would result in higher wholesale costs, which will ultimately be passed through to customers.

Of particular concern to Aurora Energy is that it is possible the market liquidity obligation would be required on an ongoing basis in jurisdictions where there is no foreseeable breach of the reliability obligation in the future, including Tasmania and Queensland.

Aurora Energy strongly urges the ESB to reject this option in the final amendments to the NEL and instead adopt the reliability obligation as set out in the Final Design.

Addition of a T-5 determination

Aurora Energy is of the view that a forecast timeframe of three years provides sufficient notice to allow for the market to respond and there is no need for a reliability obligation to be imposed on the market five years out. Furthermore, forecasts of shortfalls five years in advance will necessarily be uncertain given the likely potential for changes in supply and demand over the intervening period, as well as potential regulatory changes. This uncertainty increases the risk to retailers of contracting so far in advance of the year in question, and is likely to result in greater costs being passed through to consumers.

If a T-5 determination were to be introduced, Aurora Energy submits that there should be a precondition that a shortfall must also be identified at both T-3 and T-1 in order for the reliability obligation to be triggered at T-1.

Removal of T-3 determination

Aurora Energy does not support the removal of a T-3 trigger as a precondition to a triggering of the T-1 reliability obligation.

The T-3 trigger is intended to support liable parties in predicting their potential obligations and allow time for them to take reasonable steps to procure additional capacity in response to a foreseen shortfall. As stated previously, the absence of a T-3 determination creates a risk for liable entities that a T-1 determination could be applied at any time and that they will be required to submit their contract position at any time. This has the potential to impose an ongoing requirement on liable entities to ensure they have sufficient qualifying contracts one year out to meet the AEMO assessed one in two year peak demand, ultimately increasing the risk profile and cost to retailers.

Aurora Energy is particularly concerned that in the absence of a T-3 trigger, the market liquidity obligation would be required on an ongoing basis in jurisdictions where there is no foreseeable breach of the reliability obligation in the future, including Tasmania and Queensland.

Such an approach represents a fundamental change in approach from 'light touch' regulation of the reliability obligation as outlined in the ESB's Final Design to a heavy-handed and onerous compliance obligation, which Aurora Energy does not support.

Aurora Energy notes that the ESB's Final Design concluded that there is *"a risk that removing the T-3 trigger results in contracting more capacity than what is ultimately required"*, and proposed that the level and tenor of contracting should be assessed after three years to determine the ongoing need for the T-3 trigger. Aurora Energy concurs with this assessment and is of the view that this approach should be retained to allow an informed, evidence-based assessment of the ongoing need for the T-3 trigger.

Ministerial powers to activate the reliability obligation

Aurora Energy does not support Ministers for each of the National Electricity Market (NEM) regions being provided the ability to make a T-1 reliability instrument for their region with a minimum of three months notice.

This option, as outlined in the Options Paper, proposes that:

- a material reliability gap would not need to be present for the Minister to make the determination;
- there would be no limit to how far in advance the determination could be made; and
- the Australian Energy Regulator (AER) would not have a role in approving a Minister's decision to make the T-1 reliability instrument.

Such an interventionist approach would provide Ministers with unfettered powers to make a reliability determination with as little as three months' notice even if a material reliability gap is not present or forecast. This approach is in direct contrast with the ESB's Final Design which establishes the AER as the independent entity approving a T-1 trigger to provide market confidence that the information and processes informing a decision to trigger the reliability obligation are robust.

Aurora Energy opposes this option as it would provide significant uncertainty to market participants and, similar to removal of the T-3 trigger, would necessarily have detrimental implications for contracting and investment decisions.

If you have any questions regarding this submission please contact Hayden Moore, Regulatory & Policy Manager at hayden.moore@auroraenergy.com.au

Yours sincerely



Kane Ingham
General Manager Commercial Services