

REVIEW OF THE RETAILER RELIABILITY OBLIGATION

04 MAY 2023

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade. Our membership covers most of the major gas users in the east coast gas market who all rely on reliable and competitively priced gas for their business sustainability.

CONTEXT

The EUAA has been generally supportive of the RRO since its introduction. However recent events have led us to the conclusion that it is not operating as was originally intended, or at least not always in consumers' interests.

The reliability rules around the T-3 trigger are now effectively irrelevant

When originally introduced the policy, intent was to base that trigger on the reliability forecast in the AEMO ESOO. This would provide a signal to the market that additional generation was required. The decision by Energy Ministers to have the ability to call a T-3 trigger irrespective of the AEMO forecasts, defeats the original RRO purpose.

It seems the RRO has become a way to help manage political risk rather than a market driven efficiency instrument. An Energy Minister deciding on a T-3 trigger when forward prices do not indicate any likely shortfall is not going to provide any incentive to build new generation or storage projects, nor does it encourage EUAA members to consider providing demand response.

There are also problems with the T-1 trigger

This was highlighted by the recent experience with the T-1 trigger for Q1 2024. We commented on this in our recent submission on AEMC Review of the Interim Reliability Measure¹ where we argued that an extension of the IRM is not in consumers' interests.

Commencing the T-1 reliability trigger led to liable parties (not just retailers but also EUAA members) to incur significant costs at artificially inflated prices to meet their compliance obligations despite the absence of a material reliability issue.

¹ https://www.aemc.gov.au/sites/default/files/2023-04/EUAA%20Submission_IRM_13%20Ap%20%2723-final_UPDATED.pdf

The AER in its original decision in October 2022 to allow the T-1 trigger concluded that AEMO had met the rules obligations

“We consider that AEMO has used reasonable endeavours to prepare its reliability forecast in accordance with the Forecasting Best Practice Guidelines. The inputs, assumptions and methodologies that underpin the forecast were disclosed to stakeholders and AEMO provided consultation opportunities throughout the development of the 2022 ESOO and subsequent reliability forecast.”

And noted that:

“Submissions from stakeholders did not support the reliability instrument being made for South Australia. Issues in submissions focussed on the classification status of specific generators in South Australia and the treatment of unplanned outages rates on the Heywood interconnector. Soon after the publication of the ESOO the AER requested and received additional information from AEMO, specifically on the issue of generator classification. Having had regard to this additional information, the AER considers it appropriate in the circumstances to make the T-1 South Australia reliability instrument.”

We are not aware that this additional information was made available to stakeholders prior to its existence being mentioned in the AER report.

When the revised ESOO was published last February, the AER concluded that²:

“The AER has considered the current RRO framework, and there is no ability for the AER to revoke or amend a T-1 reliability instrument once made. Consequently, the T-1 Instrument for South Australia for the period 8 January to 29 February 2024 will remain in place.”

So, the obvious recommendation from this process is that there should be an ability under the Rules for the AER to revoke or amend a T-1 reliability instrument once it is made. However, we are not sure that this would address the more fundamental problem. Even if the rules allowed the AER to do so in this case, it does not reverse the large costs incurred by liable parties that will be passed on to consumers.

As we highlighted in our submission on the IRM, there was a significant increase in Q1, 2024 South Australia hedge prices following the T-1 decision. Consumers are about to pay those costs. It ends up being a very expensive insurance policy for an event that is not expected to occur.

As the EUAA and other parties opposing the original T-1 instrument argued, the AEMO had not correctly applied its classification of ‘anticipated’ vs ‘committed’ in assessing Bolivar power station and batteries at Taillem Bend and Torrens Island. The AER concluded that AEMO had correctly applied the Forecasting Best Practice Guideline in arriving at its decision. Consumers are left in a bit of a catch 22 situation. They disagree with what appears to be a very conservative approach to forecasting by AEMO. They can make representations about this to AEMO but under the Guideline, AEMO is both the defendant and judge and jury to these representations, which is hardly a best practice governance arrangement.

² <https://www.aer.gov.au/communication/south-australia-t-1-reliability-instrument-to-remain-in-place-following-aemo%E2%80%99s-esoo-update#:~:text=The%20AER%20has%20considered%20the,2024%20will%20remain%20in%20place.>

Apart from giving the AER the ability to revoke a T-1 instrument when new information arises, we would suggest the Commission consider the following to avoid a repeat of the South Australian situation:

- Just as AEMO undertakes a regular review of its forecasting accuracy, AEMO must undertake an ex-post analysis of the costs of the South Australia T-1 decision to consumers
- Review of the Forecasting Best Practice Guideline as it applies in to the RRO
- The ability of the AER to ask AEMO to undertake sensitivity analysis on the forecasting assumptions before the AER make a ruling and that this be public
- Stakeholders have the ability to make submission to the AER on the findings of this sensitivity analysis.

Market Liquidity Obligation should be reviewed

The purpose of MLO market making arrangement was to facilitate transparency and liquidity in the trading of electricity futures contracts relating to a forecast reliability gap. However, there is a problem in South Australia where our members have not seen any improvement in liquidity. The MLO register does not provide sufficient information to the market and participants. It is important that large users are able to understand how much volume has been traded and what participants are selling to facilitate the market making arrangement.

We recommend that the AER provide regular quarterly updates showing the trading volume during the MLO trading periods.

Voluntary book build mechanism does not add any value to the RRO process

The purpose of the voluntary book build mechanism was to help liable entities secure contracts with new resources. However, AEMO doesn't have any current or historical book build data to show any providers of new or uncontracted capacity.

Suggested changes to qualifying contracts provisions

Since the scheme is designed for retail load, it does not provide sufficient information for EUAA members who have spot pass through contracts. While the guidelines require spot pass through contracts to be registered with the AEMO Demand Side Participation Information Portal (DSPIP), there is a lack of clarity about when the registration needs to happen. In the instance of the South Australian T-1 trigger, it was declared in August 2022 with a compliance date of 6th January 2023. Yet AEMO only open the DSPIP portal in April each year.

The timelines for opening the portal should be reviewed to allow large users to enter their demand side information following any RRO triggers.

Review the application to market customers as liable entities

Since the scheme is specifically designed for "retailers", the role of Market Customers as liable entities in the scheme should be reviewed. We have found that Market Customers, who are not day-today market participants, are being forced into contractual positions that create material financial harm and that deliver little to no real benefit to them or the market.

Also, there should be a process of providing earlier advise on the exposure to all liable entities during a gap period rather than waiting until the PoLR costs calculation occurs.

Do not hesitate to get in contact should you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read 'A Richards', written in a cursive style.

Andrew Richards
Chief Executive Officer