

4 May 2023

Australian Energy Market Commission

Submitted via 'lodge a submission' function, project reference code EPR0091.

Dear Sir / Madam

Consultation Paper: Review of the Operation of the Retailer Reliability Obligation

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to respond to the Australian Energy Market Commissions (AEMC or Commission) 23 March 2023 consultation paper on the Review of the Operation of the Retailer Reliability Obligation.

As a major provider of electricity to Queensland, the National Electricity Market (NEM) and large energy users throughout Australia, Stanwell is invested in providing reliable and affordable energy for today and into the future. We are also developing renewable energy, storage and hydrogen projects and technologies within Queensland to help reduce emissions and ensure Queensland electricity supply remains secure and reliable now and into the future.

We acknowledge the work of the AEMC in preparing this consultation paper and we are grateful for the opportunity to provide our feedback on the operational aspects of the RRO. Our responses to the questions posed in the consultation paper are at Attachment 1.

In framing our view, we have considered what benefit will be provided by the RRO to the national energy market and how it will contribute to the National Electricity Objective (NEO).

Stanwell appreciates the opportunity to contribute to the AEMC's Review of the Operation of the Retailer Reliability Obligation. If you would like to discuss this submission further, please contact me directly on (07) 3228 4139 or via email ian.chapman@stanwell.com

Your sincerely



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Attachment 1: Stanwell Corporation Limited responses to consultation questions

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Consultation Paper: Review of the Operation of the Retailer Reliability Obligation

QUESTION 1: PROPOSED ASSESSMENT FRAMEWORK

1. Is the proposed assessment framework appropriate?

Stanwell has reviewed the proposed assessment framework and has no concerns with the six criteria listed in the consultation paper.

2. Are there any other relevant considerations that should be included in the assessment framework?

No Comment

QUESTION 2: PROCESS FOR T-3 AND T-1 TRIGGERS

1. Should changes be made to the processes for the T-3 and T-1 ESOO triggers based on experience to date?

No Comment

2. Should the AER have a broader scope to consider if it is appropriate in the circumstances to make or reject a reliability instrument?

No Comment

3. Should there be other circumstances for AEMO or the AER to be able to review, withdraw or reopen a decision on a gap, following updates on market conditions?

Stanwell does not believe there should be any more scope given to review, withdraw or reopen a gap following updates on market conditions than currently exist under the Retailer Reliability Obligation (RRO).

The reason there is a T-3 is to allow the market to react and appropriately manage the potential risk. If more scope or allowance is given to re-open or review the gap it may undermine the whole purpose of the T-3 trigger (and potentially undermine the scheme).

QUESTION 3: MARKET LIQUIDITY OBLIGATION

1. Should the determination of market generators and generator capacity in a region be broadened to include semi-scheduled and/or non-scheduled generation?

Stanwell considers that capacity should be determined the same way for identifying a gap as for determining market liquidity obligation (MLO) obligations, to the extent practical. Where semi-scheduled and/or non-scheduled generators make minimal or no contribution to avoiding a supply gap in AEMO's forecasting, obliging those generators to offer firm contracts for the gap period is unlikely to be practical.

However, where such generators or demand resources are considered reasonably firm in AEMO's forecasting model, excluding their contribution from determining whether a participant has an MLO obligation is likely to place undue pressure on the remaining MLO generators.

Stanwell understands that AEMO currently utilise an effective load carrying capacity (ELCC) measure from the ISP in their forecasting process, and this could also be applied for determining MLO obligations

2. Should the 15 per cent threshold for MLO groups as established in the NER be changed to include more generators or removed to require all generators?

Stanwell is of the view that where the MLO is triggered it would be beneficial to have multiple MLO generators, however requiring all generators to routinely place binding bids and offers is likely to be impractical. Stanwell would recommend that the threshold be adjusted to target four MLO generators per region, requiring at least two active providers.

If a static minimum threshold (such as 15 per cent) means that less than two MLO

providers exist in a region the MLO should not be triggered as the cashflow risk imposed on the single MLO generator is likely to be significant and detrimental.
3. Is registered capacity appropriate to determining obligated parties or should summer or another appropriate seasonal capacity be used?
Please refer to our response to Question 3.1 above.
4. Does the MLO register provide sufficient information to the market and participants?
No Comment
QUESTION 4: VOLUNTARY BOOK BUILD MECHANISM
1. Do any changes need to be made to the process for the book build mechanism?
No Comment
2. Given that the book build has not been used by the market to date, should the Commission consider removing the mechanism?
As the Book Build Mechanism has not been used by the Market since the RRO's inception, despite T-3 being triggered in both South Australia and New South Wales, this would indicate there is little or no support for the mechanism. As such, Stanwell would support the Commission removing the mechanism. This is consistent with the "simplicity and transparency" assessment criteria of the review as well as the NEO.
QUESTION 5: QUALIFYING CONTRACTS
1. Should changes be made in the NER to the definitions of qualifying contracts?
No Comment
2. Should changes be made to what is defined and the process for defining the firmness of a qualifying contract?
No Comment
QUESTION 6: LIABLE ENTITIES
1. Do the thresholds for liable entities remain appropriate, or should they change?
No Comment
2. Should there be a process for providing earlier or progressive advice on the exposure of all liable entities during a gap period rather than waiting until the PoLR costs calculation occurs?
Stanwell supports a process whereby liable entities are provided early or progressive advice during a gap period.
The current process of having each entity separately estimate what hedges are required, but only allowing evaluation of whether that hedging is sufficient more than 30 weeks after an event has occurred is likely to lead to poor outcomes, both economically for individual participants and in relation to social license for the industry generally.
As the stated goal of the scheme is to ensure that enough capacity is in place to meet AEMO's 1-in-2-year peak demand forecast, that forecast should be available to participants at the highest possible level of granularity in advance of having to commit to a compliance position, and to regulators when evaluating those compliance positions. That would mean that at the time a retailer quotes to become the Financially Responsible Market Participant for a customer the reliability obligation in relation to that customer is available from AEMO's systems (assuming the T-3 forecast has been published). If a retailer hedges to at least that level it should be considered compliant. Using this approach, early indication of compliance could be provided soon after the reporting date, rather than having to wait until after the event.
This is likely to be most efficiently achieved by augmenting the existing MSATS schema to include new fields or tables which contain the AEMO forecast demand during gap periods for each connection point. Stanwell is aware that many connection points are forecast based on their "type" (e.g., residential customers) but this should be sufficient for the purposes of the RRO scheme as the total liable load will add up to the forecast peak

demand.

This would contribute to the achievement of the NEO criteria set out in this paper being “Predictability and Stability” ... “ensuring parties have sufficient information to make decisions. It should result in predictable outcome for participants” and “Efficiency” in that it would “encourage innovative and efficient investment in the supply of energy services”.

QUESTION 7: OPT-IN MECHANISM

1. Should changes be made to the opt-in mechanism?

No Comment

QUESTION 8: COMPLIANCE PROCESSES

1. Do stakeholders have feedback on the compliance processes they have had experience with to date?

Stanwell is concerned about the audit requirements under the RRO, specifically where bespoke methodologies could potentially be audited multiple times, without being needed. We refer specifically to 6.1.3 of the Draft Reliability Compliance Procedures and Guidelines where, regulated entities in cooperating during the audit must ensure that data, information, and documents required by the auditor may include, without limitation: how an NCP report was adjusted for the impact of non-standard qualifying contracts. This includes but is not limited to information about the process for the development and approval of *bespoke firmness methodologies and factors*.

Stanwell is concerned around the potential costs and short timeframes associated with such an independent audit of its bespoke firmness methodologies. The cost of these audits will ultimately be passed through to customers and would not be in keeping with the NEO or the assessment criteria of this paper, specifically “Simplicity and Transparency”, in avoiding excessive regulation that might impose unnecessary complexity or costs.

The Reliability Compliance Procedure and Guideline (RCPG) is one of six AER guidelines which provide details on how the various stages of the RRO operate and impose obligations on entities involved in the RRO. Stanwell acknowledges the work undertaken by the Commission to date in developing the RCPG which is due to be published in June 2023 as being, user friendly with clear linkages to the other AER guidelines while noting the complexity of the RRO and the information required as part of an Audit.