



2 November 2023

Australian Energy Market Commission
Submitted via 'lodge a submission' function, project reference code EPR0091.

Dear Sir / Madam

Draft Report: Review of the Operation of the Retailer Reliability Obligation

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) 28 September 2023 Draft Report on the Review of the Operation of the Retailer Reliability Obligation (RRO).

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.

This submission contains the views of Stanwell in relation to the Draft Report and should not be considered as being indicative of Queensland Government Policy.

We acknowledge the work of the AEMC in considering and accommodating the feedback that was provided by stakeholders in response to the 23 March 2023 consultation paper. Overall, we are supportive of the proposed changes and believe that they will improve the RRO. Our responses to the questions posed in the consultation paper are at Attachment 1.

In addition to our responses to the questions posed in the Draft Report, we also provide the following general comments in relation to the RRO.

In the Draft Report, the AEMC acknowledges that, in reference to the Commonwealth Governments Capacity Investment Scheme (CIS), and a number of other jurisdictional schemes, that "further consideration of their overlap with the policy intent of the RRO may be warranted"¹. Stanwell strongly agrees with this position and encourages the AEMC to initiate this review as soon as possible.

It is important these mechanisms work effectively together, rather than competing against each other.

¹ [Review of the RRO - draft report \(aemc.gov.au\)](https://www.aemc.gov.au/review-of-the-rro-draft-report) p.iv

Notwithstanding the above, as stated in our previous submission to the RRO, Stanwell supports a process whereby liable entities are provided early or progressive advice during a reliability gap period. “The current process of having each liable entity separately estimate what hedges are required”² is inefficient and not aligned with the National Electricity Objective (NEO). Stanwell further proposes that forecasts underpinning the declaration of a “gap” should be available to participants at the highest level of granularity in advance of having to commit to a compliance position, and to regulators when evaluating those compliance positions.

This would mean that at the time that a retailer quotes to become the Financially Responsible Market Participant for a customer, the reliability obligation for that customer should be available from AEMO’s systems (assuming the T-3 forecast has been published). If a liable participant 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 waiting until the end of the event.

This could most efficiently be achieved by augmenting the existing MSATS schema to include new fields or tables which contain AEMO’s forecast demand during gap periods for each connection point. Stanwell understands many connection points are forecast based on their “type” (e.g. residential customers) which should be sufficient for the purposes of the RRO as the total liable load will add up to the forecast peak demand³.

This would contribute to the NEO by ensuring that the RRO operates more effectively, “ensuring parties have sufficient information to make decisions”, reducing regulatory burden for liable entities and reducing costs for consumers.

Again, Stanwell appreciates the opportunity to comment on the Draft Report on the Review of the Operation of the Retailer Reliability Obligation. If you would like to discuss this submission further, please Brad Supple directly on (07) 3228 4429 or via email bradley.supple@stanwell.com

Your sincerely



Ian Chapman
Manager Market Policy and Regulatory Strategy
Energy Markets

Attachment 1: Stanwell Corporation Limited responses to Draft recommendations.

² <https://www.aemc.gov.au/sites/default/files/2023-05/Rule%20Change%20Submission%20-%20EPR0091-%20Stanwell%20Corporation%20-%2020230504.PDF> p.3

³ <https://www.aemc.gov.au/sites/default/files/2023-05/Rule%20Change%20Submission%20-%20EPR0091-%20Stanwell%20Corporation%20-%2020230504.PDF> p.3

Draft Report: Review of the Operation of the Retailer Reliability Obligation

PROCESS FOR T-3 AND T-1 TRIGGERS

Recommendation 1: Move the T-1 Net Contract Position (NCP) compliance date to T and continue ex-post testing only if a reliability gap occurs, to reduce regulatory burden and better enable newly committed project contracts to be used to comply with a reliability gap.

Stanwell agrees that moving the Net Contract Position (NCP) date to T will allow more flexibility than the current T-1 while T-1 should remain as the notification date. Stanwell has observed no evidence of potential penalties under the RRO causing a customer to commit to retail arrangements more than a year ahead as intended by the T-1 compliance reporting. As such, moving the compliance date closer to the gap will allow more customer arrangements to be included and potentially allow “just in time” investment to sell qualifying contracts with no apparent downside.

This change will ultimately drive costs down for customers while meeting the objectives of the NEO.

Recommendation 2. Provide AEMO with a limited power to request the AER cancel a T-1 reliability instrument following an Electricity Statement of Opportunity (ESOO) or ESOO Update between T-1 and T which shows a reliability gap has closed.

As previously stated, Stanwell does not believe there should be any more scope given to review, withdraw or re-open a gap following updates on market conditions than currently exist under the Retailer Reliability Obligation (RRO)⁴

Recommendation 3: Change the timeframe for AEMO to request a reliability instrument from 3 to 9-months, to provide greater flexibility when AEMO can request a reliability instrument including better taking into account ESOO Updates which may subsequently close a reliability gap.

As previously stated, Stanwell does not believe there should be any more scope given to review, withdraw or re-open a gap following updates on market conditions than currently exist under the Retailer Reliability Obligation (RRO)⁵. This proposed change appears to undermine the benefits of using T-1 declarations.

Recommendation 4: Maintain the AER’s existing role in assessing reliability instrument gap requests to ensure a clear differentiation in roles of market bodies.

Stanwell agrees that the existing role of the AER should continue.

MARKET LIQUIDITY OBLIGATION

Recommendation 5: Amend the MLO from a 15 per cent threshold for MLO groups to 10 per cent threshold to ensure that the MLO continues to support

⁴ <https://www.aemc.gov.au/sites/default/files/2023-05/Rule%20Change%20Submission%20-%20EPR0091-%20Stanwell%20Corporation%20-%2020230504.PDF> p.2

⁵ <https://www.aemc.gov.au/sites/default/files/2023-05/Rule%20Change%20Submission%20-%20EPR0091-%20Stanwell%20Corporation%20-%2020230504.PDF> p.2

market liquidity in South Australia (SA).

While the AEMC's proposed changes are somewhat different from what we proposed in our previous submission⁶, Stanwell is supportive of amending the MLO groups to a 10 per cent threshold, with the aim of keeping at least two generation portfolios under the MLO in each NEM region.

VOLUNTARY BOOK BUILD MECHANISM

Recommendation 6: Remove the voluntary book build mechanism, which is not being used, to simplify the NEL and NER.

As previously stated, Stanwell supports the AEMC's proposal to remove the voluntary book build mechanism, as to date, it has not been used⁷.

QUALIFYING CONTRACTS

Recommendation 7: The AER review expanding eligible demand-side management contract types to increase the pool of eligible contracts, to reduce cost and regulatory burden for liable entities.

No comment.

Recommendation 8: AEMO review expanding timeframes for the AEMO demand portal being open to expand the pool of eligible demand response contracts and reduce costs.

Stanwell supports enabling new demand side response (DSR) contracts to access the portal outside of the current April window. Expanding the timeframes should not increase regulatory or administrative burden on participants.

Recommendation 9: The AER review the contracts and firmness guidelines to expand eligibility of qualifying contracts with a firmness of 1 to include caps above 5% of the Market Price Cap to increase the pool of eligible contracts and reduce costs.

The initial selection of 5% for caps to have an automatic firmness of 1 was somewhat arbitrary, being high enough to include standardised cap contracts (\$300/MWh) but low enough to strongly encourage physical backing of the financial contracts.

As the MPC increases the level of cap products considered fully firm will also increase.

By 2026-27 the current guidelines will assign a firmness of 1 to caps struck at over \$1,000/MWh which Stanwell understands is the upper bounds of bespoke caps currently being negotiated.

It is not clear that caps struck significantly above this level would retain the strong incentive for physical backing intended by the original scheme design. Were a new standardised cap contract to emerge and become liquid, Stanwell would consider there may be benefit in reviewing the firmness guideline to include that level, however until that occurs Stanwell considers that proponents can still use a bespoke firmness methodology to gain some cover under the RRO.

⁶ <https://www.aemc.gov.au/sites/default/files/2023-05/Rule%20Change%20Submission%20-%20EPR0091-%20Stanwell%20Corporation%20-%2020230504.PDF> p.2

⁷ <https://www.aemc.gov.au/sites/default/files/2023-05/Rule%20Change%20Submission%20-%20EPR0091-%20Stanwell%20Corporation%20-%2020230504.PDF> p.3

Recommendation 10: The AER review opportunities to simplify bespoke methodology and audit arrangements through its guidelines, taking into account the experience of liable entities with the SA T-1 event, to reduce costs for compliance.

Stanwell previously commented that it was “concerned around the potential costs and short timeframes associated with such an independent audit of its bespoke firmness methodologies”⁸ Stanwell agrees that a review of audit arrangements should take place and the guidelines be updated accordingly, to simplify bespoke methodologies and reduce costs to liable parties and ultimately consumers.

The proposed change to having compliance reporting at T also lowers the risk and likely cost of this process.

LIABLE ENTITIES

Recommendation 11: Maintain the timeframes for advice on procurer of last resort (PoLR) costs, and instead progress with simplifying compliance through changing the NCP compliance date from T-1 to T.

No Comment

Recommendation 12: Maintain the existing role of market customers as liable entities.

No Comment

OPT-IN MECHANISM

Recommendation 13: Maintain the existing opt-in mechanism arrangements.

No Comment

COMPLIANCE PROCESSES

Recommendation 14: The AER review options to simplify compliance arrangements through guidelines.

Stanwell notes that four of the RRO Guidelines are still marked as “Interim”. Noting that the obligation commenced on the 1 July 2019, we would encourage the AER to finalise these as soon as practical, to reduce uncertainty on the part of participants.

⁸ <https://aemc.gov.au/sites/default/files/2023-09/EPR0091%20Draft%20report%20-%20Review%20of%20the%20operation%20of%20the%20RRO.pdf> p.22