



Dr Kerry Schott
Independent Chair
Energy Security Board
C/o COAG Energy Council Secretariat
Department of the Environment and Energy
GPO Box 787
CANBERRA ACT 2601

By email info@esb.org.au

9 July 2018

Dear Dr Schott,

RE: Response to Draft Detailed Design Consultation Paper

Thank you for the opportunity to comment on the *National Energy Guarantee Draft Detailed Design Consultation Paper*. This submission is presented by St Vincent de Paul and the South Australian Council of Social Service (SACOSS).

We are broadly supportive of the proposed National Energy Guarantee design as per the draft detailed design consultation paper. We believe it appropriately addresses stakeholder concerns, while also integrating energy and emissions policy in a way that encourages new investment in clean and low emissions technologies and a dynamic energy market.

Reliability Requirement

St Vincent de Paul and SACOSS would particularly like to commend the Energy Security Board for identifying that it is necessary to ensure liquidity, transparency and competition are not negatively affected by the reliability requirement. We are aware that there are particular and significant concerns from a range of consumer organisations about the related issues.

In this respect, we note the introduction of the Market Liquidity Obligation in the draft detailed design consultation paper as a potential part of the suite of options. We are supportive of the concept of the Market Liquidity Obligation as we believe it underpins increased liquidity.ⁱ We note the ACCC recommendation which is similar in operation to the Market Liquidity Obligation.

On other matters related to the reliability requirement, St Vincent de Paul and SACOSS support the position that qualifying contract forms be as broad as possible to allow maximum flexibility to liable entities managing their load requirements. Improving liquidity in wholesale trading markets is critical to ensuring electricity positions can be managed effectively, at a competitive price. We do not support the establishment of a “prescriptive” list of eligible contracts, as alternative contract products would be expected to evolve to meet the requirements of the NEG.ⁱⁱ

We support the obligation on the AER to consult regarding how it makes its decision to trigger the reliability obligation. This consultation must include the Reliability Panel and be consistent with the Panel's consultative obligations, structures and framework.

In short, our organisations and the consumers we represent do not want any unnecessary costs built in for AEMO purchases of additional generation for reliability which may not be delivered when downstream assets such as distribution fail. We are looking for alignments between the National Energy Guarantee and other parts of the supply chain to ensure reliability at lowest cost.

Emissions Requirement

St Vincent de Paul and SACOSS strongly believe that the emissions target is a decision for the federal government at United Nations fora and in this context, support the design of the National Energy Guarantee which provides for adjustment according to the federal emissions target.

We support provision for additionality for state-based targets provides for states to go well beyond the national target. This appropriately balances state initiatives with a national target.

We support the intent of limits to over-achievement on emissions intensity targets – we understand that this may be a necessary provision to prevent hoarding which runs the risk of forcing some liable entities in to noncompliance.

Compliance

St Vincent de Paul and SACOSS support the significant penalties for breach of the reliability and emissions requirements as necessary disincentives for breaching the obligations.

Summary

St Vincent de Paul and SACOSS commend the ESB on the Draft Detailed Design. We are looking to with the Board to ensure seamless integration of the Guarantee with the Integrated System Plan, the recommendations of the ACCC Inquiry and other policy developments.

We thank you for consideration of our comments. If you have any questions, please contact Mr Gavin Dufty, Manager Policy and Research, St Vincent de Paul via gavind@svdp-org.au or Ms Jo De Silva, Senior Policy Officer, SACOSS via jo@sacoss.org.au.

Yours Sincerely,



Gavin Dufty
Manager Policy and Research (St Vincent de Paul)



Ross Womersley
CEO (SACOSS)

ⁱ This is particularly important for consumers in South Australia where concentrated ownership of vertically integrated generating capacity, and relatively small level of regional demand. This has contributed to infrequent trading, and even a lack of market making (i.e. the posting of bids and offers) in exchange and Over-the-Counter (OTC) markets over recent years. This is demonstrated though the ASX Energy futures market, a liquid trading exchange in all other NEM

regions, has open positions of only 50MW-180MW in quarterly base contracts between Q3-2018 and Q4-2019 in South Australia. This is contrasted by open positions of 540MW- 1,030MW on the equivalent contracts in NSW. Open positions in contracts from 2020 in South Australia are almost non-existent, demonstrating their limited benefit in managing future wholesale market risk.

As a result small wholesale market participants, and commercial and industrial customers (C&I) have turned to other means of managing higher contract prices and market risk, with many electing to take spot exposure rather than purchasing at a fixed price that locks in an unsustainable cost increase to their business. The ESB has previously noted that around 7 percent of C&I customers in South Australia purchase their electricity requirements via the spot market. Though extreme spot price events for many C&I customers may be managed via demand response, many do not have the ability or flexibility in operations to manage their load consumption to mitigate the higher cost exposure. This places a high level of uncertainty on their future electricity costs and ability to manage cash flows when spot prices are high.

The Market Liquidity Obligation takes a crucial step in addressing the lack of liquidity in wholesale electricity contract trading in South Australia in the context of the reliability obligation being triggered. With existing vertically integrated participants being largely balanced in their generation versus retail positions, little contract volume is available to enable smaller participants to manage their market risk and reliability obligations. In what will be a very tight market, addressing the market power of incumbent vertically integrated retailers and encouraging new entrants to enable the provision of alternative contract supply is required.

We are also concerned that trade repositories on their own are unlikely to change liquidity as they will have no impact on freedom to transact. Experience in New Zealand and the UK demonstrate that market participants are able to accommodate around schemes like the Market Liquidity Obligation and they do not negatively impact on the market.

ⁱⁱ Book-build contracts will require a degree of flexibility beyond standard swaps and caps due to their bespoke nature, though this is not unusual given the often complex terms and conditions negotiated bilaterally between contract buyers and sellers (i.e. force majeure provisions). We support a framework (rather than strict specification) for assessing contract eligibility under the reliability requirement as a workable arrangement.

This flexibility in the approach to determining eligibility under the reliability requirement will also be required in establishing appropriate demand response contracts. The degree of “firmness” or guaranteed capacity, and time required to enact a response under a demand response contract are elements that would both need to be carefully assessed to apply an appropriate level of contract capacity to reliability obligations.

St Vincent de Paul and SACOSS endorse the principle that qualifying contracts under the reliability requirement should be reported by liable entities in a transparent manner.