Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

4 May 2023

To Anna Collyer,

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

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission ("the Commission") in response to the consultation paper on the review of the Retailer Reliability Obligation ("RRO").

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE, the owner of Simply Energy, is also a leading provider of electricity and gas to business and retail customers accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

ENGIE's comments below focus on the issues raised in the consultation paper; however, it is a missed opportunity that this review will not assess the value of the RRO overall. There are genuine unanswered questions whether the RRO (and by extension the MLO) provides any significant incentives to support new dispatchable investment and close reliability gaps. It is clear the scheme has introduced significant complexity and potential distortions without driving necessary outcomes based on overall market supply demand balance. The recent capacity investment scheme suggests a recognition that *mandated* short term financial products do not of themselves enable long term investment commitments.

Process for T-3 and T-1 triggers

We consider that the Australian Energy Regulator ("AER") should be given the ability to revoke or amend T-1 reliability instruments if circumstances change since the initial decision. This is particularly relevant in circumstances where the Australian Energy Market Operator ("AEMO") updates its Electricity Statement of Opportunities ("ESOO") and no longer forecasts a reliability gap in the relevant period, such as has occurred for the T-1 reliability instrument for South Australia in January to February 2024.[1]

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[1] Australian Energy Regulator 2023, South Australia T-1 reliability instrument to remain in place following AEMO's ESOO update, Media release, 6 April.

Participants incur costs in ensuring compliance with the RRO when it is triggered, which will ultimately be passed through to consumers. The RRO will not be effective if participants (and consumers) are obliged to incur costs in relation to periods where there is no forecasted reliability gap. It would be sensible for the AER to be able to rely on the most recent data from AEMO to assess whether a T-1 reliability instrument should remain in place, be amended, or be revoked.

Market Liquidity Obligation

ENGIE does not support broadening the criteria for the Market Liquidity Obligation (MLO) to capture additional generators and requiring these generators to offer MLO products for two reasons.

First, applying the MLO to semi-scheduled and non-scheduled assets will undermine their ability to enter into long term 'as produced' contracts (i.e., PPAs) which are a fundamental building block of new renewable asset development. In other words, the extension of the MLO to these assets will likely undermine the intent the RRO, supporting new capacity into the market.

Second, ENGIE would prefer that the Commission give further consideration to whether the MLO is of value in its own right, and if so, recognise the impost that MLO obligations place on generators and determine a method to renumerate MLO generators that voluntarily offer market liquidity for potential reliability gap periods, or as an ongoing service. This approach would encourage generators to offer MLO products on a voluntary basis, which may include some semi-scheduled and non-scheduled generators where they are able to do so.

The current obligations are based on the capacity of a select number of generators, rather than the ability of these select generators to support the market through additional liquidity. We expect that the ability for each of these generators to provide these services varies. Thus, especially if there were incentives made available for providing these services, the MLO would work best if it enabled generators to offer the level of service that best met their business' capabilities.

Finally, using the MLO to address concerns that there may be insufficient contracts available for a reliability gap period has always been questionable, it effectively attempts to force generators to carry risk they would be unwillingly to do so voluntarily, without additional incentives. It goes ENGIE's earlier point that the RRO and MLO is likely not adequately valuing capacity and not providing a signal to bring forth further dispatchable investment.

Qualifying contracts

ENGIE questions whether the obligations around firmness methodologies provide significant benefit to justify the continuation of this requirement going forward. In our view, the current requirements to calculate and audit bespoke methodologies for firmness factors involve significant effort, time, and expense. ENGIE considers that the concept of firmness factors could be simplified and still continue to achieve the same level of outcomes, given the time horizon over which financial contracting for the RRO occurs.

In relation to the voluntary book build mechanism, we are not aware of this mechanism being used to-date and do not expect it to be used in the future. ENGIE would support the removal of this mechanism, as it has since it was first proposed.

Concluding remarks

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0477 299 287.

Yours sincerely,

Jamie Lowe
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Compliance, and Sustainability