

30/03/2023

Mr Alex Caroly
Project Leader, Australian Energy Market Commission
GPO Box 2603, Sydney
2001 NSW

Dear Mr Caroly,

Review of the Retailer Reliability Obligation (RRO) Consultation

Thank you for the opportunity to participate in the Australian Energy Market Commission (AEMC)'s Consultation on the Review of the Retailer Reliability Obligation.

SA Water is South Australia's leading provider of water and sewage services, providing regulated water and wastewater services to more than 1.7 million people throughout the state. Wholly owned by the Government of South Australia, we have been working to ensure a reliable supply of safe, clean water and a dependable sewerage system for more than 160 years.

To support the provision of regulated water and wastewater services, SA Water is one of the largest individual users of electricity in South Australia, operating facilities across more than 1,800 connection points across a wide spectrum of electricity loads. The combination of high energy usage required to provide water and wastewater services and the large geographical spread of our customer base mean that SA Water has been dependent on and will continue to be reliant on the reliable and efficient operation of the National Electricity Market (NEM) to support the delivery of essential services to our customers at the lowest possible price.

Our unique position as an essential but flexible consumer of electricity has driven us to innovative approaches to securing a low-cost electricity supply over the last decade, resulting in SA Water becoming a full market customer in 2017. As such, we are now a leader in demand management and deliver significant cost reductions through scheduling our consumption of electricity at times when generation is abundant relative to demand, and prices are therefore low.

While the obligation is named a Retailer Reliability Obligation, the mechanism is really a Market Customer Reliability Obligation. As discussed above, SA Water is not an electricity retailer, however as a registered Market Customer in South Australia with a material load, SA Water is captured by reliability instruments issued under the RRO, including the T-1 instrument issued for Q1 2024 in the South Australian Region.

Making of RRO Instruments

SA Water notes that in South Australia, the South Australian Energy Minister has the authority to trigger T-3 instruments to be declared, regardless of the supply – demand balance. Under this authority, the South Australian Energy Minister has triggered T-3 instruments for each year since the RRO has been implemented, despite the precedent conditions for a T-3 to be requested by AEMO not being met. This approach undermines confidence in market signals intended in the RRO mechanism, which was introduced to support the reliability framework in the national electricity market (NEM). As a result, the release of a T-3 instrument by ministerial declaration does not provide a sufficient signal to the market of a potential shortfall in the supply – demand balance and participants defer material action until evidence of a supply shortfall is released, including the issuing of a T-1 instrument. We believe this reduces the incentive for participants to deliver additional firm generation into the market and therefore is not aligned with the intent of the RRO.

The issuing of T-1 instruments should result from a material deficiency in the supply-demand balance. We note a T-1 instrument for Q1 2024 was triggered by AEMO arising from the ESOO process in August 2022 arising from a reliability gap of 230 MW, and that in February 2023 AEMO released an update of the ESOO which found the reliability gap in Q1 2024 no longer exists. At the time the T-1 instrument was

made, several market participants disputed AEMO's assessment of generation projects not being committed that would have resulted in there being no shortfall. In that context, SA Water is of the view, that the AER should have had a broader remit to not make the T-1 Instrument given the marginal, and contested, nature of the shortfall identified. As such, we believe that the AER's remit should be expanded to consider the uncertainty in the supply demand balance and the likelihood that additional capacity that is not yet considered to be committed will be delivered by the start of the instrument period, provided that the generation capacity is sufficient to address any shortfall in the supply – demand balance.

Further, SA Water is of the view that the AER should be able to rescind a T-1 instrument in the event that the prerequisite supply – demand balance conditions no-longer persist. In such circumstances the AER should be empowered to review or withdraw a decision to make a T-1. We note that consideration in the terms is also given to enabling the AER to make a T-1 instrument should the supply – demand balance worsens. SA Water is of the view that the administrative burden of the RRO, particularly ensuring an adequate contract position, makes it infeasible for participants to comply with the requirements once the trigger date for making an instrument has passed, as such, the extension of AER powers should only be to remove or update an instrument that has already been made.

Contracts and the Net Contract Position and Compliance

Qualifying contracts provide a mechanism for market customers and opt-in customers to demonstrate they hold secure generation to support their load. In our experience, the determination of the firmness of qualifying contracts is an unclear and administratively burdensome process where auditors with expert capability have been explicitly prohibited by the AER from assisting their clients in understanding and meeting their obligations under the RRO.

SA Water's experience of the compliance processes to date has been that the mechanism places a complex and significant administrative burden upon market customers, requiring the significant diversion of resources to ensure compliance with the mechanism. In addition, SA Water has had significant difficulty in gaining expert advice in developing a methodology given the AER's restrictions on independent auditors providing advice to their clients. In general, the guidance published on RRO compliance, has been limited, with very limited education and resources provided to liable entities on meeting their obligations. As an example, the AER is yet to publish the spreadsheet net contract position report template, despite assuring liable entities that they would "publish on our website well in advance of the contract reporting day for the current T-1 reliability instrument for South Australia (31 July 2023)." In SA Water's view this administrative burden being placed upon market customers is inefficient and would deliver a lower cost to the market as a whole through a mechanism that is centrally coordinated.

The use of actual consumption in POLR calculations forces Market Customers to take a very conservative view of 'expected demand' resulting in a tendency towards 'over contracting' across the market. For entities, such as SA Water, which participate in the market on the basis of utilising Demand Response, the RRO operates to compel the holding of firm contracts that can support the worst-case demand response that can be delivered rather than the stated 'expected demand' for fear of breaching our obligations under the NEL. While contracts that recognise demand response are provided for, the requirement that demand response be registered with AEMO DER is prohibitive to their use - SA Water has been unable to register its demand response capability on the DER as AEMO has been unable to calculate a baseline. In the event that demand response is recognised as a contract, demand response contracts once firmness adjusted must be added both to the net contract position and to the liable load, effectively negating the value of the contract and requiring the demand response to be delivered during all peak demand events. This approach is inconsistent with the firmness approach applied to generation where once firmness adjusted, the delivery risk of a generation asset is waived.

The net result of being required to hold firm contracts and not having demand response equitably recognised is that customers will choose not to exercise demand response capability when they hold firm generation during high demand periods. As such, we view that the current implementation of the RRO will exacerbate demand volumes during forecast shortfall periods, resulting in a perverse outcome to the NEO. We suggest that a new contract for demand response should be implemented, providing a

firmness adjusted demand response contract that increases the net contract position without increasing the consumption in POLR calculations. Such a contract should be available for all demand response capabilities, not just that registered with the AEMO DER.

Opt-in Mechanism

SA Water has noted that the opt-in mechanism provides entities who choose to register with additional leeway in deadlines for establishing firm contract positions and meeting reporting requirements that are not afforded to entities that are captured as liable entities. However, use of the opt-in mechanism must be completed for each occurrence of a reliability instrument, well in advance of the making of a T-1 instrument and is subject to what appears to be a highly discretionary assessment by the AER.

SA Water is of the view that opt-in customers should be able to opt-in on an ongoing basis, that the AER should be required to publish the criteria under which applications to become an opt-in customer are to be assessed and that discrepancies between the treatment of liable entities and the treatment of opt-in customers should be eliminated wherever possible.

If you have any queries about this submission, please contact Mr Andrew Wilkins, Energy Lead at andrew.wilkins@sawater.com.au or (08) 7424 1877.

Kind regards,



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