South East Australia Gas Pty Ltd

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Our reference: DEV.08.003

3 May 2023

Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000
Attention: Alex Caroly, Project Leader
Lodged electronically via www.aemc.gov.au

Dear Alex

Re: Review of the Retailer Reliability Obligation - Project Reference Code EPR0091

SEA Gas appreciates the opportunity to comment on the AEMC's review of the retailer Reliability Obligation (RRO).

SEA Gas owns and operates gas transmission infrastructure, including the 680km underground high-pressure gas pipeline from Port Campbell in Victoria to Adelaide in South Australia (the PCA pipeline) and the 83km Mortlake pipeline in western Victoria. Up to 80% of the gas transported through the PCA pipeline and 100% of that delivered through the Mortlake pipeline is used to fuel gas powered generation (GPG).

The high operating pressure of our pipelines makes them ideally suited to storing significant amounts of energy via gas storage. This allows SEA Gas to cater for rapid variations in short term gas supply, enabling flexible GPG dispatch to firm variable renewable energy and thereby facilitating the energy transition. In their current configuration, SEA Gas' pipelines can store almost 300TJ – this is sufficient to generate up to 38GWh of electricity, which equates to over 10% of the storage capacity of Snowy 2.0.

SEA Gas considers the Australian energy market lacks suitable investment signals to support GPG and related infrastructure. We therefore welcome initiatives designed to encourage firm contracting of capacity to support reliability in the national electricity market (NEM). We believe the RRO currently has a role to play in this regard and support its continuation in the context of the prevailing market environment.

Attached are SEA Gas' responses to each of the questions posed in the AEMC's consultation paper. I trust that SEA Gas' submission will make a useful contribution to the consultation process and help to achieve improved outcomes from the AEMC's review of the RRO.

Should you wish to discuss any of the points raised, please contact Paul Frederick, Head of Commercial on (08) 8236 6823 or at paul.frederick@seagas.com.au.

Yours sincerely

Eric Bardy

Eric Bardy
Acting Chief Executive Officer

Review of the Retailer Reliability Obligation - Project Reference Code EPR0091

SEA Gas Submission

Item	Subject	Question	Response
1	PROPOSED ASSESSMENT FRAMEWORK	1. Is the proposed assessment framework appropriate? 2. Are there any other relevant considerations that should be included in the assessment framework?	The assessment framework set out in section 2.2 of the consultation paper doesn't explicitly consider the robustness of the physical supply chain underpinning contracts intended to satisfy the RRO. In the case of South Australia, the RRO is highly reliant on GPG for dispatchable generation, but the assessment framework does not extend to the adequacy of fuel supply and transportation arrangements to provide any assurance that improved reliability will be achieved. Absent this, the RRO may make no contribution to the national energy objective (NEO) with respect to the reliability and security of supply of electricity. SEA Gas considers the assessment framework should be amended to address this consideration.
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? 2. Should the AER have a broader scope to consider if it is appropriate in the circumstances to make or reject a reliability instrument? 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?	No comment.

Item	Subject	Question	Response
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? 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? 3. Is registered capacity appropriate to determining obligated parties or should summer or another appropriate seasonal capacity be used? 4. Does the MLO register provide sufficient information to the market and participants?	SEA Gas does not have a firm view on this matter, other than to highlight that the objectives of the RRO will only be satisfied if all qualifying contracts, including MLO products, increase the reliability and security of supply of electricity. Accordingly, all MLO products, regardless of by whom they are provided, should be required to demonstrate the supply chains in place to ensure physical, versus financial, cover is provided. In turn, this should be reflected in a specific firmness factor for each MLO product offered based on its merits.
4	VOLUNTARY BOOK BUILD MECHANISM	1. Do any changes need to be made to the process for the book build mechanism? 2. Given that the book build has not been used by the market to date, should the Commission consider removing the mechanism?	No comment.

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5	QUALIFYING CONTRACTS	1. Should changes be made in the NER to the definitions of qualifying contracts? 2. Should changes be made to what is defined and the process for defining the firmness of a qualifying contract?	The current premise in relation to firmness of qualifying contracts is that the more the buyer is shielded from spot price volatility, the greater the motivation for the seller to hedge its position[1]. Based on this premise, standard qualifying contracts are allocated default firmness factors of 1 in all cases other than in relation to caps with a strike price >5% of MPC. However, standard qualifying contracts are in essence, financial instruments that, in and of themselves, do not guarantee any contribution towards increasing reliability. Accordingly, unless the seller acts to physically hedge its exposure (including, in the case of GPG, including ensuring firm arrangements for adequate gas supply and transportation), all that is likely to occur is that the exposure to price volatility in the NEM shifts from the buyer (the liable entity under the RRO) to the seller. SEA Gas considers the process for defining the firmness of a qualifying contract should be reviewed to, as far as practical, incentivise the delivery of improved reliability though physical cover, rather than relying on pure financial products that may contribute little, or nothing, to improving the reliability and security of supply of electricity.
6	LIABLE ENTITIES	1. Do the thresholds for liable entities remain appropriate, or should they change? 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?	No comment.

[1] Section 3.1, AER Retailer Reliability Obligation Interim Contracts and Firmness Guidelines, August 2019

Item	Subject	Question	Response
7	OPT-IN MECHANISM	1. Should changes be made to the opt-in mechanism?	No comment.
8	COMPLIANCE PROCESSES	1. Do stakeholders have feedback on the compliance processes they have had experience with to date?	No comment.