



Ms Anna Collyer
Chair, Australian Energy Market Commission
Level 15, 60 Castlereagh St
Sydney NSW 2000
Lodged to online portal at: www.aemc.gov.au

30 October 2023

Dear Ms Collyer,

Review of the operation of the Retailer Reliability Obligation (RRO) – Draft report

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission (“the Commission”) in response to the Draft report on the Review of the operation of the Retailer Reliability Obligation (“the Draft report”).

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 also owns Simply Energy which provides electricity and gas to retail customer accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

The RRO has limited value in today’s market and policy framework

ENGIE considers that it is a missed opportunity for the terms of reference for this review to not consider whether the RRO still has a role to play. Its genesis was as one half of an integrated policy that also sought to drive emissions reduction. The emissions reduction component was never implemented. The RRO has yet to complete a full compliance cycle – the first three reliability gaps declared were later revoked. The purpose of it was to provide confidence to participants and to consumers that the market could address reliability concerns through retailers contracting with operators of firm resources. However, governments have signalled that they do not have the necessary confidence and are implementing a range of policies to ensure investment by other means, including the NSW Roadmap, the Queensland government Jobs and Energy plan, the Commonwealth’s Capacity Investment Scheme, and Victoria’s support for large-scale storage investments. In the light of these policies, the value of the RRO is questionable, and as the Draft report acknowledges, it imposes compliance costs on liable entities, which flows through to higher prices for consumers.

With this in mind, ENGIE is supportive of reforms to the extent they simplify compliance and reduce the regulatory burden of the RRO. We offer specific comments on individual reform proposals below:

Trigger processes

ENGIE is disappointed that the recommendation in our previous submission to empower the AER to cancel a reliability instrument in appropriate circumstances has been rejected, despite the support of other stakeholders for this reform. We continue to consider that there is real value in having a second agency review the instrument in cases where it becomes unclear whether it is genuinely required.

As a second-best option, ENGIE supports the recommendations set out in the draft report to provide AEMO with additional flexibility around requesting and cancelling a reliability instrument, reflecting the changing dynamics of the NEM. It is also consistent with these recommendations that the net contract position obligation be moved to T and for ex post compliance to only be required when a reliability gap eventuates. This should assist in reducing the regulatory burden of the RRO.

Market liquidity obligation and book build

ENGIE does not support the proposal to extend the Market Liquidity Obligation (MLO) to a 10 per cent threshold. There has been a missed opportunity in this review to consider what value the MLO contributes to the market, given the significant burden it places on generators captured by this instrument. We continue to hold the view that MLO generators should be rewarded for providing market liquidity through voluntary contract offers. Some form of positive incentive to sell additional hedging contracts is more likely to be an effective way to stimulate market liquidity than a compliance instrument alone, not least because it has the potential to attract other generators not currently covered by the MLO.

ENGIE observes that the Commission's concerns in respect of liquidity in the South Australian region are unlikely to be meaningfully addressed by tweaking the capacity threshold. This region is expected to be significantly impacted by the commissioning of EnergyConnect, linking South Australia with NSW. This is expected to drive even lower levels of gas generation in South Australia resulting in the closure of some plant. Inevitably for such a major project there is some uncertainty about the date the interconnector will be finished and how long it may be operated below its full capacity as part of AEMO's commissioning process. This inevitably makes it hard for South Australian market participants to evaluate the value that should be placed on hedging contracts over the medium term and is likely to further reduce the pool of generators that can provide traditional contract cover. The market will evolve to respond, with likely solutions including interregional hedging and demand-side innovations such as virtual power plants (VPPs) and industrial demand response. These solutions are not well suited to incorporation into mandatory liquidity requirements. ENGIE notes the Commission's consideration of a broader liquidity review, and we consider that any such review should take into account these upcoming developments in South Australia.

ENGIE supports removal of the voluntary book build mechanism, given it has not been used to date, and was not supported by most during the development of the RRO.

Contract eligibility

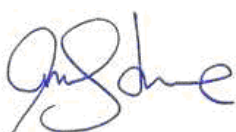
The RRO was originally conceived as a relatively "light touch" regulatory mechanism. In practice the approach to verification of bespoke methodologies is onerous and costly. Accordingly, we support the proposal that the AER reviews opportunities to simplify these arrangements, although we note that the

proposed outcome appears to be only that the Commission recommends to the AER that it carry out such a review. This does not in itself provide any impetus to the AER to actually simplify arrangements, and ENGIE presumes that the current complexity reflects the AER's view that this is the only robust way to ensure compliance with the rules as they stand. Accordingly, it is unclear that this recommendation will lead to reduced compliance costs or greater flexibility.

The recommendations in respect of expansion of eligibility of qualifying contracts and incorporation of demand -side contracts make sense and should contribute – at the margins – to lower compliance costs.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0477 299 827.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'J Lowe', with a stylized flourish at the end.

Jamie Lowe

Head of Regulation,

Compliance, and Sustainability