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Australian Energy Regulator
Email: RRO@aer.gov.au

For consultation - Draft Interim Qualifying Contracts and Firmness Guideline

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (MEA Group or Powershop) thank the Australian Energy Regulator (AER) for the opportunity to provide comments on the Draft Interim Qualifying Contracts and Firmness Guideline Consultation Paper (the Paper).

The MEA Group is a vertically integrated generator and retailer focused on renewable generation. We opened our portfolio of generation assets with the Mt Millar Wind Farm in South Australia and the Mt Mercer Wind Farm in Victoria. Subsequently, in early 2018, MEA Group acquired the Hume, Burrinjuck and Keepit hydroelectric power stations, further expanding our modes of generation. We have supplemented our asset portfolio by entering into a number of power purchase agreements with other renewable generators, and through this investment in new generation we have continued to support Australia's transition to renewable energy.

Powershop is an innovative retailer committed to providing lower prices for customers and which recognises the benefits to customers in transitioning to a more distributed and renewable-based energy system. Over the last five years, Powershop has introduced a number of significant, innovative and customer-centric initiatives into the Victorian market, including the first mobile app that allows customers to monitor their usage, a peer-to-peer solar trading trial and a successful customer-led demand response program. Powershop has also been active in supporting community energy initiatives, including providing operational and market services for the community-owned Hepburn Wind Farm, supporting the Warburton hydro project, and funding a large range of community and social enterprise energy projects through our Your Community Energy program.

Our response to the Paper is set out below.

Standard Qualifying Contracts

MEA Group supports the standard qualifying contracts listed in the paper which include Swaps, Caps, Options, Load Following Contracts, Grandfathered contracts and Marginal Loss Factor products. MEA Group also supports the firmness factor methodology identified in Table 5.1 for these standard qualifying contracts. The firmness methodologies are logical and provide a good assessment of reliability firmness.

Non-Standard Qualifying Contracts

The use of non-standard qualifying contracts under the Retailer Reliability Obligation (RRO) will create additional administrative burden and costs for liable entities establishing and auditing bespoke firmness methodologies. For this reason it is important (to the extent possible) to establishing set methodologies for a wide range of contracts that are frequently used by liable entities so they can be recognised as standard qualifying contracts.

Internal hedges are heavily utilised in vertically integrated businesses. These contracts should have a set methodology so they are recognised as standard qualifying contracts, providing a level of contract certainty for liable entities that own generation.

One approach of dealing with internal hedges could be to treat Swap and Cap transactions traded within a vertically integrated business (between the related generating and retailing entities) as standard qualifying contracts. The firmness factor of these internal hedge contracts (Swaps and Caps) could be determined using the same firmness methodology outlined in the guideline.

Liabile Entities

The currently drafted definition of liable entities appears to only capture retailing entities. This definition may not adequately recognise the liability requirements for vertically integrated organisation which operate under a parent company with separate generation and retail businesses’.

Pool Pass-Through Contracts

The treatment of demand response products as outlined in the guideline is a reasonable approach (i.e. demand response products should be the liability of the retailing entity). If a retailer offers pool pass-through contracts they should hold the responsibility of managing the RRO. A retailer offering pool pass-through contracts can manage this liability by:

- purchasing qualifying contracts; or
- structuring their contracts with end users so they are incentivised to manage their demand in the gap periods(i.e. have a provision to pass through Procurer of Last Resort costs).

Auditor Panel Criteria

Auditors need to demonstrate their experience in advising and or dealing in electricity derivative products and their relevant experience in the electricity market (we suggest this is 5 years). Auditors will be advising on derivative contracts. As part of the selection process the AER should ensure auditors hold a current Australian Financial Services License with a provision for providing general financial product advice in financial derivative products.

If you have any queries or would like to discuss any aspect of this submission please do not hesitate to contact me.

Yours sincerely,



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