Review of the Retailer Reliability Obligation

Disclaimer: this does not represent my employer.

The RRO does not work as intended

The signal to invest is weak

A short duration, occasional, and unpredictable requirement to book build does not incentivise new build generation.

There is no evidence of any new generation being built to support Retailer Reliability Obligations.

Near term contracting is a weak promoter of new capacity because of the time it takes to build new assets. Having less than 12 months of contracting on a multi-decade investment is meaningless.

In general, the market price cap and administered price cap act to not only minimise bankruptcies, but also to limit the costs of under-contracting. There is an unresolved conflict between the bankruptcy avoidance goal and the capacity development incentive from energy-only markets.
It seems likely that the recent changes to the administered price cap and cumulative price cap have done more to strengthen energy-only market signals than any other mechanism so far.

RRO creates costs to certain consumers

I have heard anecdotal evidence from retailers that during book build, the sellers of contracts (e.g. caps) increase their price knowing there is a captive market that they can exert market power in.

In response to this retailers increase the price to new customers during this period, and do not roll-over existing customers whose contracts expire. This is mainly related to larger business customers.

The net effect is an unexpected windfall for cap sellers, with the cost borne by the customers unlucky enough to be contracting during book build.

RRO does not support sophisticated customers

Customers who buy caps, swaps, or other generation linked contracts cannot transfer this capacity to their retailer for RRO purposes. In most cases the retailer has additional book build costs that they will transfer to the customer.

This discourages customers from contracting with new capacity. I.e. an indirect disincentive for new capacity.

It can also mean retailers become intimately entwined in energy contracts which puts independent power producers at a commercial disadvantage.

Federal policy may do the job instead

The federal government is going to release policy on the Capacity Mechanism. This may provide the means for a long term support structure that leads to capacity deployment.
The AEMC should consider retiring the RRO.

Kind regards,

Tom Geiser