



INFORMATION

AUSTRALIAN ENERGY MARKET COMMISSION LEVEL 15, 60 CASTLEREAGH STREET SYDNEY NSW 2000
T: 02 8296 7800 E: AEMC@AEMC.GOV.AU W: WWW.AEMC.GOV.AU

Review of the Operation of the Retailer Reliability Obligation

The Commission has published a draft report on the *Review of the Operation of the Retailer Reliability Obligation*

The Australian Energy Market Commission (AEMC) has made fourteen draft recommendations to improve the operation of the Retailer Reliability Obligation (RRO). The recommendations are aimed at improving the operational efficiency of the RRO by reducing regulatory burden for market participants and reducing costs for consumers.

The Commission's review is aimed at improving the operation of the RRO

The Commission has published a draft report on its review into the operation of the Retailer Reliability Obligation (RRO), which obliges liable entities (largely retailers) to support the reliability of the power system through contracting and investment in firm generation and demand side response in regions where reliability gaps are identified. The draft report includes fourteen draft recommendations to make the RRO operate more efficiently by reducing regulatory burden on market participants and reducing costs for consumers.

The scope of the review on the operational aspects of the RRO is consistent with the 2018 decision Regulation Impact Statement (RIS) to the RRO: *'The review is not intended to assess the overall efficiency of the Obligation, as determining the overall impact of the scheme would likely require a longer assessment horizon'*.

The Commission is carrying out the review over a longer timeframe than required under the National Electricity Rules (NER), with a final report expected to be released in early 2024. This longer timeframe has enabled the Commission to consider stakeholder experiences with the first T-1 Reliability Instrument, and new information including the Australian Energy Regulator (AER) *Retailer Reliability Obligation Compliance Procedures and Guidelines* published in June 2023 and the Australian Energy Market Operator (AEMO) *Reliability Forecasting guidelines and methodology final report* published in April 2023.

The Commission has made fourteen draft recommendations

In summary, the Commission's draft recommendations are to:

- Move the T-1 Net Contract Position compliance date to T and continue ex-post compliance testing only if a reliability gap occurs, to reduce regulatory burden and costs for consumers
- Change AEMO's reliability gap forecasting timeframes to ensure that reliability instruments are made with the best available information and cover potential gaps throughout the year
- Remove the voluntary book build mechanism, which is not being used, to simplify the National Electricity Law (NEL) and NER
- Improve the overall operation of the Market Liquidity Obligation (MLO) for market participants in the short term, while noting that over the longer term, the MLO could be further reviewed
- Maintain the existing definitions for liable entities, opt-in participants and the AER's role in assessing reliability instrument gap requests
- Make changes to the NEL and NER and review guidelines to address a number of operational issues raised by stakeholders to reduce regulatory burden and deliver lower compliance costs.

The South Australia T-1 trigger identified opportunities for reform

The RRO has been triggered once at T-1 (one year before the forecast reliability gap), for a January to February 2024 reliability gap in South Australia (SA). Compliance processes are currently ongoing for the T-1 Reliability Instrument implemented for this forecast reliability gap.

Stakeholders identified areas for reform associated with the operation of the RRO following experiences with the SA T-1 Reliability Instrument. Stakeholders considered that the current operation of the RRO for T-1 trigger events is complex and is not delivering the best outcomes in terms of regulatory burden, reliability outcomes and costs for consumers.

The Commission's draft recommendations have been informed by stakeholder submissions to the consultation paper and are designed to help address some issues and concerns raised by stakeholders in relation to T-1 trigger events.

The Retailer Reliability Obligation is intended to support reliability

As the NEM transitions to an energy-limited, high variable renewable energy power system, the Commission considers that measures to support firmed generation and demand side response continue to be needed.

The RRO commenced on 1 July 2019, to support reliability in the NEM by incentivising market participants to invest in dispatchable technology in regions where it is needed. Retailers, on behalf of their customers, are obligated to support the reliability of the power system through their contracting and investment in regions where a reliability gap is forecast.

Retailers are required, under the RRO, to demonstrate they have entered sufficient contracts for dispatchable capacity (including demand response) to cover their share of demand at times identified as having a potential shortfall, or gap, of supply to meet demand.

The RRO was intended to be a long-term solution to ensure reliability at the lowest cost by preparing for and eliminating forecast reliability gaps before they occur.

The Commission recognises that since the introduction of the RRO in 2019, new measures have been announced or have commenced which may in the future overlap with the operation of the RRO including a potential new form of the reliability standard from 1 July 2028, the Commonwealth Government's Capacity Investment Scheme and jurisdictional schemes. Once these measures are in operation, a further review of the RRO may be needed to understand the overlap with the RRO and overall policy efficiency.

We are seeking stakeholder feedback on the draft recommendations

The Commission is seeking feedback from stakeholders on the draft report and recommendations by **2 November 2023**. Information on how to make a submission and other opportunities for engagement can be found on our website or in the draft report at the end of the Summary section.

For information contact:

Senior Adviser, **Genevieve Schulz** (02) 8296 7837

Director, **Kate Wild** (02) 8296 0622

Media enquiries: media@aemc.gov.au

28 September 2023