AUSTRALIAN ENERGY COUNCIL

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AEMC Review of the Operation of the Retailer Reliability Obligation: Draft report

The Australian Energy Council (the "**AEC**") welcomes the opportunity to make a submission in response to the AEMC's Review of the Operation of the Retailer Reliability Obligation Draft report (the Draft).

The AEC is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

While this review only concerns the operational aspects of the Retailer Reliability Obligation (RRO), the AEC would like to reiterate its opposition to the RRO.[1] A reliable and affordable electricity system is critical for households and businesses. However, the RRO does not contribute to achieving this and it should be expunged from the NEL and the NER.

Despite the AEC's opposition to the RRO, we believe the AEMC has done a commendable job within the constraints of the review's scope. Table 1 summarises the key recommendations, the AEC position and includes the mechanism to make the recommended change.

Table 1: Draft AEMC recommendations

Rec.	Description	AEC position	Change Mech.
1	Move the T-1 Net Contract Position (NCP) compliance date to T and continue ex-post testing only if a reliability gap occurs	Support – reduces regulatory burden	NEL and NER amendments
3	Change the timeframe for AEMO to request a reliability instrument from 3 to 9-months, to provide greater flexibility when AEMO can request a reliability instrument including better taking into account ESOO Updates which may subsequently close a reliability gap	Support – removes complexity	NEL and NER amendments
2	Provide AEMO with a limited power to request the AER cancel a T-1 reliability instrument following an Electricity Statement of Opportunity (ESOO) or ESOO Update between T-1 and T which shows a reliability gap has closed.	Support – but needs clarity	NEL and NER amendments

[1] https://www.aemc.gov.au/sites/default/files/2023-05/Rule%20Change%20Submission%20-%20EPR0091-%20AEC%20-%2020230504.PDF

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4	Maintain the AER's existing role in assessing reliability instrument gap requests to ensure a clear differentiation in roles of market bodies	Support – maintains clarity	No change
5	Amend the MLO from a 15 per cent threshold for MLO groups to 10 per cent threshold to ensure that the MLO continues to support market liquidity in South Australia (SA).	Support	Not clear in draft report
6	Remove the voluntary book build mechanism, which is not being used, to simplify the NEL and NER	Support – it is not being used	NER amendments
7	The AER review expanding eligible demand-side management contract types to increase the pool of eligible contracts, to reduce cost and regulatory burden for liable entities.	Support	AER review
8	AEMO review expanding timeframes for the AEMO demand portal being open to expand the pool of eligible demand response contracts and reduce costs.	Support	AEMO review
9	The AER review the contracts and firmness guidelines to expand eligibility of qualifying contracts with a firmness of 1 to include caps above 5% of the Market Price Cap to increase the pool of eligible contracts and reduce costs.	Support.	AER review
10	The AER review opportunities to simplify bespoke methodology and audit arrangements through its guidelines, taking into account the experience of liable entities with the SA T-1 event, to reduce costs for compliance.	Support	AER review
11	Maintain the timeframes for advice on procurer of last resort (PoLR) costs, and instead progress with simplifying compliance through changing the NCP compliance date from T-1 to T	Support	No change
12	Maintain the existing role of market customers as liable entities.	Support	No change
13	Maintain the existing opt-in mechanism arrangement	Support	No change
14	The AER review options to simplify compliance arrangements through guidelines	Support	AER review

Comments on selected draft recommendations

The AEC supports recommendation 2, however it has been drawn to our attention that there is a degree of complexity in the NER and NEL that govern the timing of the RRO. The AEMC's explanation does not appear to clarify the issues sufficiently. The AEC believes that improved clarity is required in this area and the AEMC should publish the proposed rules as soon as is feasible – ideally prior to the release of the Final report – to better allow stakeholders to consider the potential impacts.

Recommendation five is a necessary change however liquidity issues will persist in SA. The bulk of financial market liquidity depends on physical assets and increasing capacity would be one of the most effective means of increasing liquidity in SA.

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With respect to recommendation 9, the AEC's previous submission suggested 10 per cent of the MPC should be the upper limit for a cap contract to have a firmness rating of one and we maintain this position. We also raised the issue of options which currently require bespoke firmness compliance processes, the AEC considers that 'knock in' swaptions based on a linkage to demand that become a swap once a demand threshold is exceeded, should be included as standard contracts and that they should have a firmness factor of one when the demand trigger is aligned to the RRO obligation of exceeding the one in two year peak demand forecast (ie, POE50). The AER should implement both these recommendations in a timely manner.

Conclusion

As can be seen from Table 1, several recommendations require changes to the NEL, NER or both. Making these changes will take considerable time and resources. The biggest improvement in our view is recommendation one and two as they make the biggest difference to reducing costs and burden. The AEMC and Energy and Climate Change Ministerial Council (ECMC) should fast track a rule change to implement these changes. Some recommendations ask for AER or AEMO reviews/guideline changes which are also likely to have long lead times. It would be helpful for stakeholders if the AEMC could provide guidance as to how long it will take before each recommendation can be expected to be implemented.

The AEMC can self-initiate a review of the policy efficiency of the RRO and the AEC believes now is an appropriate time to initiate this process. Significant policy developments including the NSW Infrastructure Roadmap and the impending CIS support the justification for this review. Furthermore, they add further evidence for the case to discontinue the RRO. The AEMC in its Draft recommends a review "after these mechanisms have been further developed."[2] Ideally, this operational review could be broadened into one policy review which would include the policy efficiency of the RRO.

Any questions about this submission should be addressed to the writers, by e-mail to Peter.brook@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,

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[2] Draft, pp 3-4.