



# Review of the operation of the Retailer Reliability Obligation

## The Commission has published a final report on the Review of the Operation of the Retailer Reliability Obligation

**The Australian Energy Market Commission (AEMC) has made twelve recommendations to improve the operation of the Retailer Reliability Obligation (RRO). The recommendations would reduce regulatory burden for market participants and costs for consumers.**

### The recommendations would improve the operation of the RRO

The Commission has published a final report on its review into the operation of the RRO. The RRO obliges liable entities (largely retailers) to support the reliability of the power system through contracting and investment in firmed generation and demand side response in regions where reliability gaps are identified.

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

- Move the T-1 Net Contract Position compliance date to T and continue ex-post compliance testing only if the conditions in the reliability instrument occur
- Extend the timeframe for the Australian Energy Market Operator (AEMO) to request a reliability instrument to allow AEMO to effectively cover forecast reliability gaps throughout the year
- Remove the voluntary book build mechanism which is not being used
- Amend the Market Liquidity Obligation (MLO) to ensure it continues to support market liquidity in South Australia
- Make changes to the National Electricity Law (NEL) and National Electricity Rules (NER), and review guidelines to address a number of operational issues raised by stakeholders
- Maintain the existing definitions for liable entities, opt-in participants and the Australian Energy Regulator's (AER) role in assessing reliability instrument gap requests.

If implemented, the final recommendations would:

- Reduce regulatory burden for market participants through a simplified and more operationally efficient RRO
- Reduce costs for consumers by promoting system reliability and improving the efficiency of the RRO
- Support system reliability and emissions reductions as the NEM transitions and thermal generators retire by supporting investment in new clean dispatchable capacity to fill reliability gaps when and where they occur.

The Commission is also aware of impacts on large-scale battery energy storage systems (BESS), which can be required to comply with the RRO and are disincentivised to operate as load during reliability gap periods. In particular, BESS can be discouraged from operating as load for system security services. While not making a recommendation in this review to address this issue, the Commission supports the development of potential solutions to incentivise BESS to appropriately operate as a load during gap periods.

The Commission notes that AEMO and the AER did not support the draft recommendation to move the NCP compliance date from T-1 to T. In their views, moving the NCP compliance date would remove the incentive for liable entities to contract well in advance of a reliability gap. The Commission has given careful consideration to the arguments raised by AEMO and the AER. However, we are of the view that moving the NCP

compliance date will not impact incentives to contract early, it will allow liable entities to contract with new builds that come on between T-1 and T, and will allow more efficient levels of contracting. This is because liable entities will have greater certainty of their expected demand as they reach closer to T and can adjust their contract positions accordingly, thereby reducing regulatory burden and costs.

The RRO is implemented through the NEL and NER, as well as detailed guidelines developed by AEMO and the AER. This means that there are likely to be different lead times on when reforms can be implemented. Recommendations that require legislative amendments would need to be approved by the Energy Ministers Sub-Group and passed through the South Australian Parliament. Some recommendations would require AEMO or the AER to review and make changes to their guidelines.

### **A further review on the efficacy of the RRO**

Since the introduction of the RRO in 2019, new policy mechanisms have arisen that may overlap with the RRO in the future. These mechanisms include the Commonwealth Government's Capacity Investment Scheme and jurisdictional schemes such as NSW's Electricity Infrastructure Roadmap.

A further review of the RRO would help understand the overlap with other policy mechanisms and assess the overall policy efficiency of the RRO. The Commission is aware of strong stakeholder support for a further review on the efficacy of the RRO.

In light of stakeholder views, the Commission considers that the Commonwealth should take a holistic view of policy mechanisms that support reliability, including the RRO, as part of its work on the future design of the market. In the Commission's view, the Commonwealth should consider potential overlaps between the RRO and other policy mechanisms it may recommend, and evaluate suitability of the RRO as a mechanism to support reliability in the future national electricity market (NEM).

### **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 firm 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.

Liable entities 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 scope of the review on the operational aspects of the RRO is consistent with the 2018 decision Regulation Impact Statement 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'*.

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