



9 July 2024

Anna Collyer  
Chair  
Australian Energy Market Commission  
GPO Box 2603  
Sydney NSW 2000

Submitted online at: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Ms Collyer

### **Retailer Reliability Obligation exemption for scheduled bi-directional units – Consultation Paper**

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) Retailer Reliability Obligation (RRO) exemption for scheduled bi-directional units Consultation Paper.

Origin understands the overarching intent of the proposed rule, and importance of ensuring the RRO framework does not undermine incentives for efficient security service provision, particularly given the expected growth in bi-directional units as the market transitions. However, there are trade-offs associated with applying the proposed exemption that need to be considered, noting it could potentially increase costs for remaining liable entities (i.e. Market Customers). The issues identified in the proposed rule are also indicative of the inherent complexity of the scheme and further underscore the need for a broader review of its efficacy.

A key concern raised in the proposed rule is that current arrangements could weaken incentives for scheduled bidirectional units (BDUs) to provide security services such as Frequency Control Ancillary Services (FCAS), as doing so could result in providers incurring a material liability under the RRO framework that would not be economic to hedge (e.g. due to the cost of procuring cap contracts during reliability gap periods)<sup>1</sup>. The proponents note this dynamic would both increase costs to consumers (due to an associated increase in FCAS prices) and create additional system security risks due to the relative lower quality and slower performance of non-battery providers and the inability to value stack in the same way as batteries<sup>2</sup>. It is further suggested only minor administrative costs would be incurred and a result of the change<sup>3</sup>.

The case for exempting BDUs under the RRO was only recently considered by the AEMC as part of the Integrating Energy Storage Systems (IESS) into the NEM rule change process. The AEMC ultimately concluded that Integrated Resource Providers (IRPs) should be included in the scheme to provide for consistent treatment of large loads and avoid any inefficient incentives that may arise if the load of certain participant types was exempted<sup>4</sup>. This was a prudent approach, given there is potential for storage to charge during reliability gap periods and therefore not only impact the reliability needs of the NEM, but also the operationalisation of the RRO (e.g. by contributing to the triggering of compliance trading intervals and concentrating the allocation of any liability under the RRO across a smaller group of participants). It would be a perverse outcome if the proposed change distorted incentives for storage

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<sup>1</sup> Tesla, Neoen, Iberdrola, 'Retailer Reliability Obligation for Scheduled Bidirectional Units – Rule Change Proposal', 8 April 2024, pg. 8.

<sup>2</sup> Ibid, pg. 6.

<sup>3</sup> Ibid, pg. 13.

<sup>4</sup> AEMC, 'Integrating Energy Storage Systems into the NEM – Rule Determination', 2 December 2021, pg. 68.

providers to manage their impact on reliability during such periods and increased the level of any liability / compliance costs for other entities.

We also generally agree with the AEMC's principled view that it is more efficient to let the market provide incentives for service provision rather than rely on exemptions (where practicable), with the price for ancillary services to accurately reflect their value at the time<sup>5</sup>. In this context, the scenario described above by the proponents may simply result in the actual costs of ancillary service provision being reflected in the market price and does not in and of itself provide adequate justification for exempting a particular technology / class of market participant from the RRO. This is particularly relevant given the speed of change and innovation in areas such as Demand Response (DR) and distributed Consumer Energy Resources (CER), which will likely further alter the mix of service providers over time.

Given the above, a more relevant issue to consider is whether ancillary service provision should contribute toward a liable entities net load under the RRO, noting for example, the current design does not differentiate between load for provision of contingency / regulation FCAS lower services and energy, which is seemingly the core factor driving the conflicting incentives observed by the proponents. Where possible, addressing this limitation more directly would likely provide a more efficient solution and mitigate the risks associated with fully exempting BDUs from any liability under the RRO.

More broadly, the overall policy efficiency of the RRO should be reviewed. Given the administrative complexity of the scheme (as identified here and through the AEMC's recent Review of the RRO) and progression of other more direct mechanisms such as the Capacity Investment Scheme (CIS), we do not consider the RRO to be an enduring framework for supporting reliability in the NEM. Where the RRO remains in operation, it is also important key recommendations identified by the AEMC are progressed, including moving the T-1 Net Contract Position (NCP) compliance date to T and only requiring NCP reports to be submitted when operational demand during a reliability gap reaches the peak demand threshold

If you wish to discuss any aspect of this submission further, please contact Liz Robertson at [elizabeth.robertson@originenergy.com.au](mailto:elizabeth.robertson@originenergy.com.au) .

Yours Sincerely,



Shaun Cole  
Group Manager, Regulatory Policy

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<sup>5</sup> Ibid, pg. 68.