

20 November 2020



Ms Merryn York
Acting Chair
Australian Energy Market Commission
Sydney South NSW 1235

10 Eagle Street
Brisbane QLD 4122
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By online submission

AEMC code: RPR0015

Dear Ms York

Review of the Retailer of Last Resort Scheme – AEMO Submission

AEMO welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Consultation Paper, Review of the Retailer of Last Resort (RoLR), as part of the AEMC's process to refine recommendations to improve the scheme.

AEMO plays a central role in administering the impacts of the RoLR scheme and understands the consequences that its decisions and processes can have upon the range of stakeholders. In responding to the Consultation Paper, AEMO acknowledges contributions to previous AEMC reviews of the RoLR scheme, in both the NEM Financial Resilience Report March 2015 and elements of that report subsequently included in the 2020 Retail Energy Competition Review.

AEMO supports the work being undertaken by the AEMC to refine the RoLR scheme, to enhance financial stability and outcomes for small customers. History suggests that the instigation of RoLR is a relatively rare event, most likely to involve Market Customers with small customer bases. Nonetheless, current financial pressures, driven by the COVID-19 pandemic combined with an evolving NEM market structure, create preconditions that warrant a deeper exploration of the tools to enhance the resilience, effectiveness and flexibility of the scheme.

AEMO also appreciates the opportunity to respond to questions posed by the AEMC in this Paper on topics including; RoLR designation, AEMO credit support arrangements, RoLR triggers and customer applicability and welcomes the invitation to participate in the reference group where these issues can be discussed in greater detail. Should you wish to discuss any of the matters raised in this submission, please contact Kevin Ly, Group Manager Regulation on kevin.ly@aemo.com.au.

Yours sincerely

A handwritten signature in blue ink, appearing to be "P. Geers", written over a light blue horizontal line.

Peter Geers
Chief Strategy and Markets Officer

Attachment 1: AEMO submission

ATTACHMENT 1:

2020 Review of the Retailer of Last Resort Scheme RPR0015– AEMO Submission

AEMO welcomes the AEMC's focus on refining recommendations to the RoLR scheme as part of its 2020 Retail Energy Competition Review and the opportunity to comment on the Consultation Paper. AEMO's submission addresses four questions posed by the AEMC's Consultation Paper.

Firstly, the RoLR designation framework (Question 3 in the Consultation Paper). This section provides details of AEMO's views with respect to participant accessibility and timing of appointment of RoLR.

Secondly, AEMO Credit Support Requirements (Question 4), particularly with respect to options for introducing more flexibility to appointed RoLR regarding the timing of provision of credit support.

Thirdly, appointment of administrator as a trigger for a RoLR event (Question 6).

And finally, RoLR arrangements for embedded networks (Question 7).

Context

AEMO supports the work being undertaken by the AEMC to refine the RoLR scheme and considers that whilst the scheme has historically been effective on the few occasions that it has been instigated, there are potential refinements that may improve outcomes for customers and market participants with minimal additional risk or cost. It is widely acknowledged that the structure of retail markets has changed significantly in response to retail competition and that the capability and incentives for retailers to provide RoLR services has evolved accordingly. More recently, the COVID-19 pandemic has resulted in heightened financial sensitivity of customers and, therefore, retailers. In such an environment, an examination of the RoLR scheme to determine whether there are efficiencies of process that yield better outcomes for the market and customers is to be encouraged.

RoLR designation framework

AEMO understands that short lead times on establishing the designated RoLR in response to a RoLR event creates a potential compromise on what might otherwise have been achieved if the Australian Energy Regulator (AER) had more time to negotiate the distribution of RoLR customers amongst eligible retailers. By decoupling the requirement to nominate the designated RoLR prior to the effective RoLR date and making provision for an additional 24 hours introduces the prospect of a more efficient and acceptable outcome for participants and customers.

Whilst AEMO would prefer that effective RoLR dates and designated RoLR appointments are synchronised, we are generally supportive of the approach to grant an additional 24 hours to optimise the designated RoLR. AEMO would look to work through the following issues with the AEMC and the RoLR reference group:

- Management of the additional day of exposure post RoLR effective date where there is no designated RoLR or financially responsible market participant, which creates uncertainty around allocation of pool costs.

- Costs and impacts associated with amending existing rules, systems and processes.

AEMO credit support requirements

AEMO remains aware that there is a material risk that the existing RoLR processes would be unable to prevent financial contagion in the event of failure of a large gentailer or retailer. Whilst the measures proposed in the Consultation Paper are likely to improve outcomes for customers and participants in the event of financial failure for the most likely scenarios, they would be insufficient to make RoLR effective in the event of large retailer or gentailer default.

AEMO broadly supports the introduction of a more flexible approach towards the establishment of credit support for participants who are assigned by the AER as a designated RoLR in response to a RoLR event. More specifically AEMO supports the following recommendations tabled in the 2020 Review of Retail Competition:

"... amend the NER to insert a minimum time before AEMO can require increased credit support from the designated RoLR as a result of its increased customer load. There would be a one-week 'period of grace' in relation to credit support requirements following a RoLR event, following which the required credit support would be ramped up in increments over a period of four weeks until it reaches the level that fully reflects the additional load of the customers from the RoLR event."

A further clarification to this approach would be the requirement to work through eligibility criteria for a concessional treatment with regard to the establishment of credit support in response to a RoLR event. Whilst there is a case that a more flexible approach be applied in circumstances where the appointed RoLR is mandated due to being appointed as either the default RoLR or additional RoLR (having both the contract and credentials to be considered 'firm'), the case for participants who take on RoLR responsibilities on a discretionary basis is less clear. For participants seeking to provide RoLR services on a discretionary basis, AEMO suggests exploring a mechanism that seeks to cap concessional treatment beyond which additional exposure would require credit support be provided in accordance with the current rules.

RoLR triggers – appointment of administrator

The Consultation Paper indicates that the current RoLR scheme describes a RoLR event as being triggered upon appointment of an administrator. AEMO accepts the recommendation that the appointment of an administrator should be the trigger for a pre-RoLR monitoring process by the AER, rather than triggering a RoLR event.

This recommendation is aligned with both the NER and AEMO internal processes which recognise the appointment of an administrator as a default event under NER S3.15.21 (11) and require instigation of pre RoLR procedures with the AER.

Furthermore, AEMO internal procedures extend some discretion to the Board to elect not to suspend a participant in response to the appointment of an administrator. In this regard, AEMO may only make a non-suspension decision if the external administrator has requested or consented to the non-suspension decision and has undertaken that the defaulting Market Participant will meet its relevant liabilities under the Rules and AEMO considers that the defaulting

Market Participant should not be suspended in relation to the activities or registration category to be suspended taking into account the matters in NER 3.15.21(c2)(2).

RoLR arrangements for embedded networks

AEMO acknowledges that a growing number of customers are having their energy provided through embedded network arrangements and notes the shortcomings of the current regulatory arrangements, including RoLR, for embedded network customers where being supplied by an off-market retailer.

AEMO fully supports the AEMC's recommendation from its previous review, *Updating the regulatory frameworks for embedded networks*, where it recommended that embedded network customers impacted by the failure of an off-market retailer would revert to the retailer holding the parent NMI for that network.

AEMO welcomes the opportunity to work with the AEMC and provide further input as the Review, and any subsequent rule changes and implementation activity, progresses.