



Review of the retailer of last resort scheme

Final report published

The Australian Energy Market Commission (AEMC or the Commission) has published a final report which provides a set of targeted recommendations to improve the Retailer of Last Resort (RoLR) Scheme. The RoLR scheme is the mechanism, included in the National Electricity Retail Law (NERL), to be followed in the event of the failure of a retailer, to ensure the orderly transfer of retail customers to new retailers without disruption of supply. The recommendations seek to improve outcomes for small customers following a RoLR event and enhance the financial market resilience of the national electricity market (NEM) if a medium or large RoLR event should occur.

Context

This review follows the Commission's analysis and similar recommendations in the 2020 Retail energy competition review final report to amend the RoLR scheme after assessing the effect of the pandemic on the retail electricity sector. The Commission considered that pandemic impacts heightened the risk of the failure of a retailer, or retailers with a large number of customers, due to a potentially significant increase in the number of customers who are deferring or unable to pay their bills.

On 8 October 2020 the ministerial forum of Energy Ministers (formerly COAG Energy Council) requested the Commission conduct this review to provide advice to governments on updating the RoLR scheme. The AEMC published a consultation paper on 22 October 2020 seeking stakeholder feedback on a number of specific issues and recommendations to improve the RoLR scheme.

Final report recommendations

To improve outcomes for small customers following a RoLR event and enhance the financial market resilience of the NEM the Commission made the following recommendations, that the:

- NERL is amended to remove the requirement (but not the ability) for the small customers of a failed retailer to be transferred on to the standard retail contract of the designated RoLR. This would allow customers to be placed immediately on lower priced market offers and therefore face lower electricity bills, if a RoLR's market offer is approved by the AER.
- RoLR cost recovery arrangements in the NERL be amended to provide greater certainty to the designated RoLR(s) that they can quickly recover the efficient costs they incur following a RoLR event and that the failed retailer's customers will not bear the financial burden of their retailer's failure.
- RoLR scheme is amended to allow the AER to delay the designation of RoLRs by up to 24 hours following a RoLR event which gives the AER greater ability to appoint multiple RoLRs if appropriate.
- National Electricity Rules (NER) are amended to give the RoLR more time to meet AEMO's credit support requirements in relation to the RoLR customers it gains, noting that this may be a significant number of customers in the event of a large retailer failure or multiple retailer failures.
- NERL is amended to provide the AER with appropriate flexibility in its RoLR plan communication and publication requirements.

RoLR review overview

Attached to this information sheet is a set of diagrams outlining the process overview of the RoLR scheme. The diagrams highlight the five key time periods associated with the scheme and relevant regulatory processes and challenges for each period. It then provides an overview of each regulatory step within each period and the proposed changes to the current arrangements. This is designed to provide an easy to understand tool to conceptualise the RoLR scheme, the current arrangements and the proposed arrangements.

Next steps

In this report, the Commission presents policy advice that can be further developed into law and rule changes that will address the issues present in the RoLR scheme. If the recommendations are accepted by jurisdictions, law changes to the NERL will be progressed by jurisdictions in coordination with rule changes by the AEMC.

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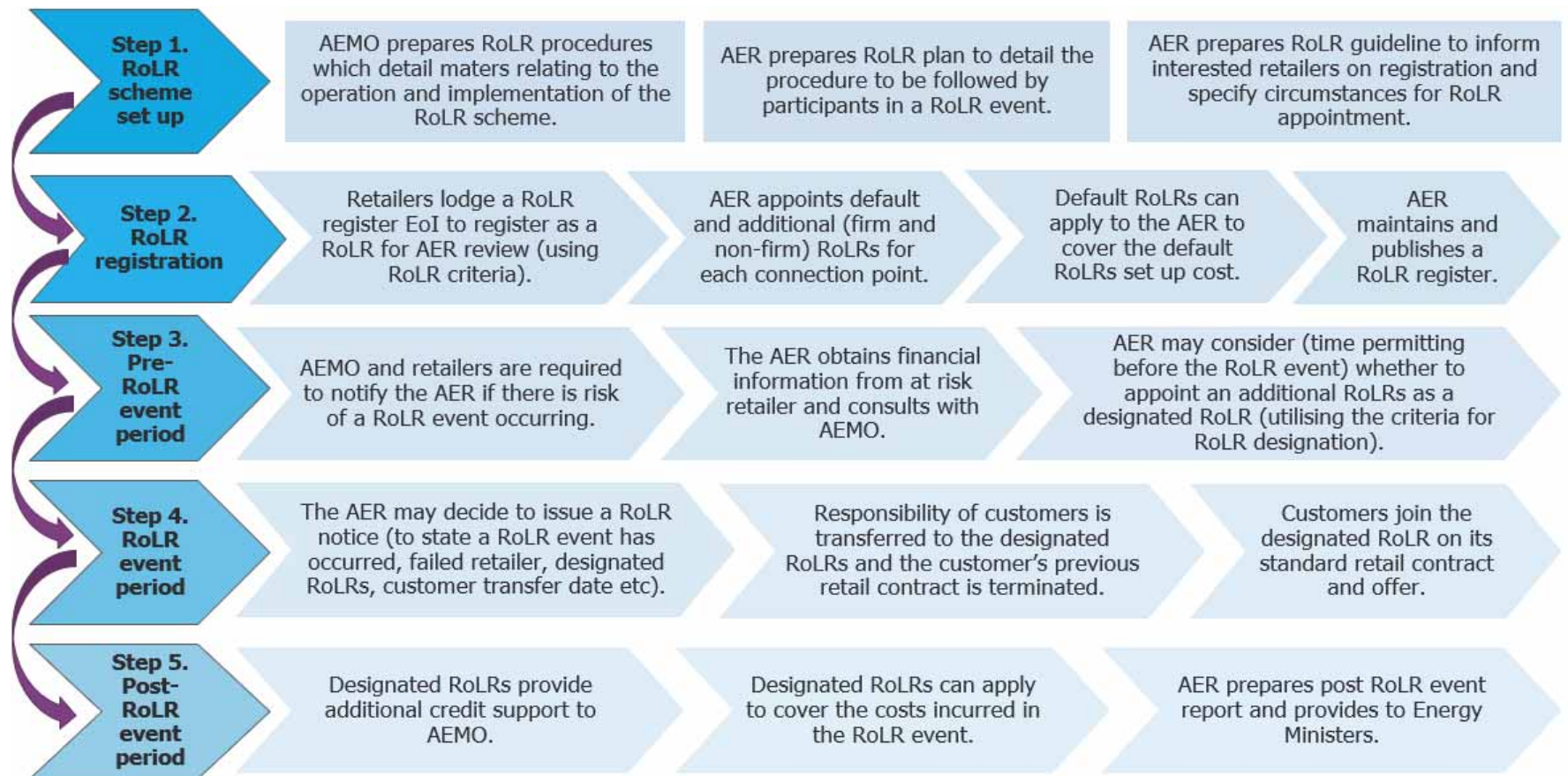
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RoLR process overview



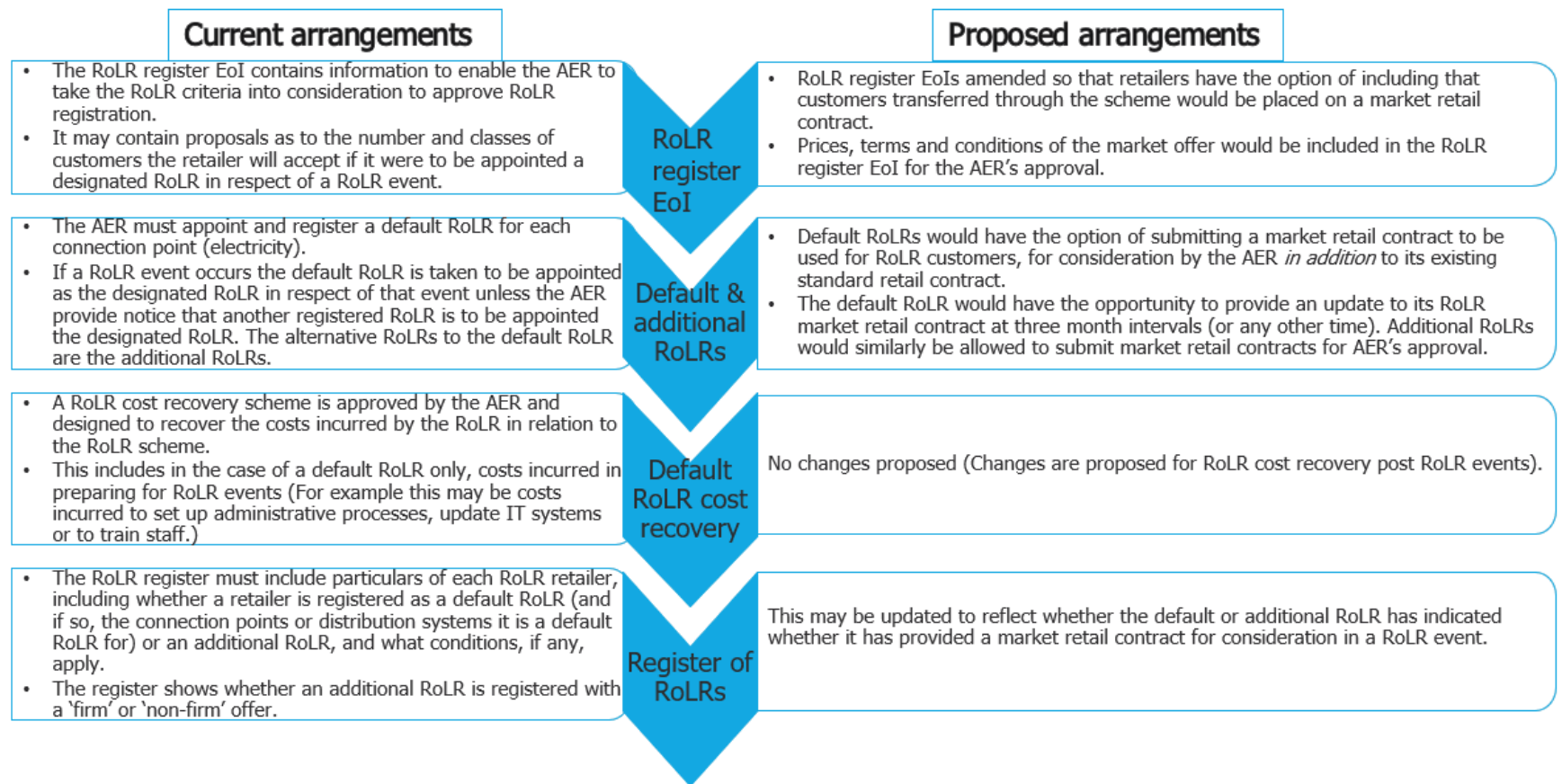
Source: AEMC

Step 1. RoLR scheme set up

Current arrangements	RoLR procedures	Proposed arrangements
<ul style="list-style-type: none"> RoLR Procedures are procedures published by AEMO that deal with any matters relating to the operation or implementation of the RoLR scheme. This includes, identifying the roles and responsibilities of various parties if a RoLR event were to occur that impacted on AEMO's Market Settlement and Transfer Solution (MSATS) or on business-to-business communications. 		<ul style="list-style-type: none"> AEMO would be expected to carry out a general update to RoLR procedures after the RoLR review recommendations are implemented.
<ul style="list-style-type: none"> The RoLR scheme includes requirements for the AER to develop, make and maintain RoLR plans that are published on the AER's website. The AER's RoLR plan details the procedures to be followed by the participants for a RoLR event, including direct communication with customers of a failed retailer. It also includes regular exercises to be carried out by the participants in the plan. 		<ul style="list-style-type: none"> Address two minor issues, raised by the AER, through changes to section 163 of the NERL, a change from "must" to "may" and inclusion of "external". This would see section 163 of the NERL as - <i>Without limitation, a RoLR plan must may— (a) provide that exercises are to be held at such times as the AER considers appropriate and that a report on the conduct of each external exercise be published on the AER's website;</i>
<ul style="list-style-type: none"> The AER must make and maintain AER RoLR Guidelines which must specify the circumstances in designating a RoLR. It may also specify information to be included in a RoLR register Expression of Interest (EoI), RoLR cost recovery scheme and provide for any other RoLR matter. 		<ul style="list-style-type: none"> The RoLR guidelines would be updated by the AER after the RoLR review recommendations are implemented. This would include in relation to guidance on additional information to be included for market contracts and offers to be included in RoLR register EoIs.

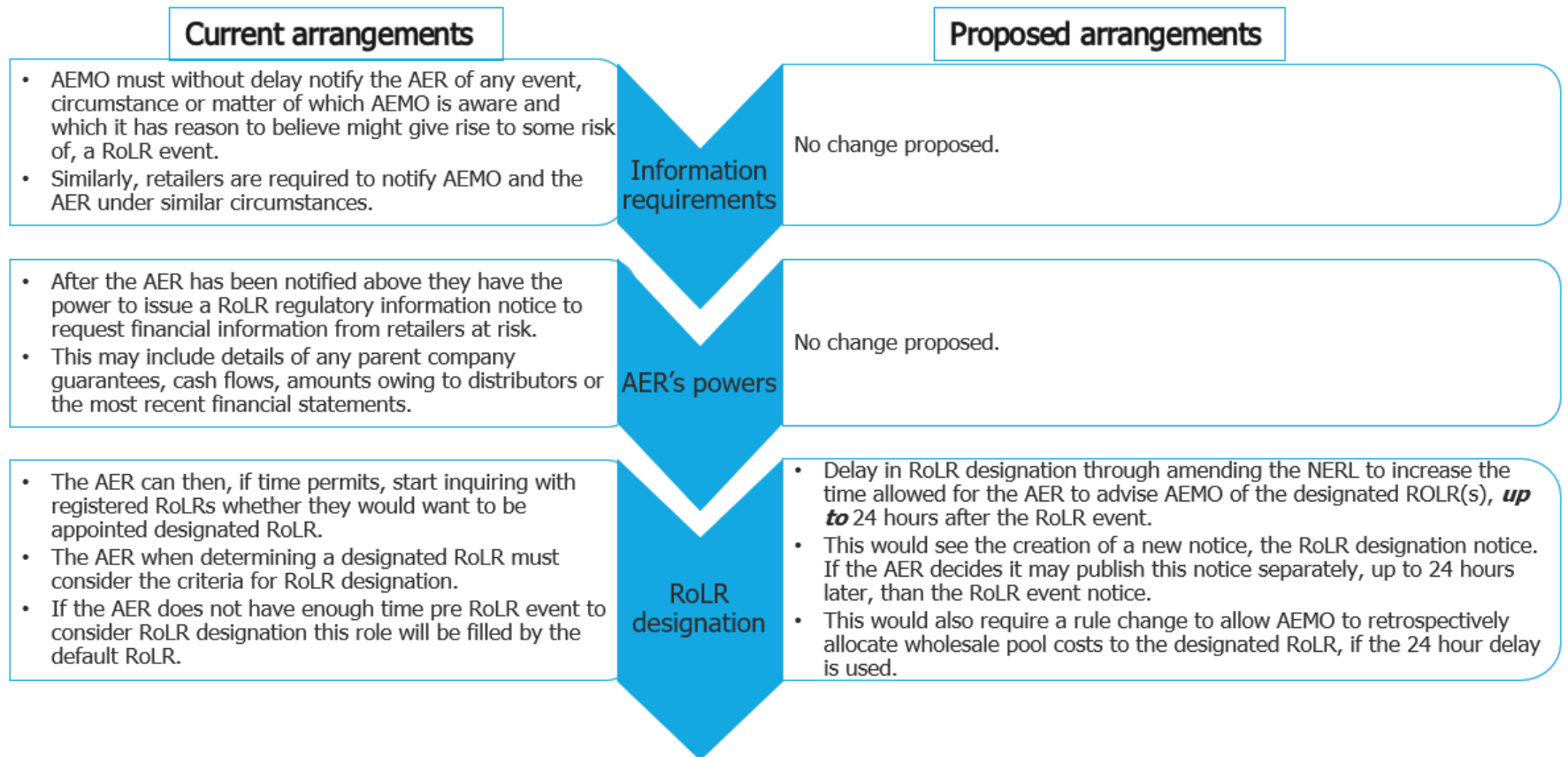
Source: AEMC

Step 2. RoLR registration



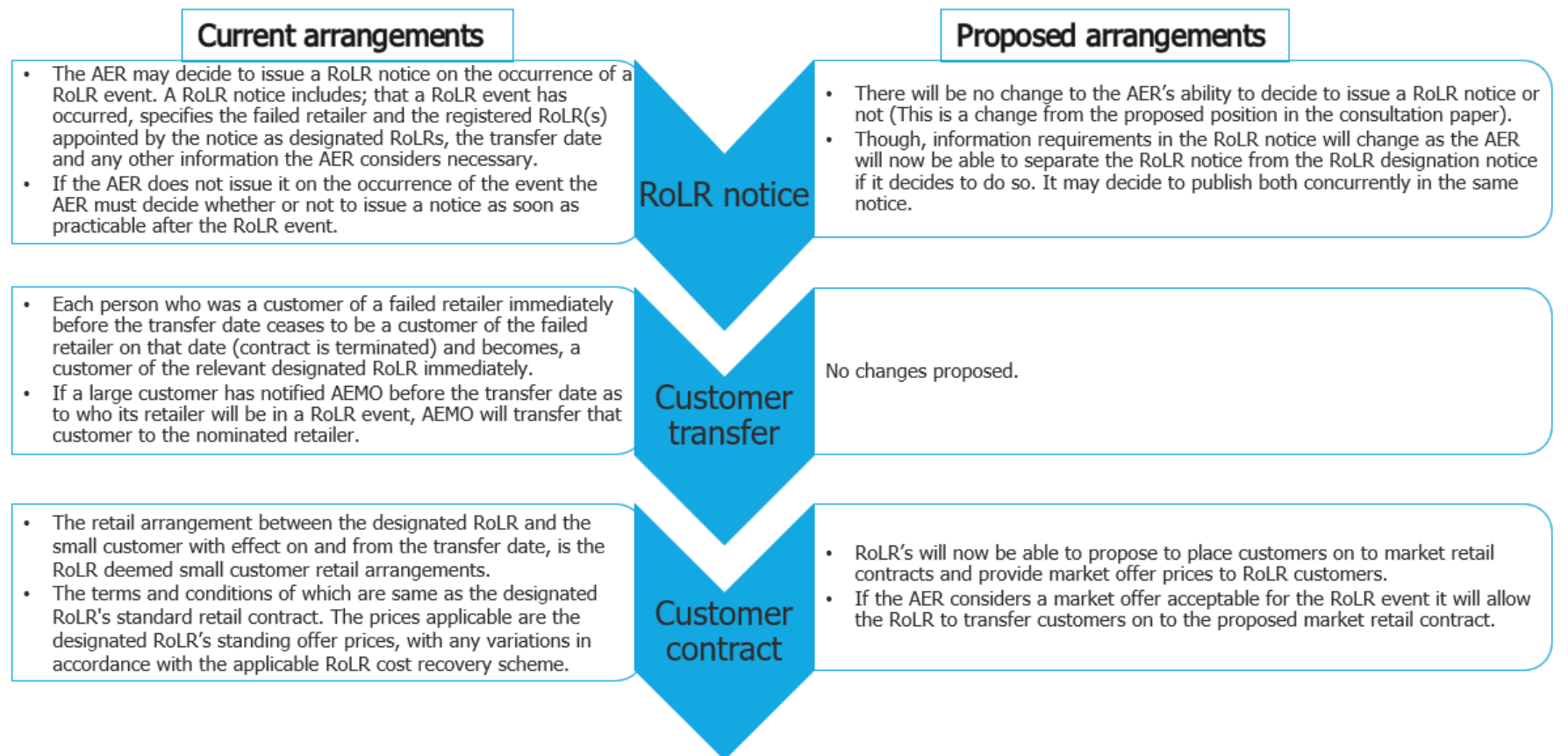
Source: AEMC

Step 3. Pre-RoLR event period



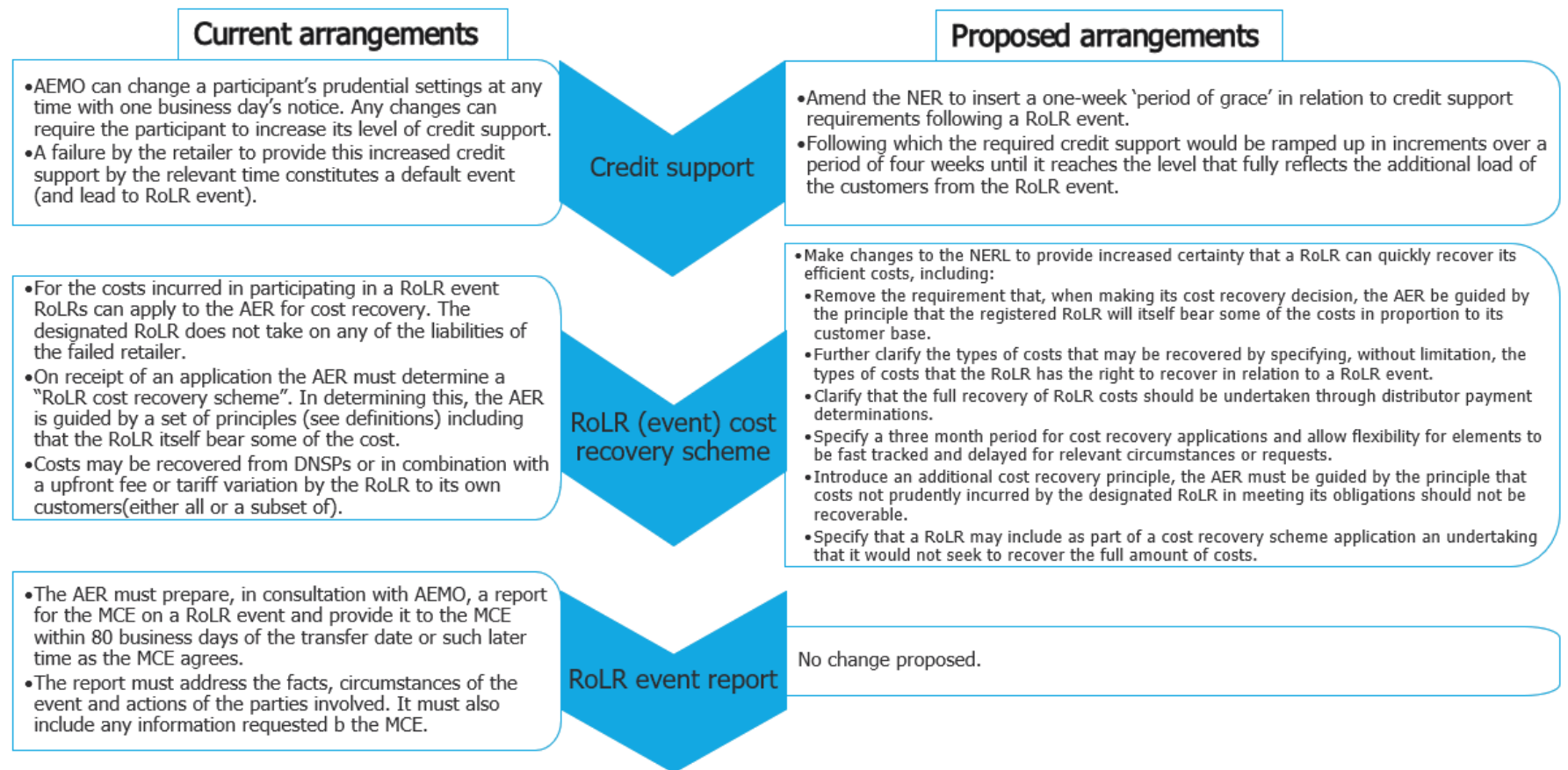
Source: AEMC

Step 4. RoLR event period



Source: AEMC

Step 5. Post-RoLR event period



Source: AEMC