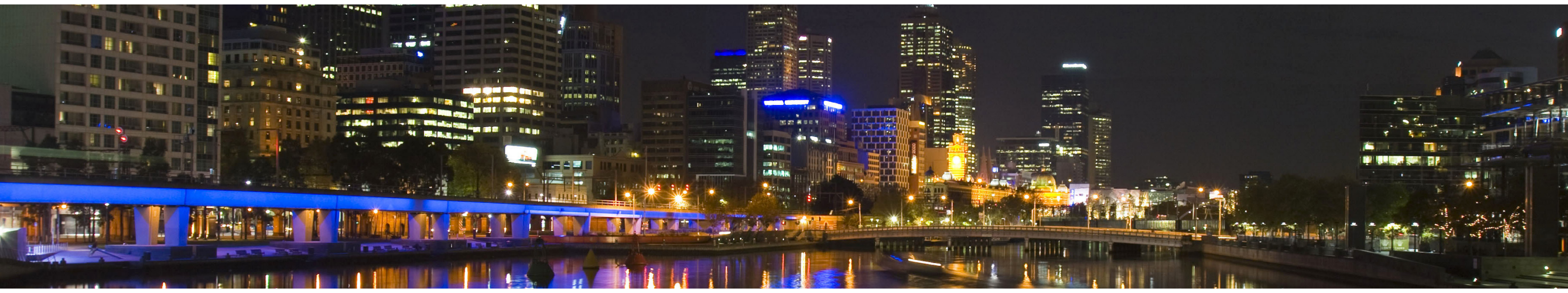
Australian Government
Department of the Environment and Energy



Retailer Reliability Obligation

The Retailer Reliability Obligation started on 1 July 2019. The Retailer Reliability Obligation will support a reliable energy system by requiring energy retailers and some large energy users to hold contracts or invest directly in generation or demand response to support reliability in the National Electricity Market.

Overview

The National Electricity Market (NEM) is undergoing a fundamental transition, driven by rapid technological change as we move to a lower emissions electricity system. The large influx of intermittent renewables along with recent and upcoming closures of thermal generators mean we need to take extra measures to ensure the reliability of electricity supply. The COAG Energy Council agreed to implement the Retailer Reliability Obligation (RRO) to help manage the risk of declining reliability.

The RRO will ensure energy retailers are accountable for reliability in a way they haven't been before. If the RRO is triggered, it will require retailers to enter into sufficient contracts to meet their share of expected system peak demand.

Retailers can choose to contract with any form of generation, for example solar, hydro, gas, coal, and batteries. However, the 'firmer' the contracted generation source is, the greater its contribution will be to meeting their obligation.

This will provide an incentive for market participants to invest in the right technologies in regions where it is needed, to support reliability in the NEM.

The Government remains committed to working with the states and territories through the COAG Energy Council to deliver reliable, secure and more affordable energy. Further information is at coagenergycouncil.gov.au.

How the program works

Making a reliability forecast

The Australian Energy Market Operator (AEMO) will identify any potential reliability gaps in each NEM region in the coming five years using its Electricity Statement of Opportunities (ESOO).

Updating a reliability forecast

AEMO will update the reliability forecast annually, or more frequently if required. This will inform the market of any gaps between energy supply and demand and signal potential investment opportunities.

Triggering the RRO ('T-3' Reliability Instrument)

If a reliability gap exists three years and three months from the identified gap, AEMO must request the Australian Energy Regulator (AER) make a 'T-3' Reliability Instrument to trigger the RRO. The AER must determine whether to make the instrument at least three years and one month prior to the start of the identified gap.

ENR084.0619

The South Australian Minister also has the ability to trigger the RRO within South Australia. In the first three years this can be done 15 months or more before the start of the identified gap, and after that must be consistent with the AER's timeframes.

Liable entities

The RRO will apply directly to market customers registered by AEMO in the NEM. Other large customers (who are not market customers) may also choose to 'opt in' to manage the obligation for themselves.

Qualifying contracts

If the AER triggers the RRO, liable entities will be required to enter into sufficient qualifying contracts to cover their share of a one-in-two year peak demand at the time of the reliability gap.

When liable entities submit their contract positions to the AER each contract will be adjusted for relative 'firmness'.

To ensure enough contracts are available to smaller market customers, a Market Liquidity Obligation will require the obligated parties to make contracts available to the market.

AEMO will also run a Voluntary Book Build mechanism to help liable entities secure contracts with new resources.

Triggering the RRO ('T-1' Reliability Instrument)

If a gap remains one year and three months out from an identified gap period, AEMO will request AER make a 'T-1' Reliability Instrument. If made, liable entities must report their net contract positions to the AER.

At the same time, AEMO may start procuring resources through the Reliability and Emergency Reserve Trader framework to fill the remaining gap. Costs will be recovered through the Procurer of Last Resort cost recovery mechanism.

Compliance

If peak demand exceeds the one-in-two year forecast during the gap period, the AER will determine if the level of contract coverage of the liable entities was adequate to meet their obligation.

Where an entity is under-contracted in one or more trading intervals, the AER will determine the shortfall for the compliance period. This will be used to allocate costs and determine penalties for non-compliance.

Cost allocation and penalties

A portion of the Procurer of Last Resort costs will be allocated to non-compliant liable entities, up to an individual maximum of $100 million. This will ensure costs are paid by those who caused the problem and costs to consumers are minimised.

The AER will also be empowered to pursue a civil penalty for failures to comply, with the upper limit of $1 million for first offences and up to $10 million for repeat offences.

Next steps

The 2019 ESOO is the first report that could be used under the RRO to predict reliability gaps (noting the specific circumstances in South Australia).

The AER and AEMO are preparing guidelines and issues papers on specific elements of the RRO. Further information is at:

aer.gov.au

aemo.com.au