



INFORMATION

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Review of the operation of the Retailer Reliability Obligation

The Australian Energy Market Commission (the AEMC or Commission) is commencing a review of the Retailer Reliability Obligation (RRO) to ensure it is operating as intended. We are seeking feedback from stakeholders on their experiences with the RRO and how the laws and rules could be improved.

The retailer reliability obligation is designed to support reliability in the NEM

The RRO is one of several measures to support reliability in the national electricity market (NEM). It commenced on 1 July 2019, with the aim of providing stronger incentives for market participants to invest in the dispatchable technologies in regions where it is needed, to support reliability in the NEM.

The RRO obliges retailers, on behalf of their customers, to support the reliability of the power system through their contracting and investment in resources. The RRO does this by requiring electricity retailers 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.

Retailers are required to obtain contracts that cover their expected demand in a potential reliability gap period. This, in turn, is intended to provide market participants with the necessary confidence to invest in firm generation technology to support a reliable electricity supply in the NEM. It was intended to be a long-term solution to ensuring reliability at the lowest cost by preparing for and eliminating forecast reliability gaps before they occur.

Why is the Commission reviewing the RRO?

The Commission must review the RRO under Chapter 4A of the National Electricity Rules (NER) to ensure that it operates as intended and to consider any necessary amendments. On 23 March 2023, the AEMC published the terms of reference for the self-initiated review to facilitate stakeholder consultation.

The Commission is undertaking the review of the operational aspects of the RRO consistent with the 2018 decision Regulation Impact Statement (RIS) to the RRO, which sets out that: *'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'*.

The Commission is carrying out the review over a longer timeframe than required under the NER, with a final report to be released in early 2024. This will ensure that the Commission can consider the initial operational lessons learnt from the initial T-1 trigger event in South Australia. The Commission will also be able to consider the AER's final recommendations from its *Retailer Reliability Obligation Compliance Procedures and Guidelines* which are due to be published in mid-2023.

Operational aspects of the RRO

The RRO is designed to supplement the existing market framework including the reliability standard and market settings.

It is important to review the RRO to ensure that it is operating as intended. The AEMC is seeking feedback on the operational aspects of the RRO including but not limited to:

- the processes for the T-3 and T-1 triggers
- the Market Liquidity Obligation
- the voluntary Book Build Mechanism
- any relevant definitions such as qualifying contracts and thresholds, including the threshold for liable entities
- the role of the opt-in mechanism.

We are seeking feedback on our consultation paper

The Commission seeks stakeholder feedback on the consultation paper by 4 May 2023.

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23 March 2023