



# Terms of Reference

## AEMC review of the retailer reliability obligation

EPR0091

### 1. Overview

Since 2019, at the advice of the Energy Security Board (ESB), Energy Ministers have made two substantial changes to the reliability framework in the national electricity market (NEM). These changes are the Retailer Reliability Obligation (RRO), introduced in 2019, and the interim reliability measure (IRM), based on a trigger of 0.0006% unserved energy (USE), introduced in 2020.

Ministers intended that these measures would preserve reliability and system security by supplementing the existing framework and reliability standard for a limited period.

The National Electricity Rules (NER) require the Australian Energy Market Commission (the Commission) to review both the IRM and the operational aspects of the RRO.

The Commission intends to review the RRO and IRM in conjunction with each other but separated into two reviews.

- The first will be the review of the IRM and will be completed by mid-2023. The terms of reference for the IRM review can be found on the AEMC's website.
- Secondly, the Commission will consider the operational aspects of the RRO through this review. The Commission will complete the review of the RRO by February 2024.

#### 1.1. What is the Retailer Reliability Obligation (RRO)?

The RRO aims to provide an additional incentive for market participants to invest in firm generation in regions where it is needed to support reliable electricity supply in the NEM. It is intended to be a long-term solution to ensuring reliability at the lowest cost by preparing for forecast reliability gaps well before they occur.

The RRO requires liable entities (typically retailers) to enter sufficient qualifying financial contracts with dispatchable generation, storage or demand response to meet consumer and system needs when the ESOO identifies a forecast 'reliability gap' period.

In 2020, Energy Ministers agreed that the trigger for the RRO would be the interim reliability measure of 0.0006% USE until July 2025.

Under the *National Electricity (South Australia) Act 1996*, the South Australian Minister for

Energy can also trigger a T-3 reliability instrument within South Australia. In 2022, Ministers agreed to a recommendation that the T-3 Ministerial trigger is extended to all regions in the NEM.

## 1.2. Other reliability and resource adequacy work underway

The Commission will undertake the reviews in conjunction with other resource adequacy and reliability reviews. Two relevant considerations that impact the scope and timing of the Commission's review of the RRO and IRM are the:

- Reliability Panel's review of the form of the reliability standard
- Commonwealth's work on the Capacity Investment Scheme.

## 2. Objectives and Scope

Under clause 11.116.18 of the National Electricity Rules (NER), the Commission must review the operation of Chapter 4A - Retailer Reliability Obligation.

### **The terms of reference will not cover the efficiency of the RRO**

The Commission will consider certain aspects of the operation of the RRO to ensure that the scheme is operating as intended. The ESB decision Regulation Impact Statement (RIS)<sup>1</sup> for the RRO outlined that the intent of this review is not to assess the overall efficiency of the RRO. Determining the overall impact of the scheme would likely require a longer-term horizon.

In line with the RIS, the Commission intends to limit the review's scope to the operation of the RRO. Only limited aspects of the RRO have been triggered to date; therefore, assessing the obligation's efficiency is not possible. Further, several separate reliability and resource adequacy projects are underway that may impact the RRO.

### **The operational aspects of the RRO for review**

The RIS for the RRO identified the Commission's review could consider the:

- need for general anti-avoidance provisions
- operations of the three-year trigger mechanism to consider the level and tenor of contracting
- role of the book build mechanism.

However, given the Australian Energy Regulator (AER) has only recently approved the first T-1 instrument, there will be limited data available during the review to assess any changes to contracting since the RRO commenced. It would also be challenging to evaluate the need for general anti-avoidance provisions at this time, given the limited operation of the RRO. Therefore, the Commission does not intend to review those two issues as part of this review.

The aspects of the RRO that the Commission will consider are, amongst other things, the operation of:

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<sup>1</sup> Energy Security Board (2019) 'Retailer Reliability Obligation Decision Regulation Impact Statement' found [here](#).

- the book build mechanism
- the process for the T-3 and T-1 triggers
- the market liquidity obligation (MLO)
- any relevant definitions, such as qualifying contracts, and thresholds, including the threshold for liable entities
- the role of the opt-in mechanism
- any other matter that the Commission reasonably believes is relevant to the review.

Any recommendation made by the Commission will be considered against the National Electricity Objective.

### 3. Consultation

In conducting the Review, the Commission will consult a broad range of stakeholders, including government officials and the following market bodies

- AEMO
- AER
- Reliability Panel.

### 4. Deliverables and timing

The NER requires that the Commission review the RRO and IRM by 1 July 2023.

Given that the RRO has only recently commenced and the work by the Commonwealth on the Capacity Investment Scheme is underway, the review will be completed over a longer timeframe. This will ensure that the AEMC can take account of any learnings from the initial period of operation of the RRO.

- consultation paper in March 2023
- draft report in August 2023
- final paper in late February 2024.