

4 May 2023

Anna Collyer  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235  
Submitted online  
EPR0091

Dear Ms Collyer

**Draft Report – Review of Retailer Reliability Obligation (RRO)**

This letter and attachment constitute AEMO's submission to the Consultation Paper, published 23 March, for the Review of the Retailer Reliability Obligation (RRO).

AEMO welcomes the opportunity to provide feedback on the Consultation paper and considers this is a timely review given the increasing uncertainty and associated risks of the energy transition.

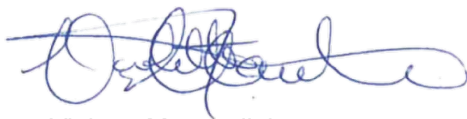
Feedback is provided in three sections below:

1. **Timeframes for requesting RRO instruments**
2. **Requesting gaps for single financial year**
3. **Book build mechanism**

In summary, AEMO recommends the timeframes for forecasting and submitting requests for RRO instruments be extended to allow a wider period to limit inefficiencies and better align with the changing nature of reliability risk. AEMO also suggests that requests for reliability gaps in the same financial year should be able to be submitted in a single request. AEMO notes its operation and maintenance of the voluntary book build mechanism but does not seek to advocate for any required changes.

If you have any questions please contact Kevin Ly, GM Reform Development & Insights at [kevin.ly@aemo.com.au](mailto:kevin.ly@aemo.com.au).

Yours sincerely,



Violette Mouchaileh  
**Executive General Manager – Reform Delivery**



## 1. Timeframe for requesting RRO instruments

AEMO considers this review as an opportunity streamline the process for requesting RRO instruments and recommends changing the timeframe for submitting requests for RRO instruments. AEMO is of the view that the current requirement to publish a reliability gap and submit request for reliability instrument within 3 months is difficult to meet and no longer aligns with the nature of reliability risk.

The Consultation Paper identified AEMO's primarily role and obligations under the RRO as 'to identify forecast reliability gaps in each NEM region in its ESOO forecast, and if a forecast reliability gap arises, also request the AER to issue a reliability instrument'. The requirements for identifying gaps and requesting RRO instruments are set out across both the NER (Chapter 4A) and NEL (Part 2A).

AEMO is required to perform an annual forecast of reliability gaps under NEL 14F b) and 'prepare and publish, in the manner, form and timeframes required by the Rules, information about the forecasting.' NER 4A.B sets out the requirements for reliability forecasts including the reliability forecast components required, required supporting materials and the requirement to develop and align to Reliability Forecast Guidelines. This is applied through the annual Electricity Statement of Opportunities (ESOO) which must be published by 31 August each year under NER 3.13.3A a) and any ESOO updates required through the year as per NER 3.13.3A b).

Key timings for the process of forecasting and making a request are as follows:

- **NER 4A.C.2 a)** requires if AEMO identifies a forecast reliability gap, AEMO is required to request the AER to consider making a reliability instrument under the RRO at least three months before the *T-3 cut off day*.
- **NEL Part 2A 14G (3)** gives meaning to the *T-3 cut off day* as defined as 3 years prior to the start of the identified reliability gap period.
- **NER 4A.C.2 b) (3)** states AEMO may only make the request if the reliability forecast 'published in the 6 months immediately preceding the T-3 cut-off day identified that forecast reliability gap'.

In practice this translates to requirements on AEMO to publish the reliability gap in an ESOO or an ESOO update no more than 42 months prior to the forecast gap and submit the request for T-3 instrument no less than 39 months prior. This gives AEMO a maximum of 3 months to publish a forecast gap and submit a request for a T-3 instrument.

AEMO is of the view that these timings are somewhat rigid it is increasingly difficult to meet the timing requirements within the three-month window as the nature of reliability risk changes and the system is increasingly characterised by VRE and energy-limited resources.

The RRO acts as an interim measure that seeks to provides stronger incentives for market participants to invest in firm generation, and AEMO supports the existing T-3 and T-1 timings of reliability instruments as they seek to strike the balance in using up to date reliability forecasts and giving liable entities enough time to contract against their obligations. However, AEMO is of the view that the timings for making requests could be expanded to allow operate more efficiently and better suit a system with an increasing range of drivers of reliability events. As the ESOO is published in August annually, the timing best suits a system where reliability events are expected to occur during the summer period, giving AEMO three months from the publication of the ESOO (August to October) to submit a request for reliability instrument expected, for example, in January T-3.

As identified in the 2022 Reliability Standards and Settings Review (2022 RSSR) reliability risk is shifting from purely periods of peak demand to a more varied reliability risk profile<sup>1</sup>. However, under current RRO process arrangements, if for example, a reliability issue is identified for April – July T-3, AEMO would be required to publish an ESOO update to meet the 39 months to 42 months window for publishing and submitting a request.

While AEMO acknowledges and agrees with the need for ESOO updates, the intention of ESOO updates is primarily to update the forecast if there is a material change to the reliability forecast outlook, as per NER 3.13.3A b). However, the rigidity of timings for requesting RRO instrument and the requirement for the reliability gap to be published 6 months prior to the *T-3 cut off day* means that ESOO updates may be required purely to meet the defined RRO timings, and even if the reliability gap has already been identified in the existing annual ESOO. For example, this may occur if a reliability gap is forecast to start in March T-3 and the preceding August ESOO identifies this gap, a further ESOO update would be required as the annual ESOO is outside the *T-3 cut off day* plus 6-month window.

A further example could occur if a reliability gap is forecast prior to October T-3, the annual ESOO published in August would be within the *T-3 cut off day* plus 3 months requirement for submitting a request for reliability instrument, meaning a further ESOO update would be required between May to August to meet that timeline.

AEMO recommends that the 3-month window for submitting a request for a T-3 instrument be widened to 9 months to limit inefficiencies and risk of an increasing number of ESOO updates and better align with the changing nature of reliability risk. This may be enacted in the rules by allowing AEMO to make a request if the reliability forecast was published in the 12 months prior. In practice, a 9-month period would allow if the annual ESOO was published in August to submit a request for a T-3 reliability gap up until the following April.

If a reliability event was not identified in the annual ESOO but was identified later in the year, and prior to the next annual ESOO, AEMO would still be required to publish an ESOO update and would do so as per the NER that is, in response to a material change in reliability forecast and to submit a request for reliability instrument.

While AEMO acknowledges the reliability forecasts are subject to change and a reliability gap may be removed after the annual ESOO is published, this would still be accounted for under the rules as the AER does not have to decide on the AEMO request for instrument until after the existing *T-3 cut off day* plus 3 months submission requirement.

In summary, AEMO is supportive of the current process for T-3 and T-1 triggers but recommends the timing for submitting requests be extended to allow for a wider period from publishing ESOO reliability gaps and submitting the requests for RRO triggers.

## **2. Submitting one request for all gaps in the financial year**

AEMO considers that there is further opportunity to streamline the process for submitting requests for RRO triggers, by allowing one request to include multiple forecast reliability gaps in the same region and for the same year.

Section 14I (5) of the NEL states AEMO a request for a reliability instrument:

*'a) may only apply to 1 forecast reliability gap period; and*

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<sup>1</sup> AEMC, 2022 Reliability Standards and Settings Review - <https://www.aemc.gov.au/sites/default/files/2023-03/Review%20of%20the%20form%20of%20the%20reliability%20standard%20and%20APC%20-%20REL0086%20-%20Issues%20paper.pdf>

*b) may be made on more than 1 occasion in a year for different forecast reliability gap periods in the same region or in different regions.'*

AEMO considers that allowing only request to include a single reliability gap period to be inefficient given the potential for further and more diverse reliability risks. AEMO suggests allowing a request for reliability gap to include multi-gaps in a single jurisdiction, provided they are in the same financial year and comply with the T-3 plus 3-month timeframe, would increase efficiency of process, and provide clarity to the market.

As discussed in Section 1, the changing nature of reliability risk is driving uncertainty and increasing the risk of a broader range of annual periods with forecast unserved energy (USE) in the future power system. The current T-3 reliability instrument in NSW<sup>2</sup> has included a period in December for the first time, as all previous reliability instruments commenced in January.

Allowing AEMO to include multiple identified reliability gap periods within the same jurisdiction and for the same year, would seek to streamline the process and does not duplicate additional requests or ESOO updates purely for process (as per the recommendation in Section 1). This change would have no impact on the overall efficiency or purpose of the RRO as it is largely procedural.

In alignment to the recommendation in Section 1, if an additional gap in the same financial year has emerged after the publication of the annual ESOO, AEMO would publish an ESOO update and submit a further request for reliability instrument.

### **3. Voluntary book build mechanism**

The Consultation Paper requests feedback on the voluntary book build mechanism that AEMO provides to support liable entities in accessing and enter qualifying contracts with new firming capacity.

As the Consultation Paper identifies, the book build mechanism has been published twice, both for South Australia in 2020 and no offers were made available in both instances. AEMO considers the usefulness of the voluntary book build mechanism as a consideration for participants but notes that sellers will likely be able to continue to access counterparties to their firm contracts without the use of the voluntary book build mechanism. Having said that, AEMO does not necessarily consider this a reflection of the operation or process of the book build mechanism but rather an indication of the liquidity of the market for firm contracts.

AEMO is of the view that while the value of the voluntary book build mechanism is for consideration as part of this review, given the processes and rules are already set up and the mechanism places limited administrative burden on market bodies or participants, AEMO does not feel strongly about a need to remove the mechanism.

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<sup>2</sup> AER, T-1 and T-3 Reliability Instruments - <https://www.aer.gov.au/system/files/AER%20-%20T-1%20and%20T-3%20reliability%20instruments%20decision%20-%20FINAL.pdf>