

2 November 2023

Anna Collyer
Chair
Australian Energy Market Commission

Submitted online: EPR0091

Dear Ms Collyer

Draft Report – Review of Retailer Reliability Obligation (RRO)

This letter and attachment constitute AEMO's submission to the Draft Report, published on 28 September, for the Review of the Retailer Reliability Obligation (RRO).

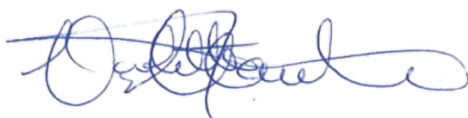
AEMO welcomes the opportunity to provide feedback on the Draft Report and considers the recommendations timely given the increasing uncertainty and associated risks of the energy transition.

Feedback is provided on following draft recommendations included in the report:

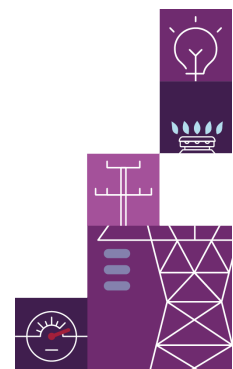
- **Recommendation 1:** Move the T-1 Net Contract Position (NCP) to T
- **Recommendation 2:** Change the timeframe for AEMO to request a reliability instrument
- **Recommendation 3:** Provide AEMO with a limited power to cancel a T-1 reliability instrument
Timeframes for requesting RRO instruments
- **Recommendation 4:** Maintain the AER's existing role in assessing reliability instrument gap requests
- **Recommendation 6:** Remove the voluntary book build from the NER
- **Recommendation 8:** AEMO review expanding timeframes for the AEMO DSP Information Portal
- **Recommendation 9 and 10:** Changes to qualifying contracts

If you have any questions please contact Kevin Ly, GM Reform Development & Insights at kevin.ly@aemo.com.au.

Yours sincerely,



Violette Mouchaileh
Executive General Manager – Reform Delivery



Recommendation 1: Move the T-1 Net Contract Position (NCP) date to T

AEMO supports the proposal to reduce the administrative burden associated with RRO compliance. However, moving the NCP compliance date (referred to the rules as *contract position day*) to T would have the effect of diminishing some key aspects of the design of the RRO.

The original intention of the RRO was to send a signal to retailers to underpin investment in new dispatchable capacity to address an impending reliability gap. The setting of the contract position day at T-1 was designed to ensure that retailers would enter financial contracts between T-3 and T-1 that would incentivise the required new capacity to be in place by T-1. In an ideal world this would mean that there would be no gap at T-1 and so the RRO would not be triggered at that time. If the gap remained at T-1 AEMO would be able to enter RERT contracts to remediate the identified gap.

If the contract position day is moved to T this weakens the signal for retailers to invest earlier to close a gap. This dilutes the investment signal following a T-3 instrument being created or in the run up to a T-1 instrument, as retailers will naturally seek to wait until nearer the time. The risk is that if retailers delay their contracting decisions until nearer to T, they will be made too late to bring on new capacity and not contribute to closing the reliability gap. Instead, there could well be an increase in contract prices as retailers scramble to meet their RRO contract obligations prior to the new contract position day. Alternatively, retailers may seek to drop C&I load to reduce their obligations and C&I customers then may struggle to find acceptable offers. Another possible outcome is that retailers focus on signing up demand response in the run up to T. However, given that AEMO has the obligation to address an impending reliability gap through RERT this could also create competition of demand response services between retailers and AEMO.

AEMO is of the view that the RRO is there to incentivise investment to address a reliability gap and moving the contract position day to T would weaken retailers' incentive to contract early to support the required investment.

Recommendation 2: Change the timeframe for AEMO to request a reliability instrument from 3 to 9-months

AEMO supports the draft recommendation to change the timeframe for AEMO to request a reliability instrument from 3 to 9 months and agrees that it accurately reflects AEMO's proposal in submission to the Consultation Paper.¹ As the system transitions, the nature of reliability risk is changing and there is an increasing likelihood of reliability gaps outside of traditional periods of peak demand. While supportive of the current process for T-3 and T-1 gaps, AEMO agrees that the current timings for submitting requests are rigid and could be expanded to operate more efficiently, better suiting a system with an increasing range of drivers of reliability events.

Recommendation 3: Provide AEMO with a limited power to cancel a T-1 reliability instrument

The Draft Report recommends providing AEMO with a limited power to request the removal of a reliability instrument if an Electricity Statement of Opportunity (ESOO) or ESOO Update published between T-1 and T, closes the reliability gap. This recommendation is designed to work in parallel with recommendation 1, which proposes moving the Net Contract Position (NCP) date from T-1 to T.

As with the impact of changing the NCP date to T, AEMO is of the view that as liable entities may be incentivised to delay contracting against their obligation, and therefore not contribute to closing the reliability

¹ AEMO, Submission of Review of RRO Consultation Paper, Page 2 - <https://www.aemc.gov.au/sites/default/files/2023-05/Rule%20Change%20Submission%20-%20EPR0091-%20AEMO%20-%2020230504.PDF>

gap prior to T, if AEMO has the power to ask the AER to rescind a T-1 instrument. Retailers should still be assessed for whether they met their obligations at T-1 and incentivised to contract to support the closing of the reliability gap prior to T.

NER 3.13.3A (b) requires AEMO publish an updated ESOO *as soon as practicable* if new information becomes available that, in AEMO's opinion, *materially changes* the most recent statement of opportunities. If AEMO is provided with a limited power to cancel a T-1 reliability instrument, AEMO notes this would not change the current practice and requirement under the rules for publishing an ESOO update and would not impact AEMO's decision making of when to do so.

Further, given the short time between T-1 and T, it is likely that the time between an ESOO update, and T would not align with the current required timings for AEMO submitting a request to remove a reliability instrument and for AER to review and approve this request.

Recommendation 4: Maintain the AER's existing role in assessing reliability instrument gap requests

AEMO supports the recommendation to maintain the AER's existing role in assessing reliability instrument gap requests and agrees that providing the AER with additional powers to review and override reliability requests would create confusion and inefficiency regarding the differing roles of the market bodies.

Recommendation 6: Remove the voluntary book build from the NER

AEMO supports the recommendation to remove the voluntary book build from the NER.

Recommendation 8: AEMO review expanding timeframes for the AEMO demand portal

The Draft Report recommends AEMO review expanding the timeframes for the AEMO Demand Side Participation (DSP) Information Portal to allow demand-side contracts to be registered at more times. This recommendation seeks to promote the use of demand side contracts to meet the RRO.

The DSIP is maintained by AEMO in accordance with NER 3.7D, with its primary purpose to collect information on demand side participation to support AEMO's forecasting processes, including forecasts of expected changes in load in response to wholesale prices. AEMO is required to report annually with an analysis of volumes and types of demand response collected through the DSP Portal.

NER 4A.E.1(c) requires demand side participation contracts to be registered in the DSP Portal in order to be considered a *qualifying contract* for the purposes of the RRO. However, it is important to note neither the DSP Portal nor AEMO have a direct monitoring or compliance role under the RRO framework.

The DSIP Portal is currently only open for submission of information by participants annually through April. This was previously developed to capture the latest up-to-date DSP information to feed into the yearly August ESOO reliability forecasts.²

AEMO is currently undertaking consultation on the Demand Side Participation Forecasting Methodology and the DSPI Guidelines and has requested stakeholder feedback on the timing of the DSP Portal, including the option to make the portal open year-round to allow participant entry at any time. In the Draft Report³, AEMO is

² AEMO, Demand Side Participation Information (DSPI) Final Determination, 2020, page 10 - https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2020/dspi/demand-side-participation-information-guidelines-final-determination.pdf?la=en

³ AEMO, Demand side Participation Information Guidelines Draft Report 2023, page 10 - https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2023/dsp-forecasting-methodology-and-dsp-information-guidelines-consultation/second-stage/dsp-information-guidelines-draft-report.pdf?la=en

recommending opening the portal year-round. This change would align with the Draft Report's recommendation and remove the need for AEMO to further review expanding timeframes for the RRO.

While AEMO's decision supports the Draft Report's recommendation, AEMO notes that the role of the DSP Portal in the RRO framework should not change with the extended timeframe for opening. That is, information on registered RRO contracts in the Portal will be made available to the AER for compliance purposes as required, however the DSP Portal will not have an ongoing or direct notification or compliance role throughout the year.

Recommendation 9 and 10: Changes to qualifying contracts

AEMO supports reviewing the eligibility of qualifying contracts but considers that making it easier for a contract to qualify should not come at the expense of allowing contracts to be used that have only a tenuous relationship with physical dispatchable capacity.