INFORMATION

Recommended changes to ROLR arrangements for very large customers

The Australian Energy Market Commission (AEMC) has recommended a number of changes to the retailer of last resort (ROLR) arrangements. They are focussed on making the scheme work more effectively for the National Electricity Market (NEM) and consumers. This information sheet provides further explanation on one of those changes - the proposal to enhance the way ROLR arrangements apply to very large customers.

Recommended changes to ROLR arrangements for very large customers

If a large retailer in the NEM fails, the current ROLR arrangements would impose large and immediate financial obligations on the ROLR due to the transfer of the failed retailer's customers to the ROLR. If the ROLR is unable to meet these very quickly it may be suspended from the NEM. This could trigger a series of retailer failures and threaten financial stability in the NEM.

The AEMC has recommended a number of changes to the ROLR arrangements which target the main financial challenges faced by the ROLR so that financial impacts of a large retailer failure to the NEM as a whole can be absorbed more easily.

One of the recommended changes to the ROLR arrangements would increase awareness and incentives for very large customers to organise their own alternative retailer to reduce the size of the ROLR's inherited load and financial obligations. This would involve:

- Creation of a new category of customer– **very large customers** – defined as those who have a connection point consuming **10GWh a year or greater**. Currently in most jurisdictions large customers are defined as those consuming 100MWh a year.
- All customer contracts for large (including very large) customers would be required to include a notice explaining the ROLR obligations and requirements applicable to them. It is expected this would include information about their ability to organise their own alternative retailer before a ROLR event occurs.
- The Australian Energy Regulator (AER) would be required to notify very large customers on an annual basis of the ROLR obligations applicable to them, using customer information provided by retailers. Some of this information would also be provided by the AER to the Australian Energy Market Operator (AEMO) to assist it in managing the transfer of very large customers after a ROLR event.
- Following a ROLR event:
  - Where very large customers had arranged an alternative retailer in advance, they would be transferred to that retailer rather than the ROLR.
  - Very large customers who had not arranged an alternative retailer in advance would have one week from the ROLR event to nominate an alternative retailer. They would continue to be supplied for this one week period.
  - Transfers to an alternative retailer would be accelerated by AEMO where the alternative retailer agrees to take responsibility for the very large customer's load from the ROLR event.
  - If the very large customer doesn't organise an alternative retailer within the week following the ROLR event or their alternative retailer doesn't agree to take responsibility from the ROLR event, they would be transferred to the ROLR.

New retailer of last resort arrangements for very large customers would provide greater flexibility for these customers and reduce threats to the financial stability of the NEM following a retailer failure.

Benefits of the recommended change to the ROLR arrangements for customers

Entering into an agreement with an alternative retailer before a ROLR event occurs could offer the following benefits for very large customers:

- it would provide the very large customer with greater certainty of the terms and conditions under which they will be supplied. Terms and conditions negotiated in advance may be more favourable because a ROLR's standard terms and conditions could include the pass through of spot market prices, plus a margin; and
- it enables very large customers to choose the retailer they will be supplied by and avoid being automatically transferred to the ROLR if their retailer fails. Our recommended changes also provide flexibility for very large customers to organise an alternative retailer up to one week following a ROLR event.

Benefits of the recommended change to the ROLR arrangements for the market

The recommended very large customer consumption threshold would involve a relatively small number of customers, but could offer significant benefits by potentially reducing the size of the load transferred to the ROLR.

Data from AEMO suggest there are fewer than 1,000 connection points with annual consumption of 10GWh or more, and that these connection points account for 15% to 20% of total demand in the NEM.

For the ROLR, the recommended changes could potentially reduce the additional credit support requirements and the costs of purchasing energy for their transferred load. Reducing the financial burden on the ROLR may decrease the possibility of the ROLR itself failing and further retailer failures, which may reduce threats to the financial stability of the NEM.

Why set the threshold at 10GWh?

The threshold proposed of 10GWh per annum at a single connection point is equivalent to an energy purchasing bill of around $1m per annum, excluding network and other charges. The AEMC considers that customers of this size would benefit from having an alternative retailer of their choice, under terms and conditions they negotiate. These customers would also have the expertise to be able to negotiate their own alternative arrangements.

Implementation of recommendations

The AEMC has developed its final recommendations for the Council of Australian Governments' (COAG) Energy Council after considering stakeholder views. If the COAG Energy Council accepts the recommendations relating to the ROLR scheme, it would need to develop changes to the National Energy Retail Law and submit rule changes to the AEMC to implement the recommendations.

Background

The ROLR scheme is designed to maintain retail electricity services to consumers if a retailer fails. It works by transferring the customers of the failed retailer to one or more other retailers. The recommended changes to the ROLR scheme are part of a number of recommendations proposed by the AEMC to improve the financial resilience of the NEM if an electricity market participant fails. These recommendations are set out in detail in the AEMC's final report for the NEM financial market resilience review, available at www.aemc.gov.au.

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