COAG Energy Council

BULLETIN

Retailer Reliability Obligation

Bulletin 1 / July 2019

INTRODUCTION OF THE RETAILER RELIABILITY OBLIGATION

The Retailer Reliability Obligation (RRO) started on 1 July 2019. The RRO is designed to support reliability in the National Electricity Market (NEM) by incentivising retailers and some large energy users to contract or invest in dispatchable and 'on demand' resources.

Background

The NEM is undergoing a fundamental transition, driven by rapid technological change as we move to a lower emissions electricity system. The large influx of intermittent renewables along with recent and upcoming closures of thermal generators mean we need to take extra measures to ensure the reliability of electricity supply. The COAG Energy Council agreed to implement the RRO to help manage the risk of declining reliability.

The RRO was designed by the independent Energy Security Board with extensive input from a range of industry stakeholders.

On 19 December 2018, the Council unanimously agreed to the National Electricity Law amendments that give effect to the RRO.

On 4 June 2019, the Council unanimously agreed to amendments to the National Electricity Rules needed to implement the RRO by 1 July 2019.

On 20 June 2019, the Council unanimously agreed to amendments specific to South Australia, which empower South Australia's Energy Minister to trigger the RRO in South Australia by modifying the application of the National Electricity Rules.

How the RRO works

- The Australian Energy Market Operator (AEMO) will identify (annually or more often) any potential reliability gaps in each NEM region in the coming five years using its Electricity Statement of Opportunities. If AEMO identifies a material gap three years and three months out, it will apply to the Australian Energy Regulator (AER) to trigger the RRO.
- The South Australian Minister also has the ability to trigger the RRO within South Australia. In the first three years this can be done 15 months or more before the start of the identified gap, and after that must be consistent with the AER's timeframes.
- If triggered, liable entities are on notice to enter into sufficient qualifying contracts to cover their share of a one-in-two year peak demand. A Market Liquidity Obligation will ensure there are enough contracts available to smaller market customers by requiring obligated parties to make contracts available to the market. AEMO will also run a Voluntary Book Build mechanism to help liable entities secure contracts with new resources.

Secretariat
GPO Box 797
Canberra ACT 2601
Telephone: (02) 6274 1668
energycouncil@environment.gov.au

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- If the market response is insufficient and the AER confirms a reliability gap one year out, liable entities must disclose their contract positions to the AER. If actual system peak demand exceeds an expected one-in-two year peak demand, the AER will assess the compliance of liable entities.
- AEMO may commence procurement of emergency reserves at this point through the Reliability and Emergency Reserve Trader (RERT) framework to address the remaining gap with costs to be recovered through the Procurer of Last Resort cost recovery mechanism.
- Entities whose required share of load is not covered by qualifying contracts for the specified period are non-compliant. Non-compliant liable entities will be required to pay a portion of the costs for the Procurer of Last Resort, up to an individual maximum of $100 million. The AER will also be empowered to pursue a civil penalty for failures to comply.

Next steps

The 2019 Electricity Statement of Opportunities will be the first report that can be used to trigger the RRO (noting the specific South Australian arrangements).

The AER and AEMO are developing and will consult on interim and final guidelines to support the implementation of the RRO. Further information is available at:
www.aer.gov.au
www.aemo.com.au

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