



COAG
Energy Council

ENERGY SECURITY BOARD

Retailer Reliability Obligation

Final Rules Package

03 May 2019

Overview

The Retailer Reliability Obligation (the Obligation) builds on existing spot and financial market arrangements in the National Electricity Market (NEM) to facilitate investment in dispatchable capacity and demand response. It is designed to incentivise retailers, on behalf of their customers, to support the reliability of the power system through their contracting and investment decisions.

The Obligation has three key drivers that will work together to lower electricity prices:

- increased contracting unlocking new investment
- increased contracting in deeper and more liquid contract markets to reduce the level and volatility of spot prices, and
- increased voluntary demand response.

The Obligation is specifically designed so that it does not undermine, and may indeed boost, competition through measures that enhance market liquidity and pricing transparency in retail and wholesale electricity markets. For example, when the Obligation is triggered, a Market Liquidity Obligation will require the largest participants to offer to buy and sell contracts with all participants in the region.

At the December 2018 COAG Energy Council meeting, Ministers approved the National Electricity Law (NEL) amendments necessary to give effect to the Obligation and tasked the Energy Security Board (ESB) with developing the Rules to support the legislation. Proposed changes to the National Electricity Rules (draft Rules) were released for stakeholder consultation on 8 March 2019 with submissions closing on 5 April 2019. This paper provides an overview of the final package of proposed amendments to the NER (final Rules) to implement the Obligation and takes into account stakeholder feedback. It should be noted that South Australia is undertaking a separate process in relation to how the national framework may have to be amended or altered to take into account the framework that will apply in South Australia (including that the South Australian Minister may trigger the Obligation sooner than under the national framework).

Operation of the Retailer Reliability Obligation

Making a reliability forecast

The annual Electricity Statement of Opportunities (ESOO) will include a Reliability Forecast identifying any potential reliability gaps in the coming five years.¹ The final five years of the 10-year ESoo horizon will provide an indicative forecast of any future material breaches of the reliability standard.

¹ The ESoo is a document prepared by AEMO that provides technical and market data that informs the decision-making processes of market participants, new investors and jurisdictional bodies as they assess opportunities in the NEM over a 10-year outlook period. The reliability forecasts that are relevant to the RRO form a subset of this document, i.e. they are the first five years of the 10-year forecast.

The Reliability Forecast will identify:

- AEMO's forecast of unserved energy for the forecast reliability gap period (USE);
- the size of the gap, expressed in MW;
- the forecast reliability gap period (i.e., the start and end date); and
- the likely time of occurrence of the shortfall, specified as trading intervals.

The final Rules strengthen the existing forecasting and information provision regime to ensure that participants provide information to AEMO that gives a more robust understanding of the expected market outlook. The final Rules also include specific requirements for AEMO to assess the accuracy of its supply and demand forecasts to enable improvements to the forecasting process for upcoming ESOOs.

The final Rules require the AER to provide guidance on AEMO's forecasting processes, including improved consultation, to ensure they are undertaken in line with identified best practices and minimum standards.

Updating a reliability forecast

AEMO will update the reliability forecast annually, in line with the existing ESOO process. More frequent 'out of cycle' updates may be required, and are allowed for under the final Rules if there is a material change to the supply-demand outlook – such as when a generator announces retirement or there are significant changes in expected demand.

Triggering the reliability obligation

If a reliability gap is identified in the forecasts, the market will be expected to react. This could take the form of investment in new capacity (for example, generation, transmission, storage or demand response) or an offer of additional existing capacity to the market.

If there continues to be a forecast breach of the reliability standard, then AEMO must submit a Reliability Instrument Request to the AER at least three years and three months prior to the first day of the identified gap. The AER must then determine whether to make the reliability instrument within two months of receiving the request from AEMO.

When considering whether to make a reliability instrument, the AER must only have regard to certain prescribed criteria. The prescribed criteria make it clear that it would not be appropriate for the AER to replicate AEMO's ESOO modelling or provide alternative forecasts.

If the AER determines AEMO's assessment was appropriate, the AER will issue a T-3 Reliability Instrument or T-1 reliability instrument (related to a previously issued T-3 Reliability Instrument), specifying the nature of the gap period.

Liable entities

If the reliability requirement is triggered, then all liable entities must assess their likely share of system peak demand and secure sufficient qualifying contracts to cover this by the Contract Position Day (T-1).

Liabe entities will be each entity registered by AEMO as a market customer under the Rules provided their annual energy consumption is more than 10 GWh (mostly retailers, but also other parties that purchase electricity directly from the NEM).

Large customers (who are not market customers and meet the requirements to opt-in) may be able to manage the obligation associated with their load more efficiently than their retailer. The NEL amendments and final Rules set out the conditions under which large customers who are not otherwise liable entities may elect to 'opt-in' to manage their obligations directly.

New entrants, that enter the market in the final year before the beginning of the gap period, will also be liable if their annual consumption is more than 10 GWh but they will have different timeframes for reporting its net contract position.

Qualifying contracts

If the Obligation is triggered, liable entities will be required to enter into sufficient qualifying contracts to cover their share of system peak demand at the time of the reliability gap to meet possible future compliance.

Only certain types of contracts will count as qualifying contracts for the purposes of compliance with the Obligation. Qualifying contracts must be for the period of the reliability gap identified in the Reliability Instrument. When liable entities submit their net contract position to the AER for the reliability gap period, it must be adjusted for the relative 'firmness' of each contract.

The firmness of a qualifying contract is a measure of the extent to which a qualifying contract reduces the exposure of a liable entity to the volatility of the spot price in a region during the gap period. The likelihood that the seller will 'defend' the contract by dispatching generation or other resources increases with the seller's exposure to spot market prices. In other words, the generator's exposure to a financial contract is impacted by its physical position and the degree it is dispatched during the period of the contract. For example, if a 500 MW generator has sold 'cap' contracts with a contract price of \$300/MWh, the spot price is at the market price cap of \$14,500/MWh and the generator fails to be dispatched, it would be required to pay \$7.1 million per hour to meet its contractual obligations. On the other hand, if it is dispatched for 500 MW then the net effect is the generator receives \$150,000 per hour. In this way the relationship between the spot market and firm financial contracts provides an extremely strong incentive for a generator to be available and dispatched when the system needs it the most.

The AER will publish a default methodology for calculating firmness for standard contracts. Entities can also choose to use a bespoke methodology and will be able to engage an auditor from a panel pre-approved by the AER to determine the firmness factor for a contract where a default methodology does not apply.

A 'Market Liquidity Obligation' will operate between T-3 and T-1 when the Obligation is triggered in a region. Obligated participants will be required to post bids and offers, with a maximum spread, for standardised products that would cover the period of the gap. Obligated parties will be generators with a market share of 15 per cent or more in the region where there are at least two generators that meet the test in the region.

AEMO will also run a Voluntary Book Build mechanism to help liable entities to secure contracts which are underpinned by new physical resources.

Triggering the Reliability Obligation

If, one year out from a gap period (T-1), an expected material reliability gap remains² in AEMO's forecast, AEMO will again submit a Reliability Instrument Request to the AER. The AER will follow the same process as for a T-3 Reliability Instrument request to determine if it should issue the T-1 Reliability Instrument. Where a T-1 Reliability Instrument is issued by the AER, liable entities must report their net contract positions.

AEMO may commence procurement of emergency reserves at T-1 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 as detailed below.

Compliance

Ex-post, if peak demand exceeds the one-in-two year forecast³ during the reliability gap, the AER will assess the net contract positions submitted by liable entities and confirm if the level of contract coverage was adequate to meet their obligation.

The AER will compare each liable entity's net contract position with their share of actual demand in that interval, scaled back to the one-in-two year peak demand forecast.

Where liable entities are under-contracted in one or more trading intervals, the AER will calculate the shortfall. This shortfall will be used to determine that portion of the RERT costs incurred in relation to the reliability gap for which the under-contracted liable entity is responsible.

A liable entity found to be under-contracted will be charged a cost based on its proportionate contribution to the Procurer of Last Resort costs. An under-contracted liable entity's Procurer of Last Resort costs are capped at \$100 million.

The AER will also maintain its ability to assess compliance and pursue enforcement of any requirements under the final Rules in line with the existing powers of the AER under the NEL.

² A material reliability gap is defined as a breach of the reliability standard.

³ This is the one-in-two year peak demand forecast that is contained in the ESOO that is published directly preceding the issuance of a T-1 Reliability Instrument.

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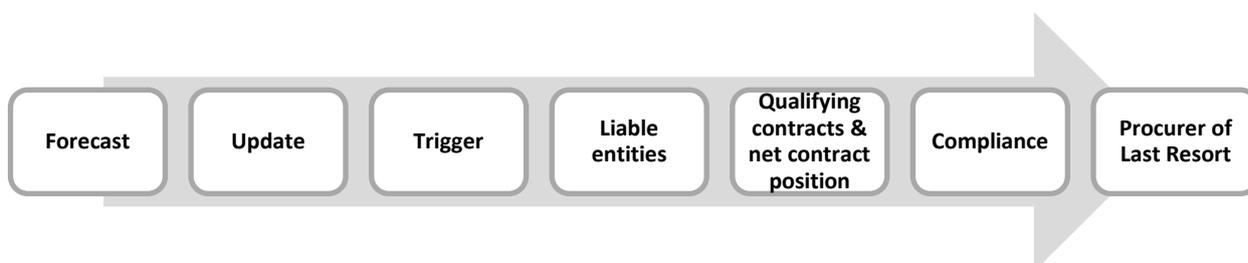
1. Introduction

At the 19 December 2018 COAG Energy Council meeting, Ministers agreed to the final draft bill of the National Electricity Law (NEL) amendments (NEL amendments)⁴ that would give effect to the Retailer Reliability Obligation (the Obligation). It is expected that these NEL amendments will be passed by the South Australian Parliament and be effective by 1 July 2019.

A Final Detailed Design for the Obligation (formerly the Reliability Guarantee, under the National Energy Guarantee) was published in August 2018.⁵ The Energy Security Board developed a draft of the National Electricity Rule (NER) amendments (the draft Rules) that was released for consultation on 8 March 2019, with submissions closing on 5 April 2019. Submissions can be found on the COAG Energy Council's website.⁶ This paper outlines the proposed final NER amendments (the final Rules) for consideration by the COAG Energy Council. This includes amendments to Chapter 2, Chapter 3 and a new Chapter 4A that will be introduced to establish the Obligation.

1.1 Background

The ESB's Final Detailed Design proposed that the Obligation would build on existing spot and financial market arrangements in the National Electricity Market (NEM) to facilitate investment in dispatchable capacity. The proposed mechanism is summarised in the figure and points below.



- The Australian Energy Market Operator (AEMO) will forecast annually whether the reliability standard is likely to be met or not in each NEM region over the coming 10 years with the first five years containing a separately identifiable reliability forecast. AEMO may need to update the forecast outside the annual Electricity Statement of Opportunities (ESOO) cycle in the event of a material change in circumstances.

⁴ Note: All references in this consultation paper are to the provisions of the NEL as amended by the National Electricity (South Australia) (Retailer Reliability Obligation) Amendment Bill 2018, unless otherwise stated.

⁵ ESB, *National Energy Guarantee – Final Detailed Design*, 1 August 2018 (Final Detailed Design).

⁶ Submissions can be found here: <http://www.coagenergycouncil.gov.au/publications/energy-security-board-%E2%80%93-retailer-reliability-obligation-draft-rules-consultation-paper>

- If a material reliability gap (defined as a breach of the reliability standard) persists or emerges three years from the period in question (T-3), AEMO must make a request to the Australian Energy Regulator (AER) to trigger the Obligation.
- If the Obligation is triggered at T-3, liable entities (retailers and other market customers, along with entities that choose to 'opt-in' to manage the liability associated with their load) may be required to demonstrate future compliance by entering into sufficient qualifying contracts to cover their share of forecast one-in-two year peak demand during the gap.
- If one year out from a forecast material reliability gap (T-1), the AER confirms a material reliability gap remains, and so issues a T-1 instrument, AEMO will use the Reliability and Emergency Reserve Trader (RERT) mechanism. At this point, liable entities will be required to disclose their net contract positions for the gap period to the AER.
- Ex-post, if actual peak demand over the gap period (T) exceeds the one-in-two year forecast as set out in the T-1 Reliability Instrument, the AER will assess the compliance of liable entities. Costs incurred by AEMO in exercising its RERT function related to the gap period will be recovered from under-contracted liable entities through the Procurer of Last Resort (POLR) cost recovery mechanism. This will be a proportionate cost commensurate with the level of under-contracting and capped at \$100 million per liable entity (per reliability gap period).

The AER will also maintain its ability to assess compliance and pursue enforcement of any requirements under the final Rules in line with the powers of the AER under the NEL. It should be noted that the effectiveness of the incentives created through the compliance and enforcement regime are tied to the ability of the AER to carry out its enforcement actions and the financial penalties that non-compliance carries. There remains a question under the RRO over whether the quantum of possible civil penalties for non-compliance is low compared to the economic and consumer impact of a breach. This issue of the quantum of civil penalties does not apply only to the RRO, but rather is a general issue in relation to the compliance and enforcement regime. However, the ESB understands that the Senior Committee of Officials is currently examining the issue of civil penalties in the NER.

1.2 Stakeholder engagement

The ESB has undertaken wide-ranging stakeholder engagement to develop the final Rules:

- The ESB undertook consultation on key detailed design issues such as the POLR cost recovery mechanism and the definition of a 'material gap' in December 2018.
- The ESB sought early feedback from stakeholders on the draft Rules package, through a series of Technical Working Groups held over 18 – 22 February 2019.
- The ESB held a reference group meeting with the Senior Committee of Officials on 22 February 2019.
- The draft Rules package was released for consultation on 8 March 2019, with submissions received from 29 stakeholders.
- Following release of the draft Rules package, the ESB conducted two stakeholder forums (focussed on general questions and clarifications) and two workshops (focused on detailed design elements) in Sydney and Melbourne.

Feedback received from stakeholders has informed the final Rules package set out in this paper. Stakeholder submissions were supportive of the consultative approach taken to date on the Obligation, and emphasised that the ESB and the other market bodies should continue to engage with industry through the development of the guidelines that will support the Obligation. The AER has commenced work (including consultation with stakeholders) on these guidelines.

2. Forecasting the reliability requirement

Relevant provisions of the final Rules are:

- Clause 3.13.3A (Statement of Opportunities)
- Clause 4A.A.3 (One-in-two year peak demand forecast)
- Chapter 4A, Part B (Reliability Forecasts)
- Clause 11.116.3 (Forecasting Best Practice Guideline)
- Clause 11.116.4 (Reliability Forecast Guideline)

These provisions of the Rules set out the processes and requirements to be followed by AEMO in forecasting whether the reliability standard will be met.

2.1 Interactions between Reliability Forecasts and the ESOO

The ESB's Final Detailed Design paper specified that AEMO will expand on its existing annual ESOO to forecast and publish information about whether the reliability standard is likely to be met in each NEM region. The Rules require the ESOO to now include a **Reliability Forecast** for each region for the purposes of the Obligation, in addition to existing content. The Reliability Forecast will comprise the forecast expected unserved energy (USE) in the first five years of the ESOO in each NEM region. The final five years of the 10-year ESOO horizon will provide an indicative forecast of whether the reliability standard is likely to be met.

2.2 Provision of information to AEMO

To ensure that liable entities can have confidence in the Reliability Forecast, the ESOO needs to be based on information that is current and of sufficient quality. The ESB considers that the existing information gathering provisions in the NER⁷ are not sufficient for the purposes of the Obligation. The final Rules therefore strengthen the existing information provision regime to ensure that participants provide information to AEMO that gives a more robust understanding of the expected market outlook. Stakeholders generally supported AEMO's ability to obtain more comprehensive information through the new requirements. Key features of the new regime are highlighted in the box below.

⁷

As set out in clause 3.13.3(q), 3.13.3(s) and 3.13.3(t) of the NER.

What can AEMO request?

AEMO will be able to request information for the purpose of preparing the ESOO and updates to the ESOO. The type of information that may be requested will be broader than the current requirements. For example, in addition to the capabilities of existing generators and new committed generators, AEMO will be able to request information regarding new generators that are proposed, but not yet formally committed.

Who will be obliged to provide information?

The information provision obligations will apply to all Registered Participants in the NEM.⁸

How do the Rules ensure the information provided is of sufficient quality?

The Rules require that information provided to AEMO must satisfy the following standard:

- it must not be false or misleading;
- where the information is of a technical nature, it must be prepared in accordance with good electricity industry practice; and
- it must represent the Registered Participant's current intentions and best estimates.

This provision is based on the information standard included in the National Gas Rules (NGR)⁹ and the information standards in relation to short term Projected Assessment of System Adequacy (ST PASA) inputs provided by Market Participants.¹⁰

If Registered Participants become aware of a material change in the information provided, that information must be provided to AEMO as soon as practicable.

What are the consequences of non-compliance?

Information providers will have an obligation to prepare and submit information to AEMO in accordance with AEMO's information request and the information standard. The availability of high quality information to inform the Reliability Forecast is critical to the successful operation of the Obligation. These requirements have therefore been recommended as civil penalty provisions.

When will the new information provision regime commence?

To ensure that Registered Participants have sufficient visibility of their likely obligations, the new regime would not apply until AEMO's interim Reliability Forecast Guideline is published. This is currently planned for the end of 2019, for use in the 2020 ESOO. Existing information requirements will continue to apply for the 2019 ESOO.

⁸ The Registered Participant category may not include developers of new generation projects, who do not intend to register as intending participants. Depending on the outcome of rule change requests submitted by Energy Networks Australia, AEMO and the Australian Energy Council (AEC), the Rules may be subject to further amendment. The AEMC has released a consultation paper for this consolidated rule change request which can be found here: <https://www.aemc.gov.au/rule-changes/transparency-new-projects>

⁹ Part 23 of the NGR requires service providers of non-scheme pipelines to publish certain information to facilitate timely and effective commercial negotiations in relation to non-scheme pipeline access.

¹⁰ Under clause 3.7.3 of the NER

2.3 Making a Reliability Forecast

Most aspects of the forecasting methodology and process will be covered in guidelines published by the AER and AEMO. However, the final Rules include specific provisions relating to (i) content of a Reliability Forecast and (ii) requirements for review and improvement.

2.3.1 Content of a Reliability Forecast

The Rules provide that a Reliability Forecast must include:

- AEMO's forecast of expected USE for the forecast reliability gap period based on the one-in-two year peak demand forecast;
- the size of the gap, expressed in MW;
- the forecast reliability gap period (i.e., the start and end date); and
- the likely time of occurrence of the shortfall, specified as trading intervals.

The final Rules provide that in addition to the minimum requirements above, AEMO must publish additional supporting material, which may assist liable entities with understanding a reliability forecast. Several stakeholders considered that AEMO should ensure the forecasting process is transparent and robust by publishing all ESOO data, which may include non-commercially sensitive input assumptions and half-hourly modelling results. In order to provide AEMO with flexibility to develop its approach in consultation with stakeholders, details of the supporting material to be published alongside a Reliability Forecast will be covered in AEMO's Reliability Forecast Guideline, rather than the final Rules.

2.3.2 Annual performance review and improvement program

The Final Detailed Design provided that forecast performance of the ESOO will be reported and published at least on an annual basis. AEMO will also be required to publish and consult on a proposed improvement program, and then report on this as part of the next ESOO.

The existing Rules include a performance review and improvement mechanism for the ESOO, which AEMO currently meets through publication of the Forecasting Accuracy Report. The final Rules modify this to better align with the reliability forecasting processes. Stakeholders generally welcomed the enhancements to AEMO's forecasting process.

2.4 The AER's Forecasting Best Practice Guideline

To provide confidence to Market Participants in the quality and transparency of the Reliability Forecast, the AER will develop and publish the **Forecasting Best Practice Guideline**. AEMO must have regard to this Guideline when developing the ESOO forecast.

The Forecasting Best Practice Guideline will provide guidance about AEMO's forecasting processes to ensure they are undertaken in line with identified best practices and minimum standards. It will not contain technical detail about how AEMO forecasting should be undertaken, as this is beyond the scope of the AER's role.

The Rules require the AER to consider the following principles in developing the guideline:

- **Accuracy and Lack of Bias** – forecasts should be as accurate as possible, based on comprehensive information prepared in an unbiased manner.
- **Transparency** – the basic inputs, assumptions and methodology that underpin forecasts should be disclosed.
- **Open Processes** – stakeholders should have as much opportunity to engage as possible, through effective consultation and access to documents and information.

Without prejudging the contents of the Guideline, the ESB anticipates the subject matter may include:

- **Consultation** – the mechanisms which AEMO should use to consult with stakeholders and when these mechanisms may be appropriate, including a two-stage public consultation process, industry reference groups and expert reference groups.
- **Methodology** – to facilitate stakeholder examination, AEMO should use a component-based methodology when forecasting, with the components developed through consultation. The analytical approach AEMO uses for assessing the reliability gap and associated parameters should also be subject to some consultative scrutiny.
- **Key parameters** – AEMO should publish sample outputs of key non-confidential parameters so that the drivers of the combined components can be more readily evident. For example, customer demand forecasts are likely to be made up of inputs relating to GDP, residential solar, DER, battery uptake and battery dispatch.
- **Scenarios** – AEMO should publish information on the construction of scenarios and sensitivities and identify any reliability gap using the neutral or most likely scenario.
- **Confidential data** – AEMO should use the most accurate data in its reliability assessment including where available confidential data but release indicative data in such a way that does not compromise confidentiality.

As at the time of writing the draft of the AER's interim Forecasting Best Practice Guideline has not been published but this is expected to happen in late May 2019.

2.5 AEMO's Reliability Forecast Guideline

AEMO's **Reliability Forecast Guideline** will set out how the approach outlined in the AER's Forecasting Best Practice Guideline will be implemented. It is expected that both the AER and AEMO guidelines will be developed through significant collaboration between the market bodies.

To ensure the transparency requirements envisaged in the Final Detailed Design are met, the final Rules set out a range of matters that must be included in the guideline, including:

- AEMO's forecasting methodology and relevant assumptions and inputs relied upon.
- The updated information provision regime described in Section 2.2.
- The process by which AEMO will meet transparency and accountability requirements, including the annual improvement program.
- The supporting material that will be published by AEMO.
- The process for updating the Reliability Forecast outside of the annual ESOO cycle.

- Consultation processes with stakeholders in preparing a Reliability Forecast.

By allowing forecasting principles and processes to be set out in guidelines rather than in the final Rules, the AER and AEMO can, using the Rules consultation procedures, update the guideline as needed to take into account changes in best practices and operational changes required by AEMO to develop its forecasts. Stakeholders supported development of both guidelines, noting that the use of guidelines is appropriate given that the Obligation framework may need to evolve with the NEM.

3. Updating the Reliability Forecast

Relevant provisions of the final Rules are:

- Clause 2.10.1 (Notification of intention)
- Clause 3.13.3A (Statement of Opportunities)
- Clause 4A.C.1 (AEMO request for a reliability instrument)
- Clause 4A.C.2 (AEMO request for a T-3 reliability instrument)
- Clause 4A.C.3 (AEMO request for a T-1 reliability instrument)
- Clause 4A.C.7 (Withdrawing a request)

These provisions of the Rules set out the process and requirements to be followed by AEMO in updating a Reliability Forecast.

3.1 Updating the Reliability Forecast

AEMO will update the Reliability Forecast annually, in line with the existing ESOO process. More frequent 'out of cycle' updates may be required if, in AEMO's reasonable opinion, there is a material change to the supply-demand outlook – such as when a generator announces retirement or there are significant changes in expected demand. While the existing Rules contain provisions for updates to the ESOO, the final Rules clarify the role of updates in the context of the Obligation and include additional provisions to guide how updates will be undertaken. Specifically, the final Rules:

- Expand the existing triggers for 'out of cycle' ESOO updates to better align with the Obligation.
- Provide that AEMO may, if appropriate, publish an updated Reliability Forecast. The process for updates may be different from the standard ESOO process, although this would still need to align with the AER's Forecasting Best Practice Guidelines.
- State that updates to the ESOO and the associated Reliability Forecast may be used as the basis for a Reliability Instrument Request by AEMO. However, for the ESOO AEMO would still need to follow the normal timeframes set out in the final Rules, to ensure that liable entities receive the same amount of advance notice that the Obligation may be triggered. The standard AER process (see Section 4.4) will apply for assessing an instrument request based on an updated forecast.

4. Triggering the reliability obligation

The relevant provisions of the final Rules are:

- Chapter 4A, Part C (Reliability Instruments)

These provisions of the Rules set out the process for AEMO to request a T-1 or T-3 Reliability Instrument and for the AER to decide whether to make the Reliability Instrument.

4.1 Materiality test

The Final Detailed Design proposed that materiality decisions would be based on an objective metric, linked to the NEM reliability standard. The ESB consulted on this issue in December 2018. Submissions to this consultation supported either the use of the reliability standard, or the reliability standard plus an additional margin, as the materiality threshold. Taking these responses into account, the final Rules provide that a **reliability gap will be considered material if the forecast regional annual expected USE exceeds the reliability standard**. The same metric will be used for assessing materiality at T-3 and T-1.

While some stakeholders' submissions on the draft Rules supported this materiality test, others considered that the Obligation should not be triggered for minor breaches of the reliability standard. The reliability standard provides a straightforward, objective and relatively predictable basis for a materiality assessment. The ESB considers that it is not appropriate to set a margin on top of the existing standard, as this would effectively create a new standard.

4.2 Timeframes for requesting and making Reliability Instruments

If AEMO identifies a material reliability gap, it must submit a **Reliability Instrument Request** to the AER. The Rules establish that:

- AEMO must submit a Reliability Instrument Request to the AER not less than three months before T-3 or T-1.
- The AER must make its decision within two months of receiving a Reliability Instrument Request from AEMO.

This approach balances the benefits of using the most up to date Reliability Forecast with the other requirements of the Obligation. Ordinarily, these timeframes would provide at least one month between the AER issuing a T-1 Reliability Instrument and liable entities being required to finalise their contract position for a T-1 Reliability Instrument.¹¹ These timeframes were the

¹¹ Assuming that the AER sets the Contract Position Day close to T-1. These timeframes could change in the event that AEMO issues a corrected reliability instrument request.

subject of previous consultation by the ESB and minimal comments were received from stakeholders.

In developing these timeframes, the ESB became aware of an issue relating to the required three-year notice of closure for generators. Both the ESOO and an associated T-3 Reliability Instrument Request need to be completed *more than* three years in advance of any gap period. Therefore, depending on when a gap is forecast to occur, the notice of a generator exiting the market may be provided too late for a T-3 Reliability Instrument to be issued, even though a gap may arise as a result of the closure. **To address this issue, the final Rules provide for an extension of the notice of closure period to 3 years and 6 months.**

Stakeholders expressed mixed views on this issue. The main argument against extending the timeframe is that the information may be less accurate. However, the ESB considers that the notice period extension is appropriate so that AEMO can reflect this information in the ESOO. As such, although not included in the draft Rules, the final Rules include an extension of the notice of closure requirements.

4.3 Preparing an instrument request

The final Rules require that a Reliability Instrument Request must include certain minimum information set out in the NEL (Section 14I). This includes identification of the trading intervals for which future compliance with the Obligation may be assessed.

Some stakeholders considered that targeted and narrowly defined reliability gap periods would enable liable entities to most efficiently close the forecast reliability gap. However, the ESB considers that the final Rules need not place additional constraints on how a T-3 reliability gap is specified, beyond the requirements in the NEL. Flexibility is appropriate, as the expected timing of forecast reliability gaps is likely to vary from year to year and AEMO's ability to forecast reliability at different levels of granularity is also likely to evolve over time.

However, to provide adequate notice to liable entities, AEMO must only make a T-1 Reliability Instrument Request that is related to a prior T-3 Instrument. A T-1 Reliability Instrument Request must therefore:

- relate to the same region;
- cover, or fall entirely within, the same reliability gap period; and
- cover, or fall entirely within, the same period of gap trading intervals;

as a prior T-3 Reliability Instrument. Within these boundaries, the size of the reliability gap (MW) in the T-1 Reliability Instrument may be different from the related T-3 Reliability Instrument.

For example, a T-3 Reliability Instrument may be issued in relation to Victoria for the period of 10 January to 15 February for the trading intervals between noon and 5:00 pm weekdays. The MW gap indicated in the T-3 Reliability Instrument is 450 MW. Based on the most recent AEMO forecast, the corresponding T-1 Reliability Instrument is then issued for Victoria for the period 10 January to 31 January (it cannot be for a period before 10 January or after 15 February), and for trading intervals between 1:00 pm and 3:00 pm weekdays (it cannot be for trading intervals before noon or after 5:00 pm). The MW gap indicated in the T-1 Reliability

Instrument is 600 MW (the MW size of the gap is not confined by what was identified in the T-3 Reliability Instrument).

This strikes a balance between providing liable entities with visibility of the boundaries of any future T-1 reliability gap, and providing AEMO with flexibility to adjust for unforeseen changes in the forecast.

The NEL (Section 14J) provides that AEMO may correct a Reliability Instrument Request if it contains a material miscalculation, a material mistake or a defect in form. This allows errors to be corrected and the AER's assessment process to proceed without undue delay. The final Rules set out a process and timelines for AEMO to issue corrections and also to withdraw an instrument request, if there is a material error in the Reliability Forecast.

4.4 Assessing an instrument request

The Final Detailed Design stated that the AER would have some discretion not to trigger the Obligation, even if the materiality test is met objectively. The final Rules set out clear boundaries on the AER's discretion, providing that the AER may only have regard to the following criteria:

- Whether there is a **material error** in AEMO's calculations or input data as it relates to the reliability forecast.
- Whether AEMO has made an **inaccurate assumption** that materially impacts the forecast unserved energy outcomes in the Reliability Forecast.
- Whether the **forecasting process** was undertaken in a manner inconsistent with the AER's Forecasting Best Practice Guideline.

The AER will consult with stakeholders on whether the Reliability Instrument Request should be made, based on these criteria. The confined nature of the criteria described above means that this consultation process will be limited and is not an opportunity for stakeholders to seek to interrogate AEMO's Reliability Forecast on technical grounds.

Several stakeholders expressed the view that the AER should more closely scrutinise AEMO's forecasts, including conducting a peer review of AEMO's forecasting or reproducing AEMO's forecasts. Other stakeholders considered that the AER's decision should take into account whether AEMO had conducted a transparent stakeholder consultation process.

The ESB considers that the final Rules should provide boundaries on the nature of discretion that may be exercised by the AER, to ensure liable entities are able to predict and plan for their obligations as effectively as possible. The ESB is of the view that it would not be appropriate for the AER to replicate AEMO's ESOO modelling or provide alternative forecasts. Forecasting of this nature is beyond the scope of the AER's role and requiring the AER to replicate forecasts would be impractical and inefficient. The AER's assessment of a Reliability Instrument Request will focus on the quality of AEMO's forecasting process, including the validity of input assumptions and consultation, which will provide confidence in the robustness of the Reliability Forecast. On 4 April 2019 the AER published a draft of its interim Reliability Instrument Guidelines setting out its approach to making a decision on a Reliability Instrument Request from AEMO.

4.5 Making a Reliability Instrument

The final Rules require the AER to set out the reasons for its decision to issue a Reliability Instrument, in line with the criteria set out above. As required by the draft NEL (Section 14K), the AER can only make an instrument for the region, gap period and trading intervals as stated in AEMO's request, without modification.

A T-1 Reliability Instrument issued by the AER must also specify the timeframes by which liable entities are required to hold a sufficient net contract position to cover their liability under the Obligation (the **Contract Position Day**) and report this net contract position to the AER (the **Reporting Day**).

5. Liable entities

Relevant provisions of the final Rules are:

- Chapter 4A, Part A (Introduction)
- Chapter 4A, Part D (Liable Entities)
- Clause 4A.F.8 (AER assessment)
- Clause 11.116.5 (AER Opt-in Guideline)
- Clause 11.116.6 (Contracts and Firmness Guideline)

These provisions of the Rules specify which entities are liable under the Obligation. This includes how non-liable entities will be able to 'opt-in' to manage their obligation and how entities that enter the market after the Contract Position Day are treated.

5.1 Liable entities

The draft NEL (Section 14D) defines a liable entity as:

- an entity who is a Registered Participant (a retailer or other market customer); or
- an entity that has elected to assume responsibilities on another's behalf; or
- another entity if specified in the Rules.

Reliability obligations apply to entities that meet this definition on the Contract Position Day, or an alternative date if specified in the Rules.

Stakeholders suggested that market participants should be exempt from complying with the Obligation under certain conditions (for example, batteries or pumped hydro). The final Rules, unlike the draft rules, provide that **market customers with annual energy consumption equal to or below 10 GWh will be exempt from compliance with the Obligation**. Below this level of consumption, it is likely that a market customer may face difficulties in securing contracts of the correct volume to cover its relatively small load, which could result in over-contracting. This exemption would serve to generally exclude small batteries, which is considered appropriate given that these resources are unlikely to draw power from the grid during tight supply/demand conditions. The ESB notes that few participants would be exempt through application of this threshold and it is expected that the impact on the effectiveness of the Obligation would be limited.

5.2 Opt-in customers

Large customers¹² (who are not market customers and meet the requirements to opt-in) may be able to manage the obligation associated with their load more efficiently than their retailer.

¹² Large customers in this context is not the same as 'Large Customer' as defined in the National Energy Retail Law.

The final Rules set out the conditions under which large customers may elect to ‘opt-in’ to manage their obligations directly.¹³

The final Rules introduce two categories of opt-in customer:

- **Large Opt-in Customers**, that meet the definition provided in the draft NEL (i.e., purchase electricity from a retailer and meet the energy threshold set out in the Rules). These customers must opt-in for the entire load at a connection point for the entire reliability gap period.
- **Prescribed Opt-in Customers**, which do not technically meet the definition provided in the draft NEL (because they do not purchase electricity directly from a retailer). The Prescribed Opt-in category has been introduced to address particular contracting arrangements in the energy market which could potentially exclude some large energy users from registering as a Large Opt-in Customer. Generally, this category will be used by joint venture partners and allow persons to opt-in for part of the load at a connection point. To ensure that the administrative burden does not become excessive, the additional flexibility does not apply to all opt-in customers. The requirement in the draft Rules for Prescribed Opt-in Customers to submit an opt in application 40 business days before the Opt-In Cut-Off day has been removed given the Opt-in Cut-Off day is generally six months before the contract position day.

The final Rules set out that Large Opt-in Customers and Prescribed Opt-in Customers may only opt-in for the full reliability gap period and all trading intervals within this period to which the Obligation applies. In addition, the final Rules provide that where a site has multiple connection points, Large Opt-in Customers may only opt-in for all connection points at the site. This was not included in the draft Rules but based on stakeholder feedback was necessary to ensure that liable entities did not shift load between connection points at a single site to avoid the Obligation.

5.2.1 Opt-in customer thresholds

The objective of the opt-in arrangements is to provide large customers who wish to manage their own obligation with the flexibility to do so. To balance the potential benefits of allowing customers to opt-in with the administrative costs, the Rules prescribe minimum consumption thresholds for customers to be eligible to opt-in, as outlined in the table below.

Opt-in Customer	Eligibility
Large Opt-in Customers	<ul style="list-style-type: none"> • Annual energy consumption of 50 GWh or more to be applied to a group of NMs in a region
Prescribed Opt-in	<ul style="list-style-type: none"> • The entity may apply to opt-in for all or part of a total load, where that connection point has an annual peak demand that is greater than or equal to 30

¹³ The draft NEL (Section 14E) allow a non-liaible entity to opt-in if it: purchases electricity from a liable entity (such as a retailer) and has demand greater than the threshold specified in the Rules; or is otherwise defined in the Rules as being eligible.

Customers	<p>MW. The percentage of the total load that the entity wishes to opt-in for must have annual peak demand greater than or equal to 5 MW.¹⁴</p> <ul style="list-style-type: none"> • The entity must not be eligible to register as a Large Opt-in Customer. • The entity must meet other conditions as prescribed in the AER's Opt-in Guideline.
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The threshold for Large Opt-in Customers has changed between the final Rules and the draft Rules; namely, in the draft Rules the Large Opt-in Customer threshold was set at 100 MWh. Stakeholders had mixed views on the appropriate threshold for Large Opt-in Customers with some indicating that 100 MWh was appropriate and others indicating that it was too low. The ESB is of the view that 100 MWh is too low especially in light of the fact that parties can aggregate their load across multiple sites to meet the threshold. It was determined that a threshold of 50 GWh is a level at which those parties that it is expected may wish to opt-in would be able to. For example, a sophisticated multi-site customer, such as a national supermarket chain, would generally consume at least 1,000 to 1,500 GWh in total across the various sites. Further, a threshold of this size limits the administrative and compliance burden on both the AER and AEMO associated with the Obligation.

5.2.2 Opt-in process

In order to opt-in, eligible entities must apply to the AER and be granted opt-in approval. The AER will establish and maintain a register of opt-in customers. Applications to opt-in must be received by the AER by close of business on the **Opt-in Cut-off Day**, which falls 18 months after the T-3 Reliability Instrument is effective. Ordinarily, this will give retailers around six months' notice of the opt-in load of its customers before being required to finalise their net contract position.

The final Rules provide that, after having opted-in, customers can opt-out or otherwise adjust their opt-in position before the Opt-in Cut-off Day, provided appropriate agreement is sought. However, there is no obligation on a market customer or another opt-in customer to agree to assume an existing opt-in customer's obligation. The final Rules provide that no party can opt-in until the AER Opt-in Guideline is complete which is required to be no later than 30 June 2020.

5.3 New entrants

The Final Detailed Design indicated that new entrants (i.e., who enter the market *after* the contract position day) would be required to take steps to manage their obligation for load over the forecast gap period. **The final Rules provide that new entrants will only be required to comply with the Obligation if they are anticipated to have an annual consumption of electricity that is more than 10 GWh per annum.**

¹⁴ Peak demand is defined as maximum coincident demand for a trading interval at a site over the 12 months preceding the application for registration with the AER. The AER may consider other data in the case of new entrants or a significant change in circumstances that would make the preceding 12 months irrelevant.

The draft Rules published for stakeholder consultation considered a lower threshold of 100 MWh per annum. While few stakeholders addressed this issue, those that did were split on whether 100 MWh was too low or appropriate (100 MWh represents around 20 mass market customers). After considering this feedback, the ESB is of the view that 10 GWh is a more appropriate threshold, as it supports the policy objective of having all liable entities obtain the necessary contracts, while avoiding placing an undue burden on new entrants that have not yet obtained more than a handful of customers.

6. Qualifying contracts and net contract position

Relevant provisions of the final Rules are:

- Chapter 4A, Part A (Introduction)
- Chapter 4A, Part E (Qualifying Contracts and Net Contract Position)
- Chapter 4A, Part G (Market Liquidity Obligation)
- Chapter 4A, Part H (Voluntary Book Build)
- Clause 11.116.7 (Qualifying contract under interim Contracts and Firmness Guideline)
- Clause 11.116.8 (Grandfathering arrangements)
- Clause 11.116.11 (Application of Part G, Divisions 2 – 6 (inclusive))
- Clause 11.116.12 (Interim deeming of MLO generators and MLO groups)

These provisions of the Rules cover how liable entities can use qualifying contracts to meet their obligation and requirements for reporting their net contract position to the AER.

6.1 Qualifying contracts

To comply with the Obligation, liable entities are required to hold a net contract position that is sufficient to cover their share of one-in-two year peak demand. Only certain types of contracts will count as **qualifying contracts** for the purposes of demonstrating compliance. The draft NEL amendments state that a qualifying contract is a contract or other arrangement that:

- is directly related to the purchase or sale, or price for the purchase or sale, of electricity from the wholesale exchange during a stated period; and
- the liable entity entered into to manage its exposure in relation to the volatility of the spot price.

Some stakeholders were concerned that the term ‘other arrangement’ does not provide clarity on whether self-generation and self-curtailment may be considered a qualifying contract. The final Rules therefore clarify that these types of arrangements could fall within the definition of a qualifying contract, even though there may not be a formal ‘contract’ in place.

Except for demand response contracts (see below), the Rules do not specifically provide for permitted or excluded contracts, since this could stifle innovation. However, further guidance on qualifying contracts will be set out in the AER’s Contracts and Firmness Guideline.

6.2 Demand side participation contracts

Retailers, and other market customers, may enter into demand side participation contracts as an additional means of managing their total load and, ultimately, reducing their exposure to wholesale prices. The final Rules provide that, in addition to complying with the normal requirements for being a qualifying contract, a demand side participation contract may only be a qualifying contract if it is also registered on AEMO’s Demand Side Participation Information Portal (DSPIP). The DSPIP is an online mechanism for AEMO to collect demand

side participation information that is then used to inform AEMO's electricity load forecasts. The final Rules were amended to make clear that demand response is not required to be reported in the net contract position report where the liable entity is not relying on it as a qualifying contract. Therefore not everything in the DSPIP will be a qualifying contract.

6.3 Firmness

The extent to which a qualifying contract contributes to meeting a liable entity's load depends on the **firmness** of that contract. Firmness is a measure of the extent to which a qualifying contract reduces the exposure of a liable entity to spot price volatility. All qualifying contracts must be allocated a firmness factor between zero and one, to determine the contract's contribution to the net contract position. The final Rules set out principles that guide how firmness factors are determined, as outlined in the text box below.

Firmness principles

The principles consider the extent to which a qualifying contract 'protects' the buyer from spot price volatility. The lower the exposure, the higher the firmness factor. This is because the likelihood that the seller will 'defend' the contract by dispatching generation or other resources increases with the seller's exposure to spot prices. The firmness principles are:

- Price terms of the contract reduce the liable entity's exposure to the volatility of the spot price during the gap trading intervals.
- Variability and profile of the volume settled or supplied under the contract.
- Likelihood of the contract providing cover to the buyer during the gap trading intervals.
- Any other contractual terms which limit the coverage under the contracts or otherwise reduce the incentive for a seller to cover its contract position during the gap trading intervals.

Firmness methodologies will be developed to determine the firmness factors. The AER's Contracts and Firmness Guideline will set out principles to guide the development of all firmness methodologies. The AER held a workshop on 11 April 2019 to gather feedback from stakeholders in relation to the interim Contracts and Firmness Guideline. As at the time of writing the draft of the AER's interim Contracts and Firmness Guideline has not been published but this is expected to happen in late May 2019.

The guideline will also include a range of default methodologies for determining the firmness factor of standard contracts. Liable entities may also use bespoke methodologies when calculating the firmness of non-standard contracts. The methodology for bespoke contracts has changed between the draft Rules and final Rules. In the final Rules, the AER will establish a panel of auditors that have been pre-approved. Liable entities may engage auditors from this panel to approve a firmness methodology. The auditor would determine a firmness factor which would be binding on the AER, in the absence of fraud or manifest error. The policy intent is to allow liable entities to develop innovative products and for the firmness factors to be approved within a timeframe that supports commercial negotiations. Stakeholders were generally supportive of this approach.

6.4 Grandfathering of contracts

If liable entities who are not retailers hold qualifying contracts that were in place prior to 10 August 2018, these contracts will automatically receive a firmness factor of one. These grandfathering arrangements will apply until the contract expires¹⁵ (extensions are not permitted). If the contract does not contain a set expiry date, it is grandfathered until 1 July 2023.

Stakeholders raised the issue that some existing contracts pre-date the NEM and do not reference the 'wholesale exchange' or 'spot price'. Therefore these contracts may not fall within the qualifying contract definition set out in the NEL. The Rules therefore provide that contracts entered into pre-13 December 1998 will be deemed as qualifying contracts. As with other pre-existing qualifying contracts, these contracts will be granted a firmness factor of one until they expire (or until 1 July 2023 if there is no set expiry date). After 1 July 2023 (or the expiration of the contract), these contracts would remain qualifying contracts, but with the firmness factor determined pursuant to a firmness methodology.

The final Rules clarify that the grandfathering provisions do not apply to self-generation or self-curtailment.

6.5 Market Liquidity Obligation

To help manage stakeholder concerns regarding the liquidity and transparency of contract markets, the Final Detailed Design paper indicated that a Market Liquidity Obligation (MLO) would operate when a T-3 Reliability Instrument is made. On 15 April 2019 the AER published a draft of its interim MLO Guideline.

6.5.1 Triggering the MLO

The MLO will be triggered in a region if:

- A T-3 Reliability Instrument is made by the AER for that region; and
- There are at least two corporate groups which hold at least 15 per cent of the registered scheduled generation capacity in that region (see Section 6.5.2).

Obligated parties (see Section 6.5.2) must commence market making under the MLO **within five business days** after a T-3 Reliability Instrument is made by the AER. When the AER receives a T-3 Reliability Instrument Request from AEMO, it will provide obligated parties with advance notice that the MLO could be triggered.

An MLO will continue to operate even if the T-2 ESOO indicates that the forecast reliability gap has closed. This is necessary to ensure that liquidity remains in the market, as a T-1 Reliability Instrument could still be issued in relation to a T-3 Reliability Instrument, if the forecast reliability gap later reopens. Therefore, the MLO will continue to operate until a T-1 Reliability Instrument is issued, or the AER informs obligated parties that the MLO is no

¹⁵ The expiration date applicable is the expiry date specified in the contract as at 10 August 2018.

longer required. For example, this could occur where there are less than two corporate groups in a region which exceed the 15 per cent market share threshold.

Some stakeholders proposed that the MLO should only operate if adequate liquidity is not provided through voluntary market making. Other stakeholders supported a mandatory scheme, as this would enhance incentives to make sufficient contracts available. The ESB identified several complications with the voluntary market making approach, including the complexity and limited ability to monitor or compel continued market making during the relevant period if voluntary market makers cease to market make. **The final Rules therefore confirm that the MLO is mandatory if the triggers above apply.**

Safeguards are in place to ensure that obligated parties can reasonably meet the MLO requirements. An obligated party is not required to comply with the MLO if a trading halt is called by the exchange on MLO products, or if a trading halt is imposed on the company.

6.5.2 Obligated parties

The MLO will require obligated parties to make contracts available that cover the forecast reliability gap. The MLO will not apply to Tasmania, as the Tasmanian Electricity Supply Industry Act 1995 already requires Hydro Tasmania to offer a range of regulated over the counter (OTC) electricity contracts to authorised retailers operating in the state.

In other NEM regions, after the first two years when transitional arrangements apply (as discussed below), obligated parties are defined as scheduled market generators who belong to corporate groups (**'MLO groups'**) that hold **at least a 15 per cent share of the registered capacity of all scheduled generating units in that region**, on average for the last two consecutive quarters. The AER's process for identifying MLO groups is as follows:

- **Step 1:** Identify the **trading right holder** for each generating unit, defined as the person who has "dispatch control" over some or all of the generator capacity. Dispatch control is the ability to control the dispatch offers made to AEMO and will be further defined in the AER's MLO Guideline.
- **Step 2:** Trading right holders are grouped into **trading groups**, based on a 'control or influence' test. Under this test, an entity with an equity interest of more than 10 per cent in another entity will be deemed to be in the same trading group.
- **Step 3:** A trading group which exceeds the 15 per cent market share threshold is an **MLO group**. Generators who have all, or a part of, their capacity controlled by a MLO group, are obligated parties under the MLO.

Under the draft Rules the AER was to calculate the market share of each MLO group at least once a quarter. The final Rules amend this requirement so that the AER is only required to calculate the market share when new information is provided by participants to the AER or the AER otherwise becomes aware of a change.

Based on current ownership structures, these provisions would result in two or three MLO groups in each of Queensland, New South Wales, Victoria and South Australia.

While some stakeholders supported this approach, others noted that the process appears complex. The ESB notes that although the definition may be complex, it is necessary to:

- Address the sophisticated corporate structures which are present in the market;

- Ensure that the market share test applies to entities which have the greatest control and influence; and
- Fall clearly within the ambit of the Rules – i.e. imposing obligations on Market Participants.

Registered capacity or summer capacity?

The ESB consulted on whether registered capacity or summer capacity would be most appropriate for determining obligated parties under the MLO. Stakeholders had mixed views.

The argument for summer capacity is that generally a reliability gap period would be expected to occur in the summer. Therefore, a more accurate assessment of the amount of contracts that a generator can defend should be based on the capacity in the summer. Further, this is the measure AEMO uses in the ESOP to determine if there is a reliability gap.

However, registered capacity is a better understood and more stable concept than summer capacity. Registered capacity can change, but it is not updated annually which provides greater certainty to the market and ease of administration.

The ESB determined registered capacity was the appropriate measure.

Generally, the AER will determine market shares and obligated parties if the MLO is triggered. However, the ESB consulted on an alternative deeming approach that could operate for the first two years of the Obligation (1 July 2019 to 1 July 2021). Where specifically addressed in submissions, no stakeholders were opposed to the deeming approach.

The ESB adopted a deeming approach in the transitional provisions of the final Rules. The transitional provisions will operate until 1 July 2021 and provide:

- A list of deemed generating units in each region of the NEM with the exception of Tasmania
- A mechanism to allow obligated parties, due to a material change in circumstances, to seek to have its overall sales limit adjusted.

The Rules accompanying this paper include the list of deemed MLO generators determined by the ESB. The deemed generators are:

- In Victoria – AGL, Energy Australia and Snowy Hydro.
- In South Australia – AGL, Engie and Origin.
- In New South Wales – AGL, Origin and Snowy Hydro.
- In Queensland - CS Energy and Stanwell.

Upon expiration of the transitional provisions, Obligated Parties will be determined as described above in section 6.5.2.

6.5.3 Market making requirements

Obligated parties will be required to post bids and offers, with a maximum spread, for standardised 'firm' products in the relevant region that cover the period of the reliability gap. The requirements included in the final Rules are set out in the table below.

Requirement	Details per Rules	Rationale
Product type	<p>MLO products are taken to be qualifying contracts with a firmness factor of one. MLO products are:</p> <ul style="list-style-type: none"> • Base and peak futures (monthly or quarterly) • Cap futures (quarterly) <p>The AER may approve other exchange-traded products. The products offered must cover the full reliability gap period. The final Rules have been amended to add additional detail to ensure it is clear that where a gap falls over more than one quarter or month, the combination of products and the volume limits are applicable for the gap period in its entirety. For example, if the gap is for December and January, it would be necessary to post bids and offers for both the December monthly product and the January monthly product.</p>	<p>Allowing obligated parties to sell base/peak futures or caps recognises the differences between the generation resources of obligated parties. For example, peaking generators are better suited to selling caps than swaps. The combination of products offered is at the discretion of the obligated party.</p>
Size of bids and offers	<p>Bids and offers must be posted that allow 1 MW lot trades to occur.</p>	<p>Likely to fit the requirements of small retailers and large customers.</p>
Bid/offer spread	<p>The maximum difference in bid and offer prices is 5% for flat base/peak load contracts in NSW/VIC/QLD and 7% in SA.</p> <p>The maximum bid-offer spread on cap contracts is 10% for any region.</p> <p>Regardless of maximum bid-offer spread requirements, the bid-offer spread is not required to be less than \$1 per MW.</p>	<p>The final Rules differ from the draft Rules by increasing the allowable spread. A maximum bid/offer spread prevents parties posting prices that make their contracts wholly unattractive. A nominal minimum threshold will be provided to provide an upper limit to the risk of the spread.</p>
Requirement to place bids / offers	<p>An obligated party must post bids and offers during two thirty minute 'trading sessions'. There is a 'grace' period of 10 sessions per month where obligated parties do not have to post bids and offers.</p> <p>In addition, the final Rules have been amended to include the possibility of pro-rated requirements to place bids and offers to account for a reliability instrument being issued or expires part way through a month.</p>	<p>Bids and offers must be available for a reasonable time during market making windows each day. The draft Rules prescribed the number of trading sessions for which a bid and ask had to be posted. The final Rules prescribe the number of sessions where a bid and ask do not have to be posted. This provides flexibility to the obligated parties but more certainty in relation to what is required of an obligated party and simplifies compliance and reporting.</p>
Net sales limits	<p>The Rules set daily, quarterly and total net sales limits. Once the limit is reached, an obligated party may cease market making for the remainder of that period.</p> <ul style="list-style-type: none"> • Daily net sales limit: 5 MWs per session in NSW, QLD and VIC, and 2 MWs per session in SA. • Quarterly net sales limit: 1.25% of the 	<p>The daily, quarterly and total sales limits are designed to ensure that a proportion of obligated parties' unhedged volumes is delivered to the market gradually between T-3 and T-1 through the MLO. The intent is that, as far as possible,</p>

Requirement	Details per Rules	Rationale
	<p>MLO group's aggregate generation capacity.</p> <ul style="list-style-type: none"> Total net sales limit: 10% of the MLO group's aggregate generation capacity. <p>Volumes traded in excess of the above sales limits cannot be counted towards meeting the sales limit for the next applicable period. This requirement was added in the final Rules to clarify the policy intent behind the volume limits and ensure liquidity is spread over the two-year period.</p> <p>The sales limits apply only to capacity that will be in the system during the gap period. If a generator has announced it will close before the gap period starts, this capacity would not be included.</p>	<p>contracts are available over the entire period of market making activity.</p> <p>The 10% threshold represents aggregate total volumes across obligated parties of 750 – 1,100 MW in NSW, VIC and QLD and approximately 250 MW in South Australia.</p>

Many stakeholders commented on the bid/offer spread and the requirements to place bids and offers in a defined number of trading sessions. Stakeholders were generally of the view that the bid/offer spread in the draft Rules was too tight and that the number of required trading sessions was too onerous. Having considered the evidence provided, the ESB has:

- Increased the spread to the level stated above, which will be consistent with the voluntary market making scheme being implemented by the ASX.
- Amended the required trading sessions to those shown in the table above. This provides greater trading flexibility across the full year.

The MLO relies upon contracts being easily accessed and traded. Therefore, the final Rules provide that obligated parties must post bids and offers using a trading facility approved by the AER, in line with criteria set out in the Rules. The transitional provisions of the Rules deem the ASX as an approved trading facility for the purposes of the MLO.

Several stakeholders raised the issue of a generator closing after a T-3 reliability instrument is issued but before the gap period and the fact that the generator would not be in the market at the time of the gap to defend the contracts it was required to sell under the MLO.

Therefore, the final Rules provide that the capacity subject to a notice of closure will not be taken into account when determining the volume of contracts an obligated party is required to sell.

6.6 Voluntary Book build

The Final Detailed Design provided that if the reliability obligation is triggered, AEMO will invite interested parties to lodge an expression of interest to participate in a book build mechanism. This mechanism would provide an opportunity for liable entities – particularly smaller entities – to secure qualifying contracts underpinned by new physical resources.

Stakeholders who commented on this issue generally indicated that the book build process may not be required. The ESB notes that while AEMO must run the book build process if a T-3 instrument is issued, participation in the book build is voluntary and the costs of the book build process will be levied on book build participants only.

6.6.1 Book build timing and process

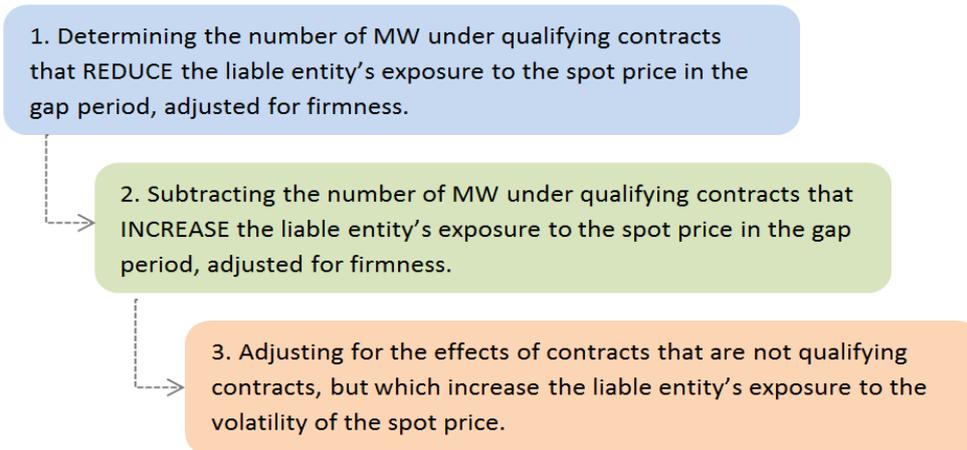
Once AEMO's Book Build procedure is in place, AEMO must conduct a book build for the reliability gap if a T-3 Reliability Instrument is issued.

AEMO will conduct the book build by inviting sellers who are looking to develop new capacity to make offers to sell contracts for the duration of the reliability gap, and inviting buyers to make offers to buy these contracts. Eligibility criteria to participate in the book build will be set out in AEMO's procedure. While the book build matches buyers and sellers, the matched buyer and seller still need to negotiate and enter into a contract. AEMO will not be a counterparty for any of the contracts entered into pursuant to the book build and is not responsible for any risk associated with any contracts entered into through the mechanism.

6.7 Net contract position

If a T-1 Reliability instrument is issued, each liable entity must determine its net contract position and submit a **net contract position report** to the AER. The net contract position report must be certified by a director of the liable entity.

The net contract position is determined by:



6.7.1 No requirement to maintain net contract position

Compliance will be assessed against the net contract position on the Contract Position Day provided to the AER on the Reporting Day (unless permitted adjustments are made – see below). The Contract Position Day is the day that liable entities must have all the contracts to cover their demand in place. This is set in the T-1 Reliability Instrument but will usually be at or around T-1. The Reporting Day is the day which liable entities have to provide their net contract position report to the AER. This will also be set out in the T-1 Reliability Instrument but will be no less than two months after the Contract Position Day.

If liable entities choose to trade out of this contract position after the Contract Position Day, they are entitled to do so. To ensure that the overall pool of firmness adjusted-qualifying contracts remains in place, any contracts which do not endure through to the gap period will be adjusted and accounted for as part of the firmness methodology applied by the liable entity. Stakeholders supported the decision that liable entities would not be required to maintain their net contract position.

6.7.2 Permitted adjustments to net contract position

The ESB recognises that a liable entity may need to adjust the net contract position that is used for compliance in circumstances where its forecast demand varies materially. The final Rules provide for five categories of permitted adjustment to the net contract position for changes that happen between T-1 and T, outlined in the box below. If such a change occurs, a liable entity may apply to the AER for an adjustment to its net contract position, justifying the basis of the adjustment. The AER must approve or reject the application in line with criteria set out in the Contracts and Firmness Guideline. Stakeholders supported the decision to allow adjustments to the net contract position between T-1 and T.

Permitted adjustments

- **Mass market or small customers** – where a liable entity takes on small customers it may apply to adjust its net contract position, but only where taking on the customers causes the liable entity's expected maximum demand to increase by more than 10 per cent. This threshold has been adjusted from 15 per cent in the draft Rules to reflect stakeholder concerns that a higher threshold could discourage retailers from acquiring new customers between T-1 and T.
- **Existing large customers under 30 MW** – where a liable entity takes on existing large customers below 30 MW in size, it may apply to adjust its net contract position, but only where taking on the customers causes the liable entity's expected maximum demand to increase by more than 1 per cent. The threshold is lower than for mass market customers, to reflect the lumpiness of load of large customers and greater difficulty predicting changes in load.
- **New large customers** – where a liable entity takes on a customer at or over 30 MW that did not exist at the time of the contract position day, it may apply to adjust its net contract position, but only where taking on the new customer causes the liable entity's expected maximum demand to increase by more than 1 per cent.
- **Retailer of Last Resort (ROLR) customers** – where a liable entity takes on ROLR customers it may apply to adjust its net contract position.
- **Opt-in customers** – the adjustments above relate primarily to retailers. This adjustment was not included in the draft Rules but is included in the final Rules. Opt-in customers who elect to manage their own liability will also be able to adjust their net contract position if their expected maximum demand increases by 1 per cent or more.

The Final Detailed Design paper did not envisage that liable entities would be able to adjust their net contract position to account for changes in mass market customer load. This reflected a view that retailers should be able to manage their contracting and account for churn in mass market customers. However, the ESB considers that permitting adjustments will assist in mitigating the risk of a retailer deciding not to take on new mass market customers because it cannot adjust its net contract position.

Submissions were received on the thresholds for permitted adjustments, which have been taken into account for the final Rules. Some stakeholders considered that adjustments should be allowed for changes in the load of existing large customers *over 30MW*. However, the design of the Obligation is intended to create an incentive for all liable entities to contract early, and in particular, to encourage large customers to contract at least one year ahead. The ESB is satisfied that not allowing adjustments after T-1 to account for large customer churn supports this policy intent.

7. Compliance

Relevant provisions of the final Rules are:

- Chapter 4A, Part A (Introduction)
- Chapter 4A, Part B (Reliability Forecasts)
- Chapter 4A, Part C (Reliability Instruments)
- Chapter 4A, Part D (Liable Entities)
- Chapter 4A, Part F (Compliance with the Retailer Reliability Obligation)

These provisions of the Rules relate to the AER's assessment of whether liable entities have complied with the Obligation. There are several steps in the compliance assessment process:

- **Step 1 (Section 7.1):** AEMO identifies whether, during the reliability gap period in a region, demand in a trading interval has exceeded the one-in-two year peak demand forecast. The AER will only assess compliance for trading intervals in which the one-in-two year peak demand forecast was exceeded. Therefore, AEMO will notify the AER of these 'compliance TIs'.
- **Step 2 (Section 7.2):** The AER's compliance assessment is based on a liable entity's share of the one-in-two year peak demand forecast (termed their 'liable share'). AEMO calculates the liable share based on a liable entity's final settled demand, scaled to the one-in-two year peak demand forecast.
- **Step 3 (Section 7.3):** To assess compliance, the AER compares a liable entity's net contract position with their liable share. If the net contract position is less than the liable share, the AER will notify AEMO of the shortfall for POLR purposes.

7.1 Assessment of regional demand

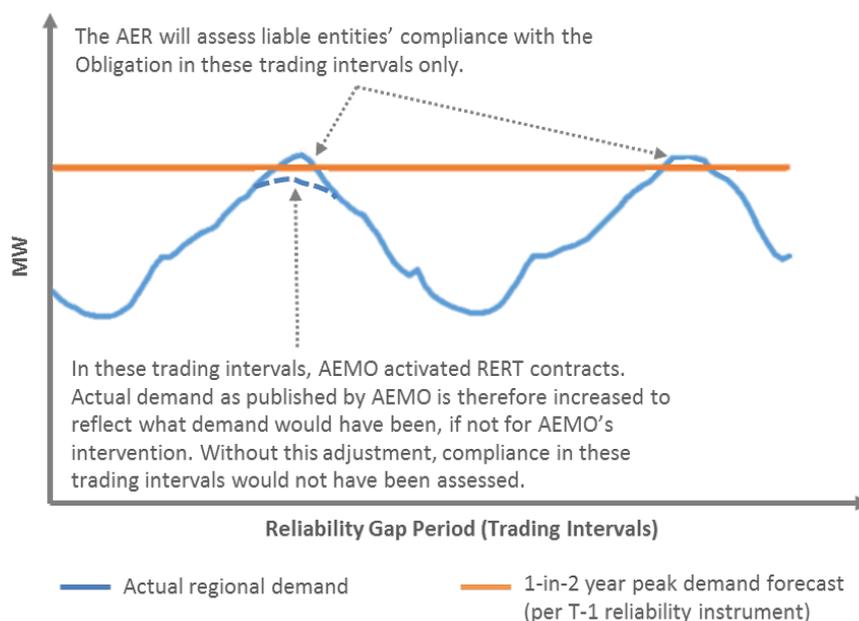
The AER will only assess compliance for trading intervals in which actual regional demand exceeds the one-in-two year peak demand forecast. An assessment of regional demand is needed to identify these 'compliance TIs'.

The underlying data source will be regional demand published by AEMO, as defined in the Reliability Forecast Guideline. AEMO will be required to publish regional demand as close to real time as practicable, in order to assist liable entities in managing their position.

However, without adjustment this measure of demand will be suppressed by any actions taken by AEMO to manage the power system – for example, activation of RERT contracts or instruction of load shedding. The ESB considers that perverse incentives could be created if interventions by AEMO to maintain system reliability prevent compliance with the Obligation from being assessed. Therefore, for the purposes of the Obligation, the demand published by

AEMO will be adjusted to reflect what demand would have been, absent AEMO's interventions.¹⁶ This is illustrated in the figure below.

Figure 1: Illustrative adjustment to actual regional demand



Actual demand could also be suppressed by the actions of market participants, for example, by activating demand response (DR) contracts or dispatching non-scheduled generation. This would reduce the likelihood of a compliance assessment being triggered. For the purpose of identifying compliance TIs, no adjustment is made to regional demand to account for this. This provides liable entities with incentives to reduce their load when regional demand approaches the one-in-two year peak forecast, which may assist with managing the system in tight demand conditions. Adjustments for activated DR where this relates to a qualifying contract are needed for the purpose of assessing a liable entity's liable share, as outlined below.

7.2 Assessment of liable share

For the compliance TIs, the AER will assess whether liable entities' net contract positions are sufficient to meet their share of the one-in-two year peak demand forecast (termed their 'liable share' in the Rules).

¹⁶

As AEMO will be required to publish the demand data as close to real time as practicable, these adjustments will be based on actions requested by AEMO, rather than the measured response. The Rules require AEMO to set out its methodology for adjustments to derive actual regional demand in its Reliability Forecast Guideline.

There are several steps in determining the liable share:

- **Step 1:** Determine the liable entity's demand in each compliance TI.
- **Step 2:** Determine the liable entity's share of forecast one-in-two year peak demand. This is based on the liable entity's demand, scaled down by the ratio of actual regional peak demand to the one-in-two year peak demand forecast.

7.2.1 Step 1: Liable entity demand

A liable entity's demand in each compliance TI is based on the final revised settled demand published by AEMO (i.e., after final revisions at 30 weeks). However, this data needs to be adjusted for qualifying DR contracts that are activated by the liable entity. Without this adjustment, a liable entity would receive a double benefit from activating a qualifying DR contract: the contract would count as a reduction in their scaled actual demand *and* a contribution to their net contract position.

For example, if a liable entity has 1000 MW of revised settled demand and 200 MW of DR that is fully activated for 200 MW on the day (and is a qualifying contract included in the net contract position report) then its demand is determined to be 1200 MW. This takes into account that on the day the liable entity reduced its demand through use of its DR contract.

Settled demand also needs to be adjusted to:

- Exclude connection points associated with opt-in customers.
- Be consistent with the net contract position submitted to the AER. Settled demand is metered energy adjusted for distribution losses and for consistency needs to be grossed up to reflect transmission losses.

7.2.2 Step 2: Liable share

A liable entity's share of the one-in-two year peak demand forecast is calculated based on the ratio of actual peak demand to the one-in-two year peak demand forecast.

Using the same example from above, if the adjusted peak demand on the day is 10 per cent greater than the one-in-two year peak demand forecast (ie 8800 MW of actual demand versus a forecast of 8000MW) then the liable entity's liable share will be reduced by a factor of 8000/8800. In this case the liable entity's share is scaled down from 1200 MW to 1091 MW.

In addition, the adjusted peak demand also reflects an adjustment for qualifying DR contracts activated by liable entities. For each of the compliance trading intervals, AEMO will adjust actual regional demand to reflect the sum of actual demand response for all liable entities under qualifying contracts.

7.3 AER assessment of net contract position

The Rules provide that the AER must assess each liable entity's submitted net contract position against the liable share of peak demand provided by AEMO to determine whether

the entity has procured sufficient contracts. The AER will publish a list of liable entities that are under-contracted for each reliability gap period.

Carrying on the same example, the AER will assess the liable entity's net contract position against the 1091 MW demand associated with the liable entity. The net contract position would include the 200 MW of DR (firmed in accordance with the AER's Contracts and Firmness Guideline). If the net contract position is greater than 1091 MW the liable entity has sufficient contracts. If the net contract position is less than 1091 MW, the liable entity is under-contracted and may incur POLR costs (see section 8 below).

8. Procurer of Last Resort

Relevant provisions of the final Rules are:

- Clause 3.15.5 (Reserve settlement)*
- Clause 3.15.9A (Procurer of last resort)*
- Chapter 4A, Part A (Introduction)
- Chapter 4A, Part F (Compliance with the Retailer Reliability Obligation)

* These provisions are shown as amendments to the AEMC's final determination and final Rules associated with the Enhanced RERT rule change request. These provisions commence on 26 March 2020 rather than 1 July 2019 (the commencement date for the remaining provisions of the final Rules).

These provisions of the Rules set out the processes and requirements in relation to AEMO's role as Procurer of Last Resort (POLR). This includes how the POLR uses the Reliability and Emergency Reserve Trader (RERT) and is a new cost recovery mechanism. These provisions will come into effect at the same time as the NER amendments under the AEMC's Enhanced RERT rule change. This is 26 March 2020.

8.1 POLR

The ESB's Final Detailed Design paper established the POLR as the 'safety net' for the Obligation, in the event that the market does not respond to a T-3 Reliability Instrument by closing the forecast reliability gap by T-1.

AEMO will use the existing RERT framework to secure emergency reserves required to address a reliability gap. Under the RERT arrangements, costs incurred by AEMO when it enters into and calls on emergency reserve contracts are shared by market customers. POLR will effectively function as a new cost recovery mechanism for the existing RERT. The Rules provide that the POLR cost recovery regime will only operate in the event that:

- Actual regional demand in one or more trading intervals within a reliability gap period exceeds the one-in-two year peak demand forecast.
- One or more liable entities are under-contracted in those trading intervals.

Aside from cost recovery, all aspects of the existing RERT framework will apply.

Several stakeholders raised concerns that AEMO's procurement activities under the enhanced RERT will overlap with the period of time in which liable entities are finalising their net contract position, which may risk creating tighter contracting conditions. The ESB notes that AEMO's procurement timeframe was determined through the Enhanced RERT rule change request and that the 12 month timeframe set out in the AEMC's final determination is aligned with the RRO framework.

8.2 Determining POLR costs

The amount of RERT procured by AEMO could differ from the reliability gap identified at T-1 for a variety of reasons. Therefore, not all RERT costs will necessarily relate to the POLR function.

Under the final Rules, all RERT costs will initially be settled on the basis of existing RERT cost recovery arrangements. A portion of RERT costs will subsequently be reallocated under the POLR cost recovery regime. The reallocation will be calculated on an ex-post basis, once compliance has been determined by the AER, as outlined in the box below.

What do RERT costs consist of?

Broadly speaking, when AEMO procures reserves through RERT, the contract will generally include fixed payments (such as an availability payment, a fixed payment for the emergency reserve to be available in case it is needed) and variable payments (such as activation payments, often charged on a per MWh basis, based on how much the emergency reserve was actually used by AEMO). In practice, RERT contracts may be significantly more complicated.

How is the POLR portion of RERT costs determined?

POLR costs are limited by the size of the reliability gap defined in the T-1 Instrument.

- **Fixed POLR costs:** The portion of fixed RERT costs which may be reallocated under POLR will be determined by the ratio of the total reliability gap (MW) over the total RERT procured over the gap period (MW), capped at 100 per cent.
For example, if the reliability gap is 50MW and total RERT procurement is 100MW, 50% of fixed RERT costs can be recovered through the POLR mechanism.
- **Variable POLR costs:** The portion of variable RERT costs which may be reallocated under POLR will be determined for each trading interval by the ratio of the MW size of the reliability gap to the total RERT MW dispatched, also capped at 100 per cent.
For example, if the reliability gap in a trading interval is 50MW and 60MW of RERT contracts are dispatched in that trading interval, 83% of variable RERT costs in that trading interval can be recovered through POLR.

8.3 Apportioning POLR costs

Once total POLR costs have been determined, these costs will be recovered from under-contracted liable entities, capped at \$100 million per liable entity.

A liable entity's share of total POLR costs will be proportionate to the extent of its under-contracting, as described in the box below.

How are POLR costs shared between POLR liable entities?

Share of fixed POLR costs

The amount payable by a POLR liable entity will be the lesser of:

- a) The ratio of its compliance shortfall to the sum of the maximum compliance shortfalls of all POLR liable entities; or
- b) The ratio of its compliance shortfall to the reliability gap specified in the T-1 Instrument;

multiplied by the total fixed POLR costs for the reliability gap period.

Share of variable POLR costs

The amount payable by a POLR liable entity for each relevant trading interval will be the lesser of:

- a) The ratio of its compliance shortfall in the trading interval in which variable costs were incurred to the sum of the compliance shortfalls of all POLR liable entities in that trading interval; or
- b) The ratio of its compliance shortfall in the trading interval in which variable costs were incurred to the reliability gap specified in the T-1 Reliability Instrument;

multiplied by the total variable POLR costs for that trading interval.

8.4 Collection and distribution of fees

8.4.1 Collection of costs

Compliance outcomes will not be finalised until final revised metering data becomes available (after 30 weeks). Therefore, all RERT costs would initially be charged across market customers in accordance with current procedures. Once compliance has been assessed, additional funds will then be collected from POLR liable entities to cover RERT costs attributable to POLR.

The time required to determine non-compliance costs creates some potential cost-recovery issues for retailers and their commercial and industrial (C&I) customers. Depending on their contract provisions, C&I customers can be billed for RERT costs incurred by their retailer. Initially, the RERT costs would be allocated to retailers in the usual fashion¹⁷ and retailers could pass these through to their C&I customers at this time. If the AER finds that a liable entity or entities has not procured sufficient qualifying contracts, those liable entities will be charged the POLR costs and the recovered amounts will be refunded to the original market customers who paid the RERT costs. This means that some retailers of C&I customers may receive a refund and some could receive an additional charge.

Stakeholders had mixed views on this issue. Some stakeholders indicated that retailers should not be able to pass POLR costs on to customers. Others noted that a pass-through may be appropriate if a contract shortfall was triggered by the customer's consumption differing from the terms agreed with the retailer. The final Rules do not seek to address cost

¹⁷ Note that the existing RERT cost recovery mechanism has been changed through the AEMC's RERT final determination.

recovery or pass-through arrangements between retailers and their customers, as these arrangements are complex and best managed between these two parties. Further, this is a matter that is beyond the scope of the RRO.

8.4.2 Distribution of payments

As a result of the cost recovery mechanism outlined above, AEMO may receive funds in excess of total RERT costs (as these have already been recovered under the RERT cost recovery mechanism). Therefore, an approach for rebating these funds to the market is required. The final Rules state that AEMO must reallocate any POLR costs recovered from POLR liable entities to the market customers who contributed to RERT costs. The reallocation will be based on each market customer's share of energy consumption during the reliability gap period.

9. Commencement date, transitional arrangements and review of the Obligation

Relevant provisions of the final Rules are:

- Chapter 11, Part ZZZP (Retailer Reliability Obligation)
- Clause 11.116.18 (Review by AEMC)

Generally, the Obligation is intended to commence on 1 July 2019. Therefore, AEMO could potentially make a T-3 reliability instrument request as soon as September 2019, based on the ES00 to be published in August 2019. Transitional arrangements are required to accommodate:

- The time taken to develop, consult on and finalise the guidelines, procedures and processes needed to implement the Obligation.
- The five minute settlement rule change, which will be implemented from 1 July 2021, and will change the definition of 'trading interval' in the Rules.

As the Obligation is a new and detailed mechanism, the Rules also provide for the AEMC to review the Obligation four years after the Rules come into effect.

9.1 Commencement Date

The final Rules provide for the majority of the provisions to commence on 1 July 2019 with the exception of the provisions related to the POLR cost recovery mechanism.

On 2 May 2019, the AEMC published the final determination and final Rule in the Enhanced RERT rule change.¹⁸ The rule in that rule change implements amendments to the NER related to the RERT mechanism and come into force on 26 March 2020. Given the interplay between the NER amendments related to the RERT mechanism and the POLR cost recovery mechanism, the RRO final Rules provide that the provisions related to the POLR cost recovery mechanism will also commence on 26 March 2020.

9.2 Transitional arrangements – guidelines

The Rules provide for a number of transitional arrangements in relation to the guidelines and processes associated with the Obligation, as set out in the table below. Final guidelines will be developed in accordance with the Rules consultation procedures. It will not be necessary for the full Rules consultation procedures to be followed for interim guidelines, given the limited time available for development, however some consultation will still be undertaken. Market participants will be required to follow the processes and requirements of the interim

¹⁸ See AEMC website at: <https://www.aemc.gov.au/rule-changes/enhancement-reliability-and-emergency-reserve-trader>

guidelines until they are superseded by a final guideline. The AER has already commenced work on the interim guidelines, including consulting with stakeholders.

Guideline	Purpose	Interim Guideline	Final Guideline
AER Reliability Instrument Guidelines	Assessment of a reliability instrument request issued by AEMO (see Section 4.4)	31 July 2019	31 July 2020
AER Forecasting Best Practice Guidelines	Informs AEMO's ESOO forecasting (see Section 2.4). Note: AEMO is not required to follow this Guideline for the 2019 ESOO.	30 September 2019	30 November 2020
AEMO Reliability Forecast Guidelines	Sets out AEMO's ESOO forecasting process (see Section 2.4). Note: AEMO is not required to follow this Guideline for the 2019 ESOO.	31 December 2019	28 February 2021
AER Contracts and Firmness Guidelines	AER process for assessing qualifying contracts, the firmness methodology that will be applied by a liable entity (see Section 6.3), and the net contract position. Note: Qualifying contracts entered into during the period of the interim guideline will continue to be treated based on the interim guideline, unless the liable entity elects to use the approach set out in even if the final guideline.	31 August 2019	31 December 2020
AER MLO Guideline	Processes associated with the MLO and requirements on MLO entities (see Section 6.5).	31 August 2019	31 December 2020.

9.3 Transitional arrangements – five-minute settlement

When a reliability gap is defined in a T-3 reliability instrument request issued by AEMO for assessment by the AER, it will specify the trading intervals to which the instrument applies. As part of the five minute settlement period rule change, the definition of trading interval in the NER will change from a 30 minute period to a five minute period, from 1 July 2021. The Rules clarify that for a reliability instrument requested or issued prior to 1 July 2021, the trading intervals specified in that reliability instrument will, from 1 July 2021 onwards, be directly translated to the corresponding five minute trading intervals which cover the same period of time.

9.4 Four-year review of the Obligation

Several stakeholders suggested that the final Rules should provide for review of the Obligation, to ensure that it is operating as intended. The ESB considers that a review mechanism is appropriate, as the Obligation represents a new and detailed mechanism. The

final Rules therefore provide that the AEMC will undertake a review of the Obligation that must be completed within four years of the Rules coming into effect. This review will cover all aspects of the Obligation and therefore, the requirement in the draft Rules for AEMO to undertake a review of the book build mechanism has been removed. The AEMC is obligated to publish a draft terms of reference for the review.

The ESB notes that other reviews may take place before this time, under the AEMC's general authority to self-initiate a review. Further, stakeholders can submit a rule change to the AEMC in relation to any aspect of the Obligation prior to or after the review.

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