



Overview of the Retailer Reliability Obligation

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At the COAG Energy Council meeting in October 2018, it was agreed that the reliability component of the National Energy Guarantee should be repackaged and progressed as the 'Retailer Reliability Obligation'.

The aim of the Retailer Reliability Obligation is to ensure there is sufficient dispatchable electricity supply to meet peak demand in each region of the Australian National Electricity Market (**NEM**) by encouraging investment in dispatchable generation or demand response resources where there is a material gap between forecast demand and supply.

➤ Key features:



Liabile entities

'Market Customers' in the NEM (ie retailers, utility-scale battery facilities that charge from the grid and large customers purchasing in the wholesale market) will be liable entities.

Large customers (with an annual consumption above a certain threshold) will not automatically be liable entities, but will be able to 'opt in' and manage the reliability obligation associated with their load if they wish to do so.

New entrants who enter the market in the final year before the forecast gap will also be liable (although they will be held to different reporting timeframes).

'Generators within MLO Trading Groups' (defined as a trading group that on average holds more than 15% of the average aggregate trading capacity of all trading groups in the relevant NEM region) may also have market liquidity obligations. In practice, it is expected that generators within MLO Trading Groups will capture large generators within vertically integrated retail businesses.



Triggering the Reliability Requirement

AEMO will provide rolling forecasts¹ as to whether the reliability standard in the Rules is expected to be met in each NEM region over a 10-year period. Periods when the reliability standard is forecast to be exceeded will be considered a reliability gap.

If the market has not responded to address an identified reliability gap and a material² gap persists, or emerges, in a region three years in advance of when the gap is expected to occur (**T-3**), AEMO will be required to apply to the AER to trigger the Retailer Reliability Obligation. Despite the existence of a material gap, the AER will have some discretion to elect not to trigger the Retailer Reliability Obligation, having regard to certain matters set out in the Rules including whether AEMO has made a material error or relied on an inaccurate assumption in its reliability forecast.

If the Retailer Reliability Obligation has been triggered, liable entities will need to assess their share of the peak demand at the time of the forecast gap³ (**Estimated Liable Share**) and (if necessary) secure sufficient qualifying contracts to cover the Estimated Liable Share by the T-1 compliance date (12 months in advance of the forecast gap) (**T-1**).



Contracting

A **qualifying contract** for the purposes of the Retailer Reliability Obligation will be any wholesale contract:

- with a direct link to the electricity market; and
- which a liable entity can use to reduce its exposure to high spot prices.

In addition to these criteria, for a **demand response contract** to qualify for Retailer Reliability Obligation purposes, it must be registered with AEMO's Demand Side Participation Information Portal.

For 'Market Customers' (who are not retailers) and large customers that 'opt in' to the Retailer Reliability Obligation, certain contracts in place prior to 10 August 2018 will be regarded as qualifying contracts up to the load covered by those contracts.

To promote **market liquidity** for qualifying contracts, if the Retailer Reliability Obligation is triggered:

- Generators within MLO Trading Groups in the relevant NEM region will be required to make contracts available for the period of the forecast gap; and
- AEMO will be required to conduct a voluntary book-build at T-3 (and again at T-2 at its discretion) to assist liable entities to identify counterparties with whom the liable entity may secure qualifying contracts to cover their Estimated Liable Share.

1. AEMO will update its forecasts annually or where there is a material change in the supply-demand outlook.

2. A reliability gap will be considered material if regional expected unserved energy is above the reliability standard.

3. Based on the one in two-year system peak demand forecast.

The Federal Government has publicly committed to working with NEM State and Territory Ministers of the COAG Energy Council to implement the Retailer Reliability Obligation. At its December 2018 meeting, the COAG Energy Council agreed to draft legislation amending the National Electricity Law (**NEL**) to give effect to the Retailer Reliability Obligation, as presented by the Energy Security Board (**ESB**). In March 2019, the ESB released exposure draft amendments to the National Electricity Rules (**the Rules**) for consultation, with the intention of presenting a final draft NER amendments package to the COAG Energy Council in May 2019. It is intended that the Retailer Reliability Obligation will be effective by 1 July 2019.



Procurer of Last Resort

If a material gap remains at T-1, as a safety net measure AEMO will procure resources to address the shortfall through the Reliability and Emergency Reserve Trader (**RETR**) framework.

The Procurer of Last Resort functions may be exercised earlier than T-1 pursuant to an expedited Rule change if AEMO or a State government believes there are specific circumstances within a NEM jurisdiction that warrant earlier intervention.



Reporting and compliance

If a material gap persists at T-1, liable entities must submit details of their net contract position to the AER.

In determining its net contracting position, each liable entity must apply a 'firmness factor' to each qualifying contract.

The 'firmness factor' a liable entity applies to each contract must be supported by an independent audit report, unless calculated in accordance with default methodologies developed by the AER. Qualifying contracts entered into prior to 10 August 2018 will have a deemed firmness factor of 1.

Liable entities will not be required to maintain their disclosed contracting position after T-1, and will be entitled to trade out of this position (although this will be taken into account when calculating the 'firmness factor' of those qualifying contracts).

Liable entities will be permitted to adjust their disclosed contracting position after T-1 in circumstances where:

- its number of small customers change such that the liable entity's load increases by more than 15%
- its number of large customers below 30MW in size changes such that the liable entity's load increases by more than 1%
- it takes on a customer over 30MW such that the liable entity's load increases by more than 1%; and
- it takes on customers in its capacity as a 'Retailer of Last Resort'.

The AER will perform a compliance assessment if:

- AEMO procured resources as Procurer of Last Resort; and
- actual peak demand during a trading interval within the period of the forecast gap (at T) exceeds that which would be expected to occur every two years (**Relevant Trading Interval**).

Compliance will be assessed by comparing a liable entity's share of actual demand (based on metering data) in a Relevant Trading Interval, scaled back to the one in the two-year system peak forecast (**Actual Liable Share**).



Regulator and penalties for non-compliance

If a liable entity's net contract position did not cover its Actual Liable Share in one or more trading intervals, the AER will determine the penalties for such non-compliance based on the entity's total shortfall.

There are two components of the penalty framework for Retailer Reliability Obligation non-compliance:

- the first component involves allocating the Procurer of Last Resort costs to non-complaint entities proportionally with the entity's total shortfall (ie the extent to which the liable entity contributed to the Procurer of Last Resort costs), up to a cap of \$100 million per liable entity; and
- for the second component, the AER will also be able to use its existing range of compliance and enforcement tools, including prosecution of civil penalties (with financial penalties up to \$1 million for first offences and \$10 million for subsequent offences). This component is expected to be utilised for more significant, or repeat, failures to comply with the Retailer Reliability Obligation.

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