

21 April 2023

Alex Caroly
Australian Energy Market Commission

Submitted electronically.

Dear Mr. Caroly,

PIAC submission to the Review of the Operation of the Retailer Reliability Obligation

The Public Interest Advocacy Centre (PIAC) welcomes the opportunity to respond to the Review of the Operation of the Retailer Reliability Obligation (the Review).

PIAC does not support the Reliability Retailer Obligation (RRO) in any form. Removing it would reduce electricity prices faced by consumers without increasing reliability risks above the established acceptable levels.

The RRO is redundant. Its intended role is more than adequately covered by a suite of more effective policies, both existing and soon to be introduced.

Assessed in isolation, the RRO is also an incoherent and ineffective policy tool. It adds no substantial incentive for new investors in dispatchable energy to adjust their behaviour.

The RRO was implemented without reference to consumer interests and there is no evidence that it is cost effective from a consumer perspective.

PIAC recommends the RRO be removed to reduce regulatory compliance complexity and cost in the National Energy Market (NEM).

The RRO is redundant and its removal incurs no adverse impact on reliability.

There is a comprehensive suite of tools (existing and soon to be introduced) available to manage the issue of reliability. The RRO does not add anything to these measures, which are outlined below.

- The first set of tools in the regime, described as “the foundation of the current NEM reliability framework,”¹ are the wholesale market settings themselves. These include

¹ Reliability Panel AEMC. *Consultation paper; Review of reliability standard and APC*. 30 March 2023. p.6.

the Market Price Cap (MPC), Cumulative Price Threshold (CPT), Administered Price Cap (ACP) and Market Price Floor (MPF). The AEMC, drawing on recommendations from the Reliability Panel, sets these to strike a balance between “sufficient market revenue potential to support new entrant investment and minimising potential customer electricity bill cost impacts.”²

- Next is the reliability standard and Interim Reliability Measure (IRM). These are enacted by the Australian Energy Market Operator’s (AEMO’s) forecasting outputs: the Electricity Statement of Opportunities (ESOO) and Projected Assessment System Adequacy (PASA) tools. These provide investors information about specific locations and future times where demand for energy may not be served, and so where profitable investments in dispatchable energy may be made within an appropriate timeframe.
- Jurisdictions and the Federal Government have a number of tools to provide investors in dispatchable energy with incentives and locational signals. Examples at the jurisdictional level include the NSW Roadmap, which includes both the Electricity Infrastructure Investment Safeguard, backed by Long Term Energy Services Agreements (LTESAs) and the Renewable Energy Zones (REZs). Examples at the NEM-wide level include the coming Capacity Investment Scheme (CIS), which is particularly targeted at driving new renewable dispatchable capacity. Transmission access reforms (TAR) being developed by the Energy Security Board also aim to improve the locational effectiveness of batteries and other dispatchable energy projects, within and outside of REZs.
- Australian governments also have the capacity to initiate and direct new dispatchable energy projects directly, as has occurred in cases like the Canberra Big Battery or Snowy 2.0.
- In the short term, AEMO has powers to procure capacity directly, using the Interim Reliability Reserve (IRR) or Reliability and Emergency Reserve Trader (RERT) contracts.
- AEMO also has powers to direct a scheduled plant or market-generating unit to take relevant actions to maintain or restore the security or reliability of the power system or instruct an action from a transmission or distribution system or non-scheduled load for the same reason.³

The reliability regime includes a range of measures that provide information and incentives to market participants who are best positioned to improve reliability. They give regulators adequate powers to anticipate and act on reliability concerns. Retiring the RRO would not impact this.

The RRO is a poorly designed tool with little impact on reliability outcomes.

The RRO is an unnecessarily convoluted and ineffective policy tool.

² AEMC Reliability Panel, *2022 Review of the Reliability Standard and Settings; Final Report*, September 2022, p. ii.

³ NEL Section 116; NER clause 4.8.9.

Instead of providing new incentives or informational signals directly to generators of dispatchable energy, it creates a new burden on a different actor: retailers (who themselves stand as a proxy for consumers of energy). The generation investment decision is almost entirely unchanged by the policy. Investors are only provided improved certainty of demand for a period that they already had good reason to believe will have very high relative demand.

The aim of increasing investment in dispatchable energy in a way that employs locational signals from AEMO and jurisdictional planners is a worthy one. However, this aim should be pursued using policy tools targeted directly at the party most capable of acting accordingly: investors in dispatchable generation.

PIAC agrees with the aim of this Review to allocate risk appropriately. The outcome of such an assessment should be that the RRO itself inappropriately allocates risk (to consumers and retailers) and should be removed.

Removing the RRO would reduce electricity prices.

The RRO places a regulatory burden on retailers and a risk of financial sanction. Removing the RRO would reduce the cost of compliance for retailers and the cost of energy for consumers. Removing the RRO would also marginally improve the competitiveness of the NEM with potential energy price impacts. The complexity of the NEM regulatory regime provides a competitive advantage to large and incumbent market participants, who are better equipped to manage the cost of this complexity.

The RRO was made without reference to consumer preferences.

The RRO was implemented without explicit reference to consumer preferences with respect to reliability risks and cost trade-offs. There is no evidence to suggest that the cost to consumers in implementing the RRO is less than the cost to consumers of expected wholesale outages. The AEMC's remit is to act in the long-term interests of consumers. In the case of the RRO, this should involve demonstrating the RRO is founded on consumer preferences regarding reliability risks. Without such justification, the AEMC should recommend removing the RRO in its entirety.

The reliability regime has moved on from the RRO.

Finally, the RRO is the remnant accompaniment to the National Energy Guarantee (NEG), the then-government's keystone policy aiming at emission reduction. The NEG was never implemented and Government policy regarding emissions reduction has moved on. The RRO's design is no longer relevant or appropriate for the transition path we are now on and should be removed.

PIAC welcomes the opportunity to discuss these matters further with the AER and other stakeholders.

Yours sincerely,

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