

3 November 2023



Genevieve Schulz
Project leader
Australian Energy Market Commission
By email: genevieve.schulz@aemc.gov.au

Dear Ms Schulz,

Review of the Operation of the Retailer Reliability Obligation

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

PIAC does not support the Retailer Reliability Obligation (RRO) in any form. Removing the RRO would reduce electricity prices faced by consumers without any negative impact on reliability risks.

It is unacceptable to exclude the efficacy of the RRO from the scope of this review.

Many stakeholders have taken the opportunity here and in the engagement process relating to the extension of the interim reliability measure (IRM) to the RRO to voice their fundamental opposition to the mechanism, and opinion that it is flawed and ineffective.

Undertaking a process that excludes consideration of crucially relevant aspects of the mechanism, directly in opposition to the expressed perspectives of stakeholders is poor engagement practice. Further, at a time when stakeholders are stretched to respond meaningfully to important reform processes, it is a poor use of stakeholders limited time.

PIAC supports the proposal for a review that does consider the efficacy of the RRO.

The draft report proposes a further review that could consider the overall policy efficiency of the RRO. The Commission acknowledges that the RRO may overlap with instruments or arrangements that have been added to the market since the introduction of the RRO, specifically the Capacity Investment Scheme (CIS), the NSW Energy Infrastructure Roadmap (EIR) and the possible new form of the reliability standard being developed for an intended introduction on 1 July 2028.

We support this proposal, but there to be no reason why it should not be commenced immediately. The CIS and NSW EIR are both underway, and waiting until the new form of the reliability standard is introduced and then experienced will result in consumers paying unnecessary costs for an extra six or seven years. When energy costs are expected to remain high for the foreseeable future, it is unacceptable to leave opportunities to relieve cost pressure on consumers unaddressed any longer than necessary.

The specific concerns raised by stakeholders, which should frame the next review, include:

- That any need or role for the RRO has been superseded by other developments in the energy market such as the likely raises to the market settings, the CIS, the orderly exit framework, and the possible extension of the application of the interim reliability reserve (Origin, Energy Australia, Tom Geiser, PIAC);
- That the RRO is complex and costly (AEC, Engie, PIAC);
- That the RRO does not contribute to reliability as it does not actually incentivise new capacity (AFMA, Engie, Tom Geiser, PIAC);
- That the RRO disincentivises consumers from exercising demand response and so exacerbates demand volumes during forecast shortfall periods (South Australian Water);
- That the design of the RRO contains a 'chicken and egg/catch 22' flaw: retailers do not want to sign up new customers unless they can be assured the AER will permit them to adjust their net contract positions (NCP), but retailers cannot be assured the AER will permit them to adjust their NCPs unless they have already signed up the new customer (Shell); and
- That the RRO increases costs for consumers by rendering buyers of energy contracts captive during the book build (Tom Geiser).

The AEMC is to be commended for signalling openness to the concerns about the RRO being superseded, and for producing a set of recommendations in the draft report responding to concerns that the RRO is complex and costly. However, concerns remain substantively unaddressed and there is a strong appetite for a second review with a more comprehensive mandate.

PIAC supports the intent of the proposed changes.

While we do not have any comment to make on the fourteen specific recommendations in the draft paper, we support the intentions to improve the operational efficiency of the RRO, reduce regulatory burden for market participants, and reduce costs for consumers. These are worthy objectives, but ones which would be best served by removal of the mechanism altogether.

We welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth. Please contact me at mlynch@piac.asn.au regarding any further follow up.

Yours sincerely

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