

# RETAILER RELIABILITY OBLIGATION - CONSULTATION ON THE POLR COST PROCEDURES

FINAL REPORT AND DETERMINATION

Published: **20 November 2020**





## **EXECUTIVE SUMMARY**

The publication of this Final Report and Determination (Final Report) concludes the Rules consultation process conducted by AEMO to make the Procurer of Last Resort (PoLR) Cost Procedures for the Retailer Reliability Obligation (RRO) under Rule 4A.F.10 of the National Electricity Rules (NER).

On 22 July 2020, AEMO published the Notice of First Stage Consultation and the Issues Paper for the PoLR Cost Procedures. The PoLR Cost Procedures outline the mechanism by which AEMO will calculate and allocate, recover and rebate PoLR costs under the RRO.

AEMO received one late submission to the Notice of First Stage Consultation from Enova Energy and had informal discussions with the AER on administrative aspects of the draft Procedures. On 28 August 2020 AEMO published the Notice of Second Stage Consultation and Draft Determination for the Procedures. AEMO received no submissions to the Second Stage Consultation.

Considering the submissions and the requirements of the NER, AEMO's final determination is to make the Procedures in the form published with this Final Report with effect from 20 November 2020. Other than minor drafting updates, the final Procedures are unchanged from the version published with the Draft Determination on 17 September 2020.



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Submission – Enova Energy	Error! Bookmark not defined.



## 1. STAKEHOLDER CONSULTATION PROCESS

AEMO has consulted on the PoLR Cost Procedures (Procedures) in accordance with clause 3.3.8 of the NER and the Rules consultation process in rule 8.9. AEMO's timeline for this consultation was as follows.

Deliverable	Date
Notice of first stage consultation and Issues Paper published	22 July 2020
First stage submissions closed	28 August 2020
Draft Report & Notice of second stage consultation published	17 September 2020
Submissions due on Draft Report	9 October 2020
Final Report published	20 November 2020

The publication of this Final Report marks the conclusion of this consultation. Note that there is a glossary of terms used in this Final Report at Appendix A.

## 2. BACKGROUND

### 2.1. NER requirements

The key Rules references regarding AEMO's responsibilities in drafting these Procedures are outlined below.

#### 3.15.9A Procurer of last resort cost allocation

(k) AEMO must rebate the proceeds from any PoLR debts it recovers in relation to a reliability gap period for a region to the Market Customers who have paid fees under clause 3.15.9 for that reliability gap period based on their share of the total energy purchased at connection points in that region during that reliability gap period as determined in accordance with the PoLR cost procedures.

(l) AEMO must develop, publish on its website and maintain, in accordance with the Rules consultation procedures, PoLR cost procedures that include:

- (1) the methodology and inputs for calculating aggregate RERT dispatched, aggregate RERT fixed payments, aggregate RERT procured, aggregate RERT variable payments, fixed PoLR costs, variable PoLR costs and PoLR debts;
- (2) the process and timeframes for calculating, invoicing, recovering, rebating and reporting on PoLR debts; and
- (3) any other matters specified in Chapter 4A.

(m) AEMO may make minor or administrative amendments to the PoLR cost procedures without complying with the Rules consultation procedures.

#### 4A.F.10 PoLR cost procedures

The PoLR cost procedures must include the following:

- (a) how a liable entity's measured actual demand response will be determined for a trading interval;
- (b) the records a liable entity must maintain in respect of activating demand side participation contracts or other arrangements which are qualifying contracts; and
- (c) how a liable entity's liable load and liable share for each compliance TI is determined.

#### 4A.F.9 Demand response information



A liable entity must:

(a) maintain records and documents relating to the operation and use of demand side participation contracts or other arrangements that are qualifying contracts (including the NMI to which they relate); and

(b) make these records available to AEMO on request,

in each case, in accordance with the PoLR cost procedures.

## 2.2. Context for this consultation

The PoLR Cost Procedures outline the mechanism by which AEMO will calculate and allocate, recover and rebate PoLR costs under the RRO. The Procedures have been designed to reflect the relevant Rules and to ensure the PoLR cost recovery mechanism and associated processes are as simple, efficient and cost effective as possible.

This Final Report and Determination and the accompanying final Procedures concludes AEMO's consultation process.

## 2.3. First stage consultation

AEMO issued a Notice of First Stage Consultation on 22 July 2020. The Issues Paper and the accompanying Procedures commenced AEMO's consultation process.

AEMO received one late submission to the Notice of First Stage Consultation from Enova Energy (not included in the Draft Report) and had informal discussions with the AER on administrative aspects of the draft Procedures. A copy of Enova Energy's submission has been published on the PoLR Cost Procedures consultation website<sup>1</sup>. As it was not discussed in the Draft Report, the material feedback is discussed in section 3. A summary of the issues raised and AEMO's responses can be found in Appendix B of this Final Report.

## 2.4. Second stage consultation

On 17 September 2020, AEMO issued a Notice of Second Stage Consultation, and published the Draft Report and Determination (Draft Report) and the Draft Procedures. AEMO did not receive any submissions to the second stage consultation.

# 3. SUMMARY OF MATERIAL ISSUES

## 3.1. Liable share, PoLR cost and PoLR debts calculation methodology

The methodology for calculating liable share, PoLR cost and PoLR debts is clearly articulated in the Rules. The Procedures aim to clarify and make explicit the methodology, inputs and equations that will be used by AEMO for these three key calculations. AEMO believes that the methodology for calculating liable share, PoLR costs and PoLR debts is appropriately described in the final Procedures and reflect the relevant NER provisions. AEMO has not identified the need for additional changes for the final Procedures.

## 3.2. Competition in the market

Enova Energy's submission raised concerns over the RRO's effect on market competition. As the Procedures must be consistent with the NER, AEMO has no discretion to address wider policy issues such

<sup>1</sup> Please see: <https://aemo.com.au/consultations/current-and-closed-consultations/polr-cost-procedures>



as market competition through the Procedures. Accordingly, there are no changes to the final Procedures in regard to this issue.

### **3.3. Market prices and renewables investment**

Enova Energy's submission raised concerns over the RRO's effect on market prices and renewables investment. As the Procedures must be consistent with the NER, AEMO has no discretion to address issues relating to market prices and renewables investment through the Procedures. Accordingly, there are no changes to the final Procedures in regard to these issues.

AEMO notes that liable entities may wish (but are not obliged) to use the new voluntary book build mechanism under rule 4A.H of the NER to assist in finding contracts with providers of new or uncontracted capacity.<sup>2</sup>

### **3.4. Impacts of RRO on households**

Enova Energy's submission raised concerns over the cost impact of the RRO on households. As the Procedures must be consistent with the NER, AEMO has no discretion to address issues relating to these impacts within the Procedures. Accordingly, there are no changes to the final Procedures in regard to this issue.

AEMO notes that the stated aim of the Energy Security Board's design of the RRO was to encourage market customers to increase their hedging, taking the view that this would drive down contract prices and result in cost savings for customers.

### **3.5. Demand response**

Enova Energy's submission raised concerns over the treatment of demand response in the Procedures. Considering that demand response is only one type of qualifying contract liable entities may be able to use under the RRO, the aim of the proposed approach is to make the default baseline methodology simple and straightforward both for participants to use for RRO if they wish, and also for AEMO to implement. The baseline methodology outlined in the Procedures is based on a proven methodology already used by AEMO for the Reliability and Emergency Reserve Trader (RERT) mechanism, and therefore minimises additional process and system development.

On this basis AEMO had made no changes to the final Procedures in relation to the treatment of demand response.

### **3.6. Calculation of PoLR debts**

Enova Energy's submission raised concerns over the timeframe outlined for the calculation of PoLR debts in the Procedures. The 40-week timeframe for AEMO calculating a liable entities liable share is specified in 4A.F.5 of the NER. AEMO therefore has no discretion to change this period in the Procedures.

### **3.7. Minor amendments relating to information sharing between AEMO and AER**

The AER raised some administrative issues with AEMO with regard to the timing and extent of information to be provided under the draft Procedures. To address these, AEMO made minor amendments to the draft Procedures. There were no further changes made in relation to information sharing between AEMO and AER in the final Procedures.

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<sup>2</sup> Please see: <https://www.aemo.com.au/energy-systems/electricity/national-electricity-market-nem/market-operations/retailer-reliability-obligation-voluntary-book-builds>



#### **4. FINAL DETERMINATION**

Having considered the matters raised, and being satisfied that the Procedures are consistent with the requirements in the NER, AEMO's final determination is to make the PoLR Cost Procedures in the form published with this Final Report, in accordance with clause 4A.F.10 of the NER, with effect from 20 November 2020.

**APPENDIX A. GLOSSARY**

Term or acronym	Meaning
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator Limited
AER	Australian Energy Regulator
DRM	Demand Response Mechanism
ESB	Energy Security Board
NEM	National Electricity Market
NER	National Electricity Rules
PoLR	Procurer of Last Resort
Procedures	PoLR Cost Procedures
RERT	Reliability and Emergency Reserve Trader
RRO	Retailer Reliability Obligation
TI	Trading Interval



## APPENDIX B. SUMMARY OF ENOVA ENERGY SUBMISSION AND AEMO RESPONSES

No.	Issue	AEMO response
<b>Competition in the market</b>		
1	<ul style="list-style-type: none"> <li>The POLR Cost Procedures currently appear weighted in favour of gentailers who, under POLR, will benefit from generation in their portfolio.</li> </ul>	<ul style="list-style-type: none"> <li>The Procedures have to be consistent with the principles in the NER. AEMO does not have the discretion to address this wider policy issue within the Procedures.</li> </ul>
2	<ul style="list-style-type: none"> <li>Request to consider equal liable share of POLR costs and debts across all retailers in terms of parity across the entire market to prevent unintended consequences of unfairly penalising small retailers and non gentailer retailers.</li> </ul>	<ul style="list-style-type: none"> <li>The principles for the calculation of the liable share are in chapter 4A of the NER. AEMO does not have the ability to change how the liable share is calculated within the Procedures.</li> </ul>
3	<ul style="list-style-type: none"> <li>How will retailers who are not seeking to be gentailers be recognised under POLR?</li> </ul>	<ul style="list-style-type: none"> <li>Under the NER, Market Customers have obligations under the RRO to hedge their load to one-in-two year peak demand forecast.</li> </ul>
4	<ul style="list-style-type: none"> <li>The POLR Cost Procedures, as they stand currently, will be a significant cost impost on Enova, by moving us down an expensive pathway of over-hedging as a direct result of the RRO and POLR.</li> </ul>	<ul style="list-style-type: none"> <li>The Procedures have to be consistent with the principles in the NER. AEMO does not have the discretion to address the wider policy issue of the cost of the RRO to any type of participant or consumers.</li> </ul>
<b>Market prices &amp; renewables investment</b>		
	<ul style="list-style-type: none"> <li>The RRO will push up prices as retailers are forced to over-hedge their book and contract with high emissions generation as they are the only qualifying contracts.</li> </ul>	<ul style="list-style-type: none"> <li>The Procedures have to be consistent with the principles in the NER. AEMO does not have the discretion to address this wider policy issue within the Procedures.</li> </ul>
	<ul style="list-style-type: none"> <li>POLR is likely to create false investment signals for generation when it isn't required and appears to be misaligned with the RRO. POLR may also have an unintended consequence of reducing generation investment, given there will be no long-term energy price signal. This may stymie the renewable energy market and RRO.</li> </ul>	<ul style="list-style-type: none"> <li>The Procedures have to be consistent with the principles in the NER. AEMO does not have the discretion to address these wider policy issues within the Procedures.</li> </ul>

No.	Issue	AEMO response
	<ul style="list-style-type: none"> <li>Enova customers are leading the trend in solar uptake. 60% of Enova’s customers have rooftop solar – three times the NSW State and National average of any other retailer. This combined with a lack of smart meters means that the AEMO 20-week revision can lead to significant discrepancy in demand profile coming into and out of summer.</li> <li>Much more challenging for a new and growing retailer to forecast load, which may lead to over-hedging more likely than for the incumbents with a large portion of customers on standing offers. These hedges will be very expensive by default and this compliance requirement removes the ability to make business decisions between taking risk and locking in high cost.</li> </ul>	<ul style="list-style-type: none"> <li>The Procedures have to be consistent with the principles in the NER. AEMO does not have the discretion to address these wider policy issues within the Procedures.</li> <li>Liabe entities may wish (but are not obliged) to use the new voluntary book build mechanism under rule 4A.H of the NER to assist in finding contracts with providers of new or uncontracted capacity.<sup>3</sup></li> </ul>
	<ul style="list-style-type: none"> <li>Has AEMO considered the cost and business survival impacts of RRO and POLR Cost Procedures on small retailers and retailers without generation in their wholesale portfolios?</li> </ul>	<ul style="list-style-type: none"> <li>The Procedures have to be consistent with the principles in the NER. AEMO does not have the discretion to address these wider policy issues for particular market customers within the Procedures.</li> </ul>
	<ul style="list-style-type: none"> <li>Support other mechanisms to increase generation in the NEM, particularly through renewables, and applaud AEMO’s recent work to prepare the Grid for 75% - 85% renewables.</li> </ul>	<ul style="list-style-type: none"> <li>Noted.</li> </ul>
<b>Impacts of POLR on households</b>		
	<ul style="list-style-type: none"> <li>Has AEMO considered the impacts of POLR Cost Procedures in terms of the flow through effects to households? Has this been quantified?</li> <li>Retailers who over-hedge in response to POLR are more than likely to pass these costs onto customers, meaning household bills will increase as a direct result of the current POLR Cost Procedures.</li> </ul>	<ul style="list-style-type: none"> <li>The Procedures have to be consistent with the principles in the NER. AEMO does not have the discretion to address these wider policy issues within the Procedures, including any additional costs to customers.</li> <li>AEMO notes that ESB’s aim in the design of the RRO was to encourage retailers to hedge more with the view that this would drive down contract prices and result in cost savings for customers.</li> </ul>
<b>Demand Response</b>		

<sup>3</sup> Please see: <https://www.aemo.com.au/energy-systems/electricity/national-electricity-market-nem/market-operations/retailer-reliability-obligation-voluntary-book-builds>



No.	Issue	AEMO response
	<ul style="list-style-type: none"> <li>Under the proposed POLR Cost Procedures, we understand that Demand Response (DR) will be measured against a Baseline, rather than Actual results. Our preference is to measure DR on actual usage, given this aligns with generation.</li> </ul>	<ul style="list-style-type: none"> <li>The baseline methodology in the Procedures is based on a proven methodology already used by AEMO for the RERT mechanism, minimizing any additional process and system development costs.</li> <li>Considering that demand response is only one type of qualifying contract liable entities can use under the RRO, the aim is to make the default baseline methodology simple and straightforward both for participants to use for RRO if they wish, and also for AEMO to implement.</li> </ul>
<p>Calculation of POLR Debts</p>		
	<ul style="list-style-type: none"> <li>Request AEMO review the POLR debts calculation timeframes from the current 40 weeks to a shorter timeframe (e.g. within six weeks).</li> </ul>	<ul style="list-style-type: none"> <li>The 40-week timeframe for AEMO calculating a liable entities liable share is outlined in 4A.F.5 of the NER. AEMO has no discretion with respect to this issue in the Procedures.</li> </ul>