

# RETAILER RELIABILITY OBLIGATION - CONSULTATION ON THE POLR COST PROCEDURES

DRAFT REPORT AND DETERMINATION

Published: **17 September 2020**





## **NOTICE OF SECOND STAGE CONSULTATION – POLR COST PROCEDURES**

### **National Electricity Rules – Rule 8.9**

#### **Date of Notice: 17 September 2020**

This notice informs all Registered Participants and interested parties (Consulted Persons) that AEMO is commencing the second stage of its consultation on the PoLR Cost Procedures.

This consultation is being conducted under Rule 4A.F.10 of the National Electricity Rules (NER), in accordance with the Rules consultation requirements detailed in rule 8.9 of the NER.

#### **Invitation to make Submissions**

AEMO invites written submissions on this Draft Report and Determination (Draft Report).

Please identify any parts of your submission that you wish to remain confidential, and explain why. AEMO may still publish that information if it does not consider it to be confidential, but will consult with you before doing so.

Consulted Persons should note that material identified as confidential may be given less weight in the decision-making process than material that is published.

#### **Closing Date and Time**

Submissions in response to this Notice of Second Stage of Rules Consultation should be sent by email to [markets.settlements@aemo.com.au](mailto:markets.settlements@aemo.com.au), to reach AEMO by 5.00pm (Melbourne time) on 9 October 2020.

All submissions must be forwarded in electronic format (both pdf and Word). Please send any queries about this consultation to the same email address.

Submissions received after the closing date and time will not be valid, and AEMO is not obliged to consider them. Any late submissions should explain the reason for lateness and the detriment to you if AEMO does not consider your submission.

#### **Publication**

All submissions will be published on AEMO's website, other than confidential content.

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## EXECUTIVE SUMMARY

The publication of this Draft Report and Determination (Draft Report) commences the second stage of 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. AEMO received no formal submissions to the first round consultation. AEMO received a request from the AER to discuss administrative aspects of the draft Procedures that provide for the exchange of information between the AER and AEMO.

AEMO's draft determination is to:

- Make minor administrative changes to the draft PoLR Cost Procedures from the first stage consultation with regard to the timing and extent of information to be provided by the AER.
- Make no other amendments to the draft PoLR Cost Procedures from the first stage consultation.

AEMO has published the updated draft PoLR Cost Procedures in the form determined under this Draft Report. Stakeholders are invited to make submissions on the draft Procedures, including alternative options if they consider that the draft Procedures do not achieve their stated objectives under the NER.



## CONTENTS

NOTICE OF SECOND STAGE CONSULTATION – POLR COST PROCEDURES	<b>1</b>
EXECUTIVE SUMMARY	<b>2</b>
1. STAKEHOLDER CONSULTATION PROCESS	<b>4</b>
2. BACKGROUND	<b>4</b>
2.1. NER requirements	4
2.2. Context for this consultation	5
2.3. First stage consultation	5
3. DISCUSSION OF MATERIAL ISSUES	<b>5</b>
3.1. Liable share, PoLR cost and PoLR debts calculation methodology	5
3.2. Treatment of demand response	6
4. OTHER MATTERS	<b>6</b>
5. DRAFT DETERMINATION	<b>7</b>
APPENDIX A. GLOSSARY	<b>8</b>



## 1. STAKEHOLDER CONSULTATION PROCESS

As required by Rule 4A.F.10 of the NER, AEMO is consulting on the PoLR Cost Procedures (Procedures) in accordance with the Rules consultation process in rule 8.9.

AEMO's indicative timeline for this consultation is outlined below. Future dates may be adjusted depending on the number and complexity of issues raised in submissions.

Deliverable	Indicative 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 Draft Report marks the commencement of the second stage of consultation.

Note that there is a glossary of terms used in this Draft 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

This Draft Report and Determination and the accompanying Procedures commences the second round of AEMO's consultation process. AEMO's aim is to determine and publish the final Procedures by 20 November 2020.

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.

## 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 no formal submissions in the first stage of consultation. AEMO did hold a meeting with the AER on 4 August 2020, to discuss the interface of the Procedures with various AER guidelines related to RRO.

## 3. DISCUSSION OF MATERIAL ISSUES

No material issues were raised by stakeholders in the first stage consultation. For completeness, AEMO has outlined in this section the key matters relevant to the determination of the PoLR Cost Procedures.

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

#### 3.1.1. Issue summary

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.

#### 3.1.2. AEMO's assessment

AEMO believes that the proposed methodology for calculating liable share, PoLR costs and PoLR debts is appropriately described in the draft Procedures and reflect the relevant NER provisions. AEMO has not identified the need for additional changes since the first stage consultation.



## 3.2. Treatment of demand response

### 3.2.1. Issue summary

A demand response contract/arrangement is a contract or arrangement under which non-scheduled load is curtailed or, in certain circumstances, for the provision of unscheduled generation. A demand response contract/arrangement may be used by a liable entity, for the purposes of RRO compliance.

NER clause 4A.F.10 leaves it explicitly to AEMO to develop the methodology by which demand response registered as a qualifying contract for RRO will be treated.

The proposed default baseline methodology in the Procedures draws on approaches developed under AEMO's Demand Response Mechanism (DRM) proposals in 2013. This methodology is also currently used for determining baselines under the Reliability and Emergency Reserve Trader (RERT) mechanism.

### 3.2.2. AEMO's assessment

Considering that demand response is only one type of qualifying contract liable entities can 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 proposed methodology in the draft Procedures is based on a proven methodology already used by AEMO for RERT, and therefore minimises additional process and system development.

AEMO recognises that circumstances may change. Should the high use of the demand response as qualifying contracts for RRO warrant additional investment in systems and process, AEMO will revisit the demand response baselining methodology design and procedures in consultation with industry.

The way that participants seek to use demand response under the RRO may also change over time. AEMO will monitor use of the demand response under the RRO and consider feedback from participants, as well as regulatory requirements, when evaluating future development of the baselining methodology.

For present purposes, AEMO believes that the proposed default baseline methodology is appropriately described in the draft Procedures and has not identified the need for additional changes since the first stage consultation.

## 4. OTHER MATTERS

Although not explicitly required by the NER, AEMO included provisions in the draft Procedures to provide a full understanding of the PoLR cost recovery process. These relate to:

- Information sharing between AEMO and the AER
- Implementation of five minute settlement and the global settlement framework.

AEMO believes that the draft Procedures adequately provide for the implementation of five minute and global settlement and has not identified the need for additional changes since the first stage consultation.

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 proposes to make the following minor amendments to the draft Procedures:

- Sections 3.1.4(a)(i) and 4.3(c)(i) requiring the AER to provide both the ABN and ACN of the relevant liable entity. The AER indicated it is likely to collect one or the other of these, but not necessarily both. The requirement has been updated to ask for the ABN or ACN.
- Section 3.1.4(a)(iii) requiring the AER to provide the transmission node identifier (TNI) associated with the connection points an opt-in customer is registered for. As this is not information the AER requires of opt-in applicants, this requirement was removed.



- Sections 3.1.4(b) and 4.3(c)(v) requiring the AER to provide additional information requested by AEMO. These provisions have been clarified to state explicitly that the AER can only be required to provide information that it has collected, either in its opt-in register or about qualifying contracts.
- Section 3.1.4(c) requiring the AER to provide the requested information about the opt-in register within 20 business days after the opt-in cut-off day. The opt-in cut-off day is the last day for applications to add to or vary the opt-in register. The AER noted that its assessment of an application and resultant changes to the register may extend beyond the opt-in cut-off day, with up to 30 business days from application to decision.<sup>1</sup> To account for this, the requirements has been updated to allow the AER to provide the information up to 50 business days after the opt-in cut-off day.
- Section 4.3(d) clarified to specify that the AER will provide the requested information about compliance trading intervals within 30 business days from AEMO's notifying the AER of those compliance trading intervals under clause 4A.F.4 of the NER.

## 5. DRAFT DETERMINATION

Having considered the matters raised in the first stage of consultation, AEMO's draft determination is to make the PoLR Cost Procedures in the form of the uploaded draft Procedures document, published with this Draft Report. These are amended from the draft published with the Issues Paper only to reflect minor changes to the content and timing of information to be provided to AEMO by the AER, under sections 3.1.4 and 4.3.

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<sup>1</sup> AER Retailer Reliability Obligation Opt-in Guidelines, June 2020, section 3.4.1



**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
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