Electricity Market Reforms: Market redesign for 2025

Resource adequacy through transition

TABLE 1: CURRENT RRO (FINANCIAL) VERSUS PROPOSED RRO (PHYSICAL)

Design element	Current RRO (Financial)	Straw Proposal Physical RRO
When Triggered	Reliability Gap forecast by AEMO three years out (***"T-3"***) and AER issues instrument specifying Reliability Gap. S.A. Minister can also issue a triggering instrument for that State. ESB recommends other State Ministers be given power to trigger current RRO. The Reliability Gap is for specified days and times of day (e.g. weekdays from 1 January 2024 to 29 February 2024; 15:00-20:00). Demand levels defined.	Permanently triggered Defined periods of Reliability Risk are identified in advance at T-3 by AEMO (e.g. after 4pm on February weekdays). Demand levels defined.
Instrument to achieve reliability (resource adequacy)	**"Qualifying Contracts"** - these are financial contracts e.g. spot price hedges, PPAs, exchange traded futures, demand response contract/arrangements. The contracts must cover the Reliability Gap.	**"Capacity certificates"** - proposed to be based on centralised certification and allocation by AEMO to resource providers. Certification occurs annually at T-3. Capacity Certificates will pertain to the identified and defined Reliability Risk period identified at T-3 (i.e. dated as being valid three years from their allocation for a specific period).
Who offers instruments	Contracts would usually be offered by generators with generating capacity in reserve to meet that contract. This avoids them having to pay a financial penalty of the difference between the contract price and the spot price.	Physical certificates issued to certified physical resource holders of capacity, based on AEMO certifications. Generation, storage and demand response are eligible resources. Technology and fuel neutral. Certification to assess "firmness" of resource capacity.
Value of Instrument	Based on forward value of contracts Contracts also manage price risk in the spot market.	Forward value of certificates to be determined based on scarcity. Participants would also still be required to purchase (or sell) financial contracts if they wanted to manage energy price risk in the spot market.
Procurement and Trading	Bilaterally over the counter (**OTC**). Central exchange (e.g. ASX 24). Bespoke PPAs and other agreements.	OTC A central exchange to be established, or existing exchanges used.

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Coverage Required	Net contract position determined by Retailers based on their forecasts of their share of one in two year peak demand. Risks of forecasting are with retailers.	Net contract position determined by Retailers based on their forecasts of their share of actual peak demand. Risk of forecasting are with retailers.
Report Coverage Position	**Before the fact disclosure**: one year out from reliability gap ("***T-1"***) of "net contract position". Net contract position depends on "firmness" of contracts.	**After the fact disclosure**: disclosure of "net certificate position", only when/if a Reliability Shortfall occurs. A Reliability Shortfall would be: ▪ RERT activation or dispatch; or ▪ unserved energy, in each case occurring during a predefined period of time and demand level aligned with the certification assessment.
Liability	Assessed in Trading Intervals in the Reliability Gap period where the peak demand in that trading interval exceeds the one-in-two year peak demand forecast (**Compliance TI**) The liable entity's net contract position must not be less than its share of the one-in-two year peak demand forecast for the reliability gap trading interval. The share of the liable entity is determined based on its **actual** consumption of energy in each of the relevant Trading Intervals comprising the Reliability Gap Period, and the **actual** peak demand.	Assessed only when Reliability Shortfall has occurred Retailers must hold enough MWs of certificates to cover their actual load as occurring during the assessed ‘at risk’ period (not scaled to the one-in-two year peak demand forecast).
Penalties	AER’s civil penalty provisions. Payment of a portion of the RERT costs.	As per current financial RRO.
Force Majeure / Resource Provider Risk	Price risk via the potential for being short in the wholesale market by not being available in the market to defend against the contract price.	If there is a material change in plant availability or capability post certification this may require resources to advise AEMO and, if a reassessment finds it necessary, AEMO may require buy back of certificates.
Liquidity Obligations	A supporting aspect of the RRO is the Market Liquidity Obligation (**MLO**). The MLO is placed on certain registered scheduled generators in the relevant region to offer certain products (currently ASX trader futures) to support a liable entity having access to sufficient 'qualifying contracts'.	ESB has flagged there *may* be compulsory assessment and allocation of certificates. Liquidity and market power issues are subject to further consideration.