NCP reporting guidance – timing, form and content

Retailer Reliability Obligation

This guidance note steps through the requirements for the timing, form and content that liable entities[1] must meet to submit a compliant Net Contract Position (NCP) report under the Retailer Reliability Obligation (RRO). For detailed guidance on the firmness methodologies to be applied when assessing contracts for the NCP report, please refer to the Australian Energy Regulator's (AER's) Interim Contracts and Firmness Guidelines.

The RRO

The RRO aims to encourage investment in electricity generation capacity and demand response across periods of expected high demand for electricity.

The Australian Energy Market Operator (AEMO) assesses forecast demand against anticipated supply. AEMO is required to issue reliability forecasts as part of its annual Electricity Statement of Opportunities (ESOO). If AEMO identifies a forecast reliability gap in electricity supply for a participating region in 3 years' time, it will ask the AER to issue a T-3 reliability instrument (T being the start of the gap period) for that region.[2]

A T-3 reliability instrument puts liable entities on notice to enter into sufficient contracting to cover their share of the peak demand forecast during the forecast gap period. Certain large users of energy can also choose to 'opt-in' to the RRO and become liable entities themselves.[3]

If the forecast reliability gap is still reported in the ESOO one year out, AEMO will ask the AER to issue a T-1 instrument setting out a 'contract position day'.[4] By the contract position day, liable entities must hold a sufficient NCP for the reliability gap period.[5] The T-1 instrument will also set a contract reporting day, at least 2 months after the contract position day.[6] Liable entities must report their NCPs to the AER by the reporting day.[7]

Businesses that are not liable entities as at the contract position day may subsequently become liable entities as 'new entrants' in certain circumstances. The T-1 instrument will set out:

- a 'new entrant contract position day', by which new entrants must finalise their NCP, which must be after the beginning of the gap period,[8] and
- a 'new entrant reporting day', at least 10 business days after the new entrant contract position day, by which new entrants must report their NCPs.[9]

A liable entity's NCP is locked in on the contract position day or new entrant contract position day (as the case may be), unless it is eligible for an adjustment.[10]

Consequences of non-compliance

We assess compliance with the above contracting and reporting requirements as part of our post reliability gap period role.[11] Our assessment informs AEMO's recovery of its costs during the relevant gap period as a procurer of last resort under the Reliability and Emergency Reserve Trader framework. Under this framework, liable entities whose share of load is not covered by their NCP may have to pay costs of up to a maximum of $100 million each.[12]

The RRO places obligations on liable entities to be sufficiently contracted and submit an NCP report, which are civil penalty provisions. A liable entity's failure to comply with them may attract financial penalties should the AER decide to take enforcement action.

This guidance provides an overview of matters to consider when preparing your NCP report. It incorporates the AER's observations of NCP reports submitted for the 2024 T-1 reliability instrument in South Australia.

We will work with liable entities to ensure they provide information relevant to the AER's compliance assessment. If a liable entity fails or refuses to do so (for example, by not providing an NCP for one or more compliance trading intervals), this will not prevent us from progressing our compliance assessment. We will also take into account the liable entity's lack of cooperation when deciding any compliance and enforcement response to RRO non-compliance.

NCP reporting requirements and key terms

Clause 4A.E.6 of the NER sets out the mandatory requirements of an NCP report. These requirements, as well as the specified form for lodging an NCP report with the AER, are reflected in section 9 and Appendices A to E of the Interim Contracts and Firmness Guidelines (the Guidelines).

Section 9 outlines the following documents that liable entities must include in their NCP reports:

- the written report template
- the NCP report Excel template
- an independent auditor's report/s (if any bespoke firmness methodologies have been applied to calculate firmness factors for non-standard qualifying contracts), and
- a document outlining any adjustments made for non-qualifying contracts that increase exposure to spot price volatility (if any adjustments have been made for non-qualifying contracts).

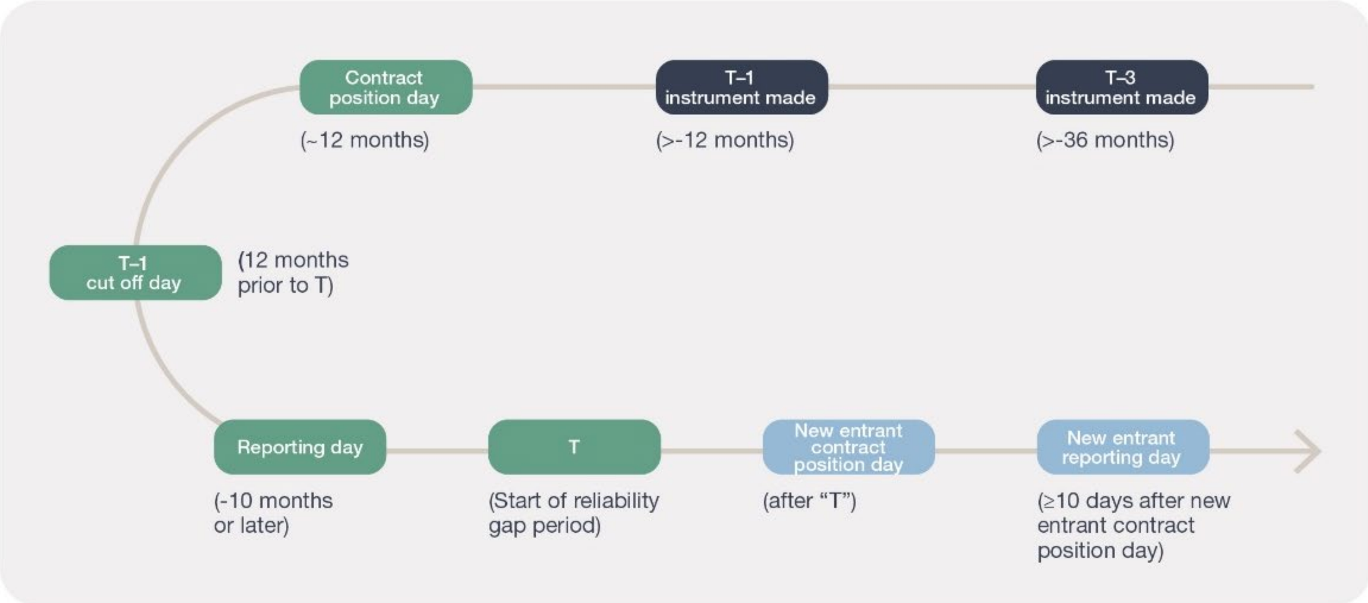
There are no specific templates for the last 2 documents, but the Guidelines set out the minimum requirements of the NER for NCP reports. Failure to submit and meet the requirements of an NCP report is a Tier 2 civil penalty provision.[13]

Table 1 explains some key terms associated with NCP reporting. For more detailed information on key concepts, please refer to section 2 of the Guidelines.

Table 1 Key terms

Concept	Definition
Net Contract Position (NCP)	A liable entity's NCP is the number of megawatts of electricity to which the liable entity's qualifying contracts relate, adjusted in accordance with the NER.[14]
NCP report	An entity's report to the AER that sets out its NCP.This includes, among other things, the entity's contracted position for each trading interval throughout the reliability gap period.[15] The NCP report must satisfy all the requirements of clause 4A.E.6 of the NER.
Qualifying contract	A contract or arrangement between a liable entity and another party that meets the criteria described in section 14O(1) of the NEL.[16]
Firmness	A liable entity's NCP is adjusted to account for the levels of certainty (or firmness) that different qualifying contract types provide. It is possible that a liable entity will retain some exposure to spot market price volatility due to the type of contracts it enters into. This is a) not limiting high price exposure, b) not covering an adequate volume of electricity, or c) having terms that limit coverage.[17] We discuss how to determine the firmness of different contract types in our Interim Contracts and Firmness Guidelines.[18]
Bespoke firmness methodology	For non-standard qualifying contracts, liable entities must develop a bespoke firmness methodology based on guidance given in sections 3 and 5 of the Interim Contracts and Firmness Guidelines. Liable entities must have bespoke firmness methodologies approved by an independent auditor and submit an associated independent auditor's report/s with their NCP report.[19]

Key dates



- **T-3 instrument made:** At least 3 years prior to a forecast reliability gap.[20]
- **T-1 instrument made:** More than 12 months prior to a forecast reliability gap.[21]
- **Contract position day:** About 12 months prior to a forecast reliability gap. The T-1 instrument sets out this date.[22] A business's NCP cannot be changed after this date unless they meet the criteria to apply to the AER for an NCP adjustment.[23]
- **T-1 cut-off day:** 12 months to the start of the reliability gap period.[24]
- **Reporting day**: At least 2 months after the contract position day.[25] The T-1 instrument sets out this date.[26] A liable entity's NCP report is due for submission to the AER on this day, and reflects the liable entity's NCP for the forecast reliability gap period, as it is on the contract position day.[27]
- **T, start of the reliability gap period** as stated in the T-1 instrument.[28]
- **New entrant contract position day**: Must be after T, as set out in the T-1 instrument.[29]
- **New entrant reporting day:** At least 10 business days after the new entrant contract position day. It is set out in the T-1 instrument.[30]

NCP report Excel template – AER observations and expectations

This section breaks down all the components of the NCP report Excel template and includes the AER's observations on common mistakes that liable entities should avoid.

For NCP reports to be compliant, they should be complete, accurate and submitted on time using the NCP report Excel template.

The AER was flexible in allowing liable entities to correct mistakes and resubmit their NCP reports after the reporting day for the South Australian T-1 instrument, as it was the first ever T-1 instrument the AER had made. The AER does not have the discretion to:

- permit the use of contracts entered into after the contract position day in the NCP report
- vary the reporting day for individual liable entities – this means that an NCP report submitted after the reporting day is non-compliant
- allow a corporate group to submit a combined NCP report – each individual liable entity is required to meet its contracting requirements under the RRO and individually submit an NCP report to the AER, irrespective of the relationship between separate liable entities.

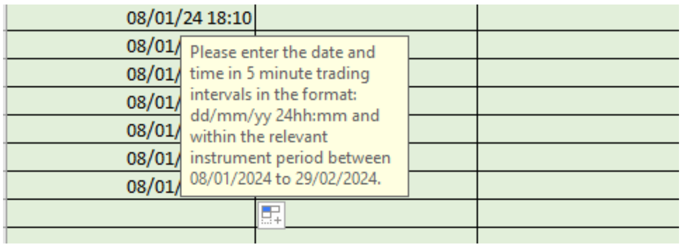
Cover sheet inputs tab

This tab requires information for the AER to identify basic details about the liable entity. When the AER makes a new T-1 instrument, it will update the 'Relevant T-1 instrument' field and re-publish the template on its website.

Instructions tab

The instructions tab extracts relevant information from the Guidelines on how to complete the NCP report Excel template.

All other tabs also incorporate guidance when a cell is hovered over, as in the below screenshot.



NCP Summary tab

This tab requires the liable entity to enter its NCP and expected maximum demand for each trading interval for the entirety of the gap period.

Trading Interval (Format: dd/mm/yy 24hh:mm) Example - 08/01/24 17:05	NCP (MW)	Expected Maximum Demand (MW)
08/01/24 17:00		
08/01/24 17:05		
08/01/24 17:10		
08/01/24 17:15		
08/01/24 17:20		

From the first T-1 instrument in South Australia, the AER observed some common mistakes or issues that arose in liable entities' NCP summary tab, including:

- **Missing rows** – Where the AER does not have NCP data for a particular trading interval, it cannot assess whether the liable entity has sufficiently contracted for its share of forecast peak demand for that interval. This renders an NCP report incomplete and non-compliant. This is because the NCP report in those circumstances does not contain the information required by clause 4A.E.6(b)(1) – namely, the liable entity's NCP as at the end of the position day for *each* of the gap trading intervals [emphasis added].
- **Incorrect trading intervals** – Only the intervals identified in the T-1 instrument should be included. For example, the recent SA T-1 instrument noted the period and relevant times of the day, and specified 'working weekdays'. We received reports that included weekends and public holidays that were not part of the reliability gap.
- **Incorrect expected maximum demand** – Expected maximum demand is unlikely to be the same for each trading interval because demand fluctuates according to time of day and year. The AER may ask questions and/or request evidence about the demand calculation to determine the use of reasonable assumptions in the calculation. This can take place through the information-gathering tools at the AER's disposal, ranging from information requests to requiring a compliance audit.[31]

If a liable entity applies for an adjustment to its NCP under clause 4A.E.7 of the NER, the AER will need accurate information about expected maximum demand in assessing whether to approve or reject the application.[32]

Contracts by Trading Interval and Grouped Contracts tabs

A liable entity must record each qualifying contract that contributes to the NCP reported under the NCP summary tab in one (and only one) of these 2 tabs:[33]

- Grouped Contracts tab – where the firmness factor is the same in all trading intervals, contracts can be recorded in this tab
- Contracts by Trading Interval tab – all other qualifying contracts must be recorded in this tab.

A liable entity should ensure that relevant contracts are listed for every trading interval in the gap period, unless the liable entity's NCP for a trading interval is 0 MW.

For each contract with a bespoke firmness methodology, a liable entity should ensure it includes a unique Methodology ID that is also referred to in the report signed by the independent auditor. This cross-referencing is important for the AER's compliance assessment process. In particular, the AER may need to refer to the independent auditor's report to review the methodology for a particular contract in the NCP report.

NMIs [National Metering Identifiers] tab

This tab must be filled in if liable entities include demand response contracts as qualifying contracts. Liable entities relying on a demand response contract as a qualifying contract must provide a list of all NMIs associated with each demand response contract or arrangement included in a liable entity's NCP report as a qualifying contract.

Checklist

Does your NCP submission contain all of the following: • the written report template • the NCP report Excel template • an independent auditor's report/s (if any bespoke firmness methodologies have been applied to calculate firmness factors for non-standard qualifying contracts) • a document outlining any adjustments made for non-qualifying contracts that increase exposure to spot price volatility (if any adjustments have been made for non-qualifying contracts)?	☐
Are all the relevant tabs filled out in your NCP report Excel template? Have you considered the AER's observations and expectations for NCP report Excel template submissions outlined in this guidance?	☐
Do you need to contact the AER in regard to any supporting information or questions about your NCP reporting? If yes, please do so as early as possible.	☐

More information

The AER has also published guidance for liable entities and other participants in the RRO, including a list of frequently asked questions and specific guidance on different stages of the RRO process.[34]

The AER maintains a register of reliability instruments, which sets out timelines applicable to each.[35] You can keep track of new instruments as they are made by subscribing to our website.[36]

Please first review the guidance notes, FAQs and RRO Guidelines for further information about the RRO. If you have any questions after reviewing these materials, you can contact the AER at RRO@aer.gov.au. While the AER does not provide legal advice, we encourage such communication, so that we can provide general guidance, where appropriate. These requests will assist us to determine whether further AER guidance may be appropriate or to inform our policy position on particular issues.

This guidance note does not have legal force and is for guidance purposes only. It is not intended to be a comprehensive guide to the range of obligations under the RRO. It reflects the law, Rules and Guidelines in place in August 2024. The AER cannot provide a definitive interpretation of the relevant legislation because that is the role of the Courts. We recommend that you obtain your own legal advice if you are unsure about specific aspects of the NEL or NER and how they may apply to your situation.

Endnotes

---

[1] Market customers (e.g. retailers and other parties that purchase electricity directly from the wholesale energy market) and integrated resource providers.

[2] National Electricity Law (NEL), s. 14I. Under section 14JA of the NEL, state and territory energy ministers in participating regions can also make their own T-3 reliability instruments.

[3] The AER has published a separate RRO opt-in guidance note providing key information for customers considering opting in.

[4] National Electricity Rules (NER), cl. 4A.C.10(b).

[5] See NEL, s. 14K(4)(b)(i) and 14R(2).

[6] NER, cl. 4A.C.10(d).

[7] The reporting day is the day on or before which liable entities must report their NCP as at the contract position day to the AER under section 14P of the NEL (see also section 14K(4)(b)(ii)).

[8] See NEL, ss.14K(4)(b)(i), 14P(1) and NER, cl. 4A.C.10(c).

[9] See NEL, s. 14K(4)(b)(ii) and NER, cl. 4A.C.10(d).

[10] NEL, s. 14R(3).

[11] See NEL, s. 14R(2) and NER, cl. 4A.F.7.

[12] See NEL, s. 14T and NER, cl. 3.15.9A.

[13] NEL s14P. Subsection 2AB(1)(b) of the NEL provides that if the breach is by a natural person, the civil penalty is an amount not exceeding $317,400 plus an amount not exceeding $15,900 for every day during which the breach continues. If the breach is by a body corporate, the civil penalty is an amount not exceeding $1,587,100, plus an amount not exceeding $79,400 for every day during which the breach continues. The penalties listed in this footnote apply to conduct from 1 July 2023. In accordance with s. 37A of the NEL, penalty values are adjusted every 3 years to reflect movements in the consumer price index. For the most up-to-date penalty amounts, see Civil and criminal penalty indexation.

[14] NEL, s. 14O(3).

[15] NER, cl. 4A.E.6(a) and (b)(1).

[16] Section 14O(1) of the NEL defines a qualifying contract of a liable entity as a contract or other arrangement to which the liable entity is a party – (a) that - (i) is directly related to the purchase or sale, or price for the purchase or sale, of electricity from the wholesale exchange during a stated period; and (ii) the liable entity entered into to manage its exposure in relation to the volatility of the spot price; or (b) of another type prescribed by the Rules to be a qualifying contract.

Clause 4A.E.3(b) of the NER sets out that a qualifying contract can refer to a financial agreement, a contract or agreement for the generation of electricity, or a contract or agreement for the reduction in consumption of electricity. A qualifying contract must reference the wholesale spot price for electricity (including reference to the purchase or sale of electricity) and be entered into to manage the liable entity's exposure to the volatility of the spot price. A registered demand response contract/arrangement can also be a qualifying contract. For a contract or arrangement to be qualifying it must cover all or part of the forecast reliability gap period.

[17] AER, Interim Contracts and Firmness Guidelines, August 2019, section 3.2.

[18] AER, Interim Contracts and Firmness Guidelines, August 2019.

[19] NER, clause 4A.E.5(b).

[20] AEMO must request a T-3 reliability instrument at least 3 years and 3 months before the forecast reliability gap period under clause 4A.C.2(a) of the NER. Clauses 4A.C.9(c) and 4A.C.6(b) then operate to require the AER to make its decision on the instrument more than 3 years before the gap period.

[21] AEMO must request a T-1 reliability instrument at least one year and 3 months before the forecast reliability gap period under clause 4A.C.3(a) of the NER. Clauses 4A.C.9(c) and 4A.C.6(b) then operate to require the AER to make its decision on the instrument before the T-1 cut-off day.

[22] NEL, s. 14K(4)(b)(i) and NER, cl. 4A.C.10(b).

[23] See NEL, s. 14R(3).

[24] NEL, s. 14G(4).

[25] NER, cl. 4A.C.10(d).

[26] NEL, s. 14K(4)(b)(ii) and NER, cl. 4A.C.10(d).

[27] NEL, s. 14P(1).

[28] NEL, s. 14I(4)(c).

[29] NER, cl. 4A.C.10(c).

[30] NER, cl. 4A.C.10(d).

[31] AER, Reliability Compliance Procedures and Guidelines, June 2023, section 5.

[32] AER, NCP Adjustment Guidance, August 2024.

[33] AER, Interim Contracts and Firmness Guidelines, August 2019, section 9.1.2.

[34] AER, RRO FAQs, June 2023; Opt-in, April 2024; Are you a liable entity?, August 2024; NCP reporting guidance – timing, form and content, August 2024.

[35] AER, Register of reliability instruments.

[36] Enter your contact details and subscribe for electricity retail updates in your region.