



## Changes to intervention mechanisms

### Draft determination and draft rule

The Australian Energy Market Commission (Commission) has published a draft determination and draft rule that amends the National Electricity Rules (NER) to improve the efficiency and clarity of intervention mechanisms.

### Background

Intervention mechanisms are tools available to AEMO in circumstances where the market response has been inadequate to maintain a reliable and secure power system, or in response to unexpected events. Broadly speaking, intervention mechanisms include the reliability and emergency reserve trader (RERT), directions and instructions.

There has been a significant increase in the use of intervention mechanisms by AEMO over the last three years, primarily in response to system security issues such as inadequate system strength in South Australia but also to manage system reliability. In response to this increased reliance on intervention mechanisms, AEMO and the AEMC have undertaken reviews relating to intervention pricing and the interventions framework, resulting in a number of recommended changes to the interventions framework.

In August 2019, the Commission published the final report of its *Investigation into intervention mechanisms in the NEM*. That report made a number of recommendations for changes to the NER relating to intervention mechanisms.

Between September and November 2019, AEMO submitted three rule change requests that action certain recommendations from this report and are the subject of this draft determination.

The rule change requests are being fast-tracked as stakeholder feedback on the issues was initially sought and received in 2019 as part of the AEMC's earlier work. The AEMC decided to consolidate these three rule change requests as they seek to address related issues.

### The Commission's draft determination

The draft rule amends the NER to reduce costs to consumers while maintaining efficient price signals and incentives for investors when AEMO intervenes in the market.

The draft rule:

- removes the mandatory restrictions framework
- removes the obligation on AEMO to counteract during an intervention
- clarifies the basis for affected participant compensation cost recovery following activation of emergency reserves under the RERT.

The draft rule removes the mandatory restrictions framework as, given the difficulty in accurately estimating demand reduction, the framework carries the risk of delivering unintended pricing outcomes and increased costs to consumers. Allowing the market to operate normally (by removing the framework) will deliver more efficient price outcomes for consumers.

The draft rule removes the obligation to counteract during an intervention will contribute to minimising costs for consumers. Requiring AEMO to "manually" adjust dispatch targets in order to limit the number of affected participants and confine the impact of an intervention to a single region (as required by the counteractions obligation) can increase costs compared with the alternative of allowing the national electricity market dispatch engine

(NEMDE) to optimise dispatch targets automatically and at least cost in the wake of an intervention event.

The draft rule clarifies the basis for affected participant compensation cost recovery following activation of RERT, thus providing greater certainty by formalising the basis on which AEMO currently apportions and recovers these costs.

### Next steps

The Commission invites submissions on the draft determination and draft rule by 30 July 2020 via the AEMC website.

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