



INFORMATION

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Removal of intervention hierarchy

Draft determination and draft rule

The Australian Energy Market Commission (AEMC) has published a draft determination and draft rule to remove the current hierarchy for the use of intervention mechanisms, to improve AEMO's ability to manage the power system efficiently and flexibly. The Commission is inviting submissions on its draft determination by 30 July 2020.

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.

Under supply scarcity conditions, the existing hierarchy of interventions requires AEMO to use RERT in preference to issuing directions or instructions.

In its August 2019 *Investigation into intervention mechanisms in the NEM* final report, the Commission recommended replacing the existing hierarchy with a principle that AEMO should select the intervention mechanisms that minimise direct and indirect costs and maximise effectiveness of the intervention.

On 28 November 2019, AEMO submitted a rule change request to action this recommendation.

The rule change request is being fast-tracked as stakeholder feedback on this issue was initially sought and received in 2019 as part of the AEMC's earlier work.

The Commission's draft determination

The Commission's draft determination is to remove the existing hierarchy of interventions and replace it with a more flexible requirement for AEMO to select the intervention mechanism, or combination of intervention mechanisms, that are effective at addressing the need to intervene while also minimising direct and indirect costs. This will improve AEMO's ability to manage the power system efficiently and flexibly, lowering costs to consumers.

The Commission considers existing requirements that preference the use of RERT to preclude lower cost and more effective options for intervention, under some circumstances leading to higher costs for consumers.

The draft rule also applies transparency and accountability requirements to cover the additional discretion provided to AEMO on the choice of intervention mechanisms. The draft rule requires AEMO to: develop, consult on, and publish procedures setting out its method and assumptions in selecting effective interventions that minimise the direct and indirect costs borne by consumers. It also extends existing reporting obligations to cover the basis on which AEMO determined the mechanisms to be used. The Commission

considers it is important that market participants and other stakeholders should have an ability to reasonably predict how AEMO will intervene in the market.

As supply scarcity conditions predominantly occur during summer, the draft determination includes transitional arrangements allowing the rule to come into effect prior to summer 2020-21. The draft rule requires AEMO to publish interim procedures by 19 October 2020. By 3 May 2021, AEMO must publish its final procedures.

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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