



Removal of intervention hierarchy

Final determination and final rule

The Australian Energy Market Commission (AEMC) has published a final determination and rule to require the Australian Energy Market Operator (AEMO) to minimise costs to consumers when it is necessary to intervene in the electricity market.

The Commission's final determination

The Commission's final determination is to remove the existing hierarchy of interventions and replace it with a more flexible requirement for AEMO to select the supply scarcity mechanism (being RERT, directions, or instructions), or combination of 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. The Commission considered 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 final rule applies transparency and accountability requirements to cover the additional discretion provided to AEMO on the choice of mechanisms for managing supply scarcity conditions. The final rule requires AEMO to:

- develop, consult on, and publish procedures setting out its method and assumptions in selecting mechanisms to address supply scarcity conditions that minimise the direct and indirect costs borne by consumers
- periodically review its procedures in consultation with stakeholders - reviews are required at least every four years with the first in 2023
- following intervention to report on the basis on which AEMO determined the mechanisms to be used.

The Commission has included these requirements in the final rule as it 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 final determination includes transitional arrangements allowing the rule to come into effect prior to summer 2020-21. The final rule requires AEMO to publish interim procedures by 19 October 2020. By 3 May 2021, AEMO must publish its final procedures.

Background

The reliability and emergency reserve trader (RERT), directions, and clause 4.8.9 instructions (instructions) are mechanisms available to AEMO to intervene in circumstances where the market response has been inadequate to maintain a reliable and secure power system, or in response to unexpected events. When intervening under conditions of supply scarcity, the existing hierarchy of interventions the existing hierarchy of interventions requires AEMO to use RERT in preference to issuing directions or instructions.

There has been a significant increase in AEMO interventions 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 RERT, directions, and instructions, AEMO and the AEMC have undertaken reviews relating to intervention pricing and the interventions framework, resulting in a number of

recommended changes to the framework for interventions in the NEM.

In its August 2019 *Investigation into intervention mechanisms in the NEM* final report, the Commission recommended replacing the existing hierarchy requirement which required AEMO to use RERT in preference to issuing directions or instructions with a principle that AEMO should select the mechanism that minimises direct and indirect costs and maximises effectiveness of the intervention.

On 28 November 2019, AEMO submitted a rule change request to action this recommendation. The rule change request was fast-tracked as stakeholder feedback on this issue was initially sought and received in 2019 as part of the AEMC's earlier work. On 18 June 2020, the AEMC published a draft determination to remove the existing hierarchy of interventions. Six submissions were received in response to the draft determination.

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