INFORMATION

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Draft rule extending the application of Interim Reliability Measure to the Retailer Reliability Obligation

The Australian Energy Market Commission has made a draft rule recommendation to extend the application of the interim reliability measure (IRM) to the retailer reliability obligation (RRO) until 30 June 2028. The Commission considers the extension of the measure, as a risk management tool, as being in the interests of consumers until the Reliability Panel has completed its review of the form of the reliability standard.

The Commission has made a draft rule to extend the interim reliability measure by three years.

The Australian Energy Market Commission (the AEMC or Commission) has made a draft rule to continue the application of the interim reliability measure (IRM) to the retailer reliability obligation (RRO) until 30 June 2028. The Commission intends to review whether measures like the IRM are needed beyond 30 June 2028 following the Reliability Panel's 2026 Reliability Standards and Settings Review.

Reliability risk must be considered differently as the power system moves to a high variable renewable energy (VRE), energy-limited power system. This is particularly relevant for tail risk which represents low-probability events that could have a high impact on reliability outcomes. In making its draft rule, the Commission considers that removing the IRM as the trigger for the RRO between 1 July 2025 and 30 June 2028 could increase uncertainty about the reliability framework and how tail risk is being managed.

While stakeholders had mixed views, the Commission considers the draft rule is in the long-term interest of consumers

The Commission considers the draft rule to extend the application of the IRM to the RRO will best support the national electricity objective (NEO).

In making its draft determination, the Commission considered the findings of its 2023 Review of the Interim reliability measure and the feedback from stakeholders provided during the review. Key to this were the Commission's findings that removing the IRM as the trigger for the RRO between 1 July 2025 and 30 June 2028 could increase uncertainty about the reliability framework and how tail risk is being managed as the power system transitions to a high VRE power system.

Stakeholders made valid points that the RRO being triggered by the IRM may lead to increased costs as it may result in the RRO being triggered more often. The Commission has taken these points into account in response to AEMO's rule change request. In balancing the options, the Commission is of the view that, despite the risk of increased costs, the draft rule to extend the IRM is warranted considering the changing nature of the drivers of reliability risk.

The IRM would play an important role to address tail risk over the period 1 July 2025 to 30 June 2028 as the market transitions to a high VRE and energy-limited power system. The Commission considers that retaining the IRM until the new standard is in place serves as a 'safety net' if this risk does emerge sooner. In the Commission's view, therefore, it is an appropriate balance of the potential risk and cost compared to removing the standard.

The Commission intends to review whether further measures like the IRM are needed beyond 1 July 2028 following the 2026 Reliability Standards and Settings Review when a longer-term approach to managing reliability tail risk is known.

What is the background for this rule change?

As part of the rethinking of reliability risk, in 2019, energy ministers requested advice from the Energy Security Board (ESB) on the possibility of a tighter reliability standard. Following its work, the ESB recommended that moving to a tighter reliability standard of 0.0006 per cent unserved energy (USE) would best meet the expectation that electricity supply remains reliable during a 1 in 10-year summer.

In 2020, energy ministers introduced the IRM, based on a trigger of 0.0006 per cent USE. The IRM triggers the RRO and the interim reliability reserve (IRR) which is an out-of-market capacity reserve that allows the Australian Energy Market Operator (AEMO) to enter into multi-year contracts for reliability. Ministers intended that these measures would preserve reliability and system security by supplementing the existing framework and reliability standard for a limited period.

Further, in 2022, energy ministers agreed to two additional changes to the IRR and RRO trigger:

- Ministers in all jurisdictions will shortly be able to make a T-3 instrument at any time without linking the instrument to a specific reliability gap. However, only AEMO can request the Australian Energy Regulator (AER) make a T-1 instrument based on a forecast reliability gap in the ESOO.
- AEMO can now enter multi-year contracts triggered by the IRM beyond mid-2025. In practice, this extends the IRR by three years to March 2028.

The AEMC was required to review the IRM as part of its obligations under the National Electricity Rules (NER) and self-initiated a review in March 2023. Following consultation, the AEMC published a final report in May 2023. The report recommended that the application of IRM to the retailer reliability obligation (RRO) be extended to 30 June 2028.

On 13 June 2023, AEMO submitted a rule change request seeking to extend the application of the IRM to the RRO in line with the recommendation of the AEMC's 2023 review.

We encourage you to provide your feedback

Stakeholders can help shape the final rule change by making a submission as part of the consultation period.

Due date: Written submissions responding to this draft determination and rule must be lodged with Commission by 24 August 2023.

How to submit: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code ERC0366. Tips for making submissions are available on our website.

Publication: The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential or that we consider inappropriate (for example, offensive or defamatory content or content likely to infringe intellectual property rights).

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