

24 August 2023

Anna Collyer
Chair
Australian Energy Market Commission
Sydney South NSW 1235

Submitted online: ERC0366

Dear Anna,

ERC0366 – Draft determination – Extension of the application of the IRM to the RRO

AEMO appreciates the opportunity to provide a response to the draft determination for the extension of the application of the Interim Reliability Measure (IRM) to the Retailer Reliability Obligation (RRO).

AEMO supports the draft rule to extend use of the IRM (0.0006% USE) as the threshold for reliability gaps under the RRO and agrees that the IRM remains an important temporary measure to manage increasingly uncertain reliability risks as the power system transitions, and longer-term measures are developed.

The 2022 Reliability Standards and Settings Review (RSSR) recommended the need to consider the changing nature of reliability risk, including the potential for high impact low probability ('tail risk') events to develop. With subsequent review of the form of the reliability standard currently underway, and any recommended change to the form of the standard to commence from 1 July 2028, retaining the use of the IRM until such point provides for a consistent approach to reliability frameworks and mitigates against the uncertainty of tail risks in the short-term.

The RRO functions as a supplementary measure to encourage retailers to contract for firm supply when and where forecast reliability gaps are identified. The impact of the Rule change is limited to where there are reliability gaps between the reliability standard (0.002% USE) and the IRM (0.0006% USE). AEMO considers that extending the IRM in this limited way does not conflict with the role of the reliability standard; rather this will supplement market settings by signalling an increasing need for firm generation and only assigning additional obligations when reliability risks are identified.

Further, AEMO considers that extending the IRM in this way will not impose significant additional costs on customers as existing frameworks and processes will not change.

Transitional rule

The draft rule will ensure that if the 2023 ESOO identifies a reliability gap against the IRM after 1 December 2026, AEMO will be able to request an appropriate reliability instrument in accordance with the Rules.

If the 2023 ESOO identifies a forecast reliability gap in a region from 1 December 2026, then under section 14I(4)(b) of the NEL and NER 4A.C.2(a), AEMO will be required to request the AER to



consider making a reliability instrument by 1 September 2023. For the purposes of identifying a forecast reliability gap in a region, from 1 July 2025 until the commencement of the draft Rule, the reliability standard will be determined in accordance with clause 3.9.3C of the Rules (0.002% USE) and the IRM will not apply.

Figure 3.1: Timeline under current rules



Source: AEMC

The 2022 ESOO update¹ identified forecast reliability gaps in NSW and VIC for 2026-27 sitting between the 0.0006% USE IRM and the 0.002% USE reliability standard. Without the transitional rule, if the reliability forecast in the 2023 ESOO² identifies any forecast reliability gaps, AEMO will only be able to submit requests to the AER for reliability instruments in respect of forecast reliability gaps for periods after 21 December 2026 (T-3 + 3 months). AEMO considers that forecast reliability gaps in the future only occur outside during traditional periods of peak demand (January and February). This is supported by the 2022 ESOO update, which identified with two such forecast reliability gaps in NSW for 2025-26: one commencing 1 December 2025 and the second commencing 1 June 2026. AEMO considers the transitional rule should effectively manage this risk by enabling AEMO to request reliability instruments if forecast reliability gaps from 1 December 2026 are identified in the 2023 ESOO.

While AEMO supports the changes to be effected by the transitional rule as described in the draft determination, further consideration needs to be given as to how any new forecast reliability gaps will be addressed following publication of the 2023 ESOO and after the Rule change commences. For the purposes of the 2023 ESOO, the IRM may only be used to identify forecast reliability gaps in the reliability forecast until 30 June 2025, and after that the reliability standard (0.002% USE) must be applied.

After the draft rule commences, AEMO will consider whether to update the ESOO and identify any forecast reliability gaps by applying the IRM (0.0006% USE). However, AEMO may only publish an update to the ESOO in the circumstances described in clause 3.13.3A(b) of the NER. A change to the reliability forecast due to a rule change amending the basis for its calculation is not contemplated by this rule. To enable the transitional rule to be fully implemented as described in the

¹ AEMO, Update to the 2022 Electricity Statement of Opportunities, page 14 - https://aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/nem_esoo/2023/february-2023-update-to-the-2022-esoo.pdf

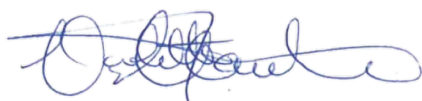
² To be published 31 August 2023

draft determination, AEMO has identified a need for an additional provision in the draft Rule to enable AEMO to publish an updated reliability forecast in an update to the 2023 ES00. This ES00 update will publish any new forecast reliability gaps for the purposes of the RRO and will require AEMO to submit a request to the AER to consider making reliability instruments in relation to these forecast reliability gaps.

AEMO supports the draft determination to extend the application of the IRM to the RRO as the market transitions and the nature of reliability risk becomes increasingly uncertain. Continuing the apply to IRM as the reliability standard will provide a consistent transitional approach to the RRO at minimal cost to consumers until permanent measures are determined.

If you have any questions please contact Kevin Ly, Group Manager – Reform Development and Insights, kevin.ly@aemo.com.au.

Yours sincerely,



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Executive General Manager – Reform Delivery