



## Changes to intervention mechanisms

### Final determination and rule

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

### The Commission's final determination

The final rule, which comes into effect on 17 September 2020, amends the NER to reduce costs to consumers while maintaining efficient price signals and incentives for investors when AEMO intervenes in the market.

The 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 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 rule removes the obligation to counteract during an intervention to 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 rule also 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.

Two submissions were received by the Commission on the draft determination and rule and no substantial issues were raised. The Commission did not make any substantial policy or rule drafting changes from the draft rule.

### 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 Commission 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 were fast-tracked as stakeholder feedback on the issues was initially sought and received in 2019 as part of the Commission's earlier work. The Commission consolidated these three rule change requests as they sought to address related issues. On 18 June 2020, the Commission released a draft determination and rule and sought stakeholder feedback.

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