INFORMATION

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Review of the Interim Reliability Measure

The Australian Energy Market Commission has made a draft recommendation to extend the application of the interim reliability measure until 1 July 2028. Given the size and pace of the energy market transition between now and 2028, the Commission does not consider the removal of the interim reliability measure as a proxy risk management tool as being in the interests of consumers, until a new form of the reliability standard is in place which more effectively addresses the risk of low-probability high-impact events. We are seeking feedback on the draft recommendation.

The interim reliability measure remains an important risk management tool

The Australian Energy Market Commission (AEMC) has made a draft recommendation to extend the interim reliability measure (IRM) as it applies to the retailer reliability obligation (RRO) by three years to 1 July 2028.

As the power system transitions to a high variable renewable energy (VRE) power system, reliability risk, particularly tail risk, must be characterised differently. This tail risk represents low-probability events that could have a high impact on reliability outcomes.

In making its draft recommendations, the AEMC considers that maintaining the IRM as a supplementary measure while the Reliability Panel (the Panel) reviews the form of the reliability standard provides greater certainty to the market to 1 July 2028.

While the Panel has recently recommended that a standard of 0.002 per cent unserved energy (USE) reflects the value customers place on reliability, in introducing the IRM, governments made the deliberate choice that they wanted a higher standard of reliability to protect customers from increasing reliability risks. These tail risk events are the subject of the Panel's upcoming review into whether the form of the reliability standard remains fit for purpose. Given the size and pace of the energy market transition between now and 2028, the Commission does not consider the removal of the IRM as a proxy risk management tool as being in the interests of consumers, until a new form of the reliability standard is in place which more effectively addresses tail risk.

The Commission intends to review the need for the IRM beyond 1 July 2028, following the 2026 Reliability Standards and Settings Review.

The interim measure remains an important proxy risk management tool and the risk of additional costs associated with an extension are low

The AEMC considers that its draft recommendations are likely to better contribute to the achievement of the NEO by providing predictability, transparency, and stability for the market while the Reliability Panel's does further work on understanding 'tail risk' through the review of the form of the reliability standard.

The AEMC notes that, during the Energy Security Board's consultation in recommending a tighter reliability standard, some stakeholders expressed concern about the impact on the cost to customers.

The IRM trigger of 0.0006 per cent USE may result in the RRO applying more often. The Commission has considered this issue in light of the current energy cost increases.

The Australian Energy Market Operator's (AEMO's) *Update to the 2022 Electricity Statement of Opportunities* (ESOO) identifies reliability gaps in New South Wales and Victoria over the period 2025-26 to 2027-28 which sit between 0.0006 per cent USE and the Panel's recommended reliability standard of 0.002 per cent USE. If these gaps continue to be present in the 2023 ESOO, due in August 2023, and future ESOO publications, they will trigger new T-3 reliability gaps if the IRM is extended. However, in the *2022 ESOO* and the *Update to the 2022 ESOO*, AEMO observes that reliability forecasts will significantly improve if anticipated and actionable developments proceed as planned. AEMO observes in the *2022 ESOO* that if these projects become 'committed projects', USE is forecast to drop below the IRM over the coming years, reducing the likelihood of T-1 gaps and therefore reducing any potential cost impacts on consumers.

Why is the Commission reviewing the IRM?

As part of the rethinking of reliability risk, in 2019, Ministers requested advice from the 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 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 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, 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 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.

We are seeking feedback on our draft recommendation

The Commission seeks stakeholder feedback on the draft recommendation by 13 April 2023.

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