



Terms of Reference

AEMC Review into the Interim Reliability Measure EPR0090

1. Overview

Since 2019, at the advice of the Energy Security Board (ESB), Energy Ministers have made two substantial changes to the reliability framework in the national electricity market (NEM). These changes are the Retailer Reliability Obligation (RRO), introduced in 2019, and the interim reliability measure (IRM), based on a trigger of 0.0006% unserved energy (USE), introduced in 2020.

Ministers intended that these measures would preserve reliability and system security by supplementing the existing framework and reliability standard for a limited period.

Since these changes were made, the Reliability Panel (the Panel) has also released recommendations for the [Reliability Standard and Settings Review](#). The Panel recommended retaining the current form of the reliability standard expressed as 0.002% of expected unserved energy (USE) for the period 1 July 2025 to 30 June 2028. It also made a case for commencing work on a potential new form of the reliability standard to be in place by 1 July 2028.

The National Electricity Rules (NER) require the Australian Energy Market Commission (the Commission) to review both the IRM and the operational aspects of the RRO.

The Commission intends to review the RRO and IRM in conjunction with each other but separated into two reviews.

- First the Commission will review the IRM, according to these terms of reference. This review will be completed by mid-2023.
- Secondly, the Commission will consider the operational aspects of the RRO through a separate review - EPR0091 Review of the RRO. Once released, the terms of reference for the second review will be available on the AEMC's website. The Commission will complete the review of the RRO by early 2024.

1.1. What is the Interim Reliability Measure?

The IRM was established to improve the reliability of the NEM in the short term, while the ESB was progressing with its post-2025 electricity market design work.

In March 2020, Energy Ministers agreed to an interim standard based on 0.0006% USE

which applies to the Retailer Reliability Obligation (RRO) and the Interim Reliability Reserve (IRR).

The interim standard is intended to supplement the existing reliability standard of 0.002% USE for a limited period while the ESB developed enduring solutions to reliability issues. The application of the interim standard to the RRO ends on 1 July 2025.

Ministers recently agreed to extend the IRR to allow AEMO to enter multi-year contracts triggered by the interim standard beyond mid-2025. In practice, this extends the IRR to March 2028.

1.2. Other reliability and resource adequacy work underway

The Commission will undertake this review alongside with other resource adequacy and reliability reviews.

On 1 September 2022 the Reliability Panel (the Panel) released recommendations on the form of the reliability standard as part of its [Reliability Standard and Settings Review](#).

The Panel recommended retaining the current form of the reliability standard expressed as 0.002% USE for 1 July 2025 to 30 June 2028 as it applies to key market settings. The Panel recommended a further review to assess if the market needs a new form of reliability standard that includes a 'tail risk' metric to manage reliability risk as the market transitions to a high variable renewable energy (VRE) power system.

The Panel will shortly commence a comprehensive review of the form of the standard. Any new form recommended by the Panel would be in place by 1 July 2028.

2. Objectives and Scope

Under clause 11.128.12 of the NER, the AEMC must review the IRM and any other matter the Commission believes is relevant to AEMO's procurement of the IRR. The NER requires AEMO to provide certain information to the Commission to conduct the review.

Given the decision by Ministers to extend the application of the IRR, the Commission does not intend to conduct a further review of that component of the IRM.

The Commission will specifically consider extending the application of the IRM to the RRO to 1 July 2028, to align with the commencement of a potential new form of the reliability standard recommended by the Reliability Standard Settings Review.

In doing this, the Commission will consider, amongst other things, the role of the IRM in the following:

- setting reliability at a level that both customers and governments value
- delivering market signals to promote efficient investment in capacity
- supporting a consistent market-wide solution to reliability and avoiding derogations.

The Commission will also consider the [Reliability Standard and Settings Review](#).

Any recommendation made by the Commission will be considered against the National Electricity Objective.

3. Consultation

In conducting the Review, the Commission will consult a broad range of stakeholders, including government officials and the following market bodies:

- AEMO
- AER
- Reliability Panel.

4. Deliverables and timing

The review of the IRM will specifically focus on whether the interim standard should be extended and then transition to a new form of the reliability standard from 1 July 2028.

The Commission considers that the Panel's upcoming work on the form of the standard is a critical piece of work for the future of the NEM. With that in mind, the Commission will review the IRM on an expedited basis and will publish a:

- draft report in March 2023
- final paper in May 2023.