AEMC

INFORMATION

Review of the Interim Reliability Measure

The Australian Energy Market Commission has made a final recommendation to extend the application of the interim reliability measure to the retailer reliability obligation until 30 June 2028. The Commission does not consider the removal of the measure as a proxy 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 to consider the changing risk profile in the national electricity market.

The Commission has made a final recommendation to extend the interim reliability measure by three years

The Australian Energy Market Commission (the AEMC or Commission) has made a final recommendation to continue the application of the interim reliability measure (IRM) to the retailer reliability obligation (RRO) to 30 June 2028. The Commission intends to review the need for the IRM past this date following the Reliability Panel's (the Panel's) 2026 Reliability Standards and Settings Review.

As the national electricity market (NEM) transitions to a high variable renewable energy (VRE), energy-limited 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 final recommendation, 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 as the power system transitions to a high VRE power system.

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

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

Stakeholders have 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 balancing the options and considers that, notwithstanding the risk of increased costs, our recommendation to extend the IRM is warranted in light of the changing nature of the drivers of reliability risk. The IRM plays an important proxy 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 Panel has recognised the need to develop a standard that appropriately addresses 'tail risk' and estimates that this risk may not eventuate until after 2028. The Commission considers that retaining the tighter standard until the new standard is in place serves as a 'safety net' if this risk does emerge sooner. Therefore, in the Commission's view, it is an appropriate balance of the potential risk and cost compared to removing the standard.

Therefore, 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 long-term interests of consumers.

While the Commission is making a final recommendation to extend the tighter standard for the RRO, it does agree that it should only remain until there is an established longer term approach to managing tail risk. Therefore, the Commission intends to review the need for any further reliability measures following the outcome of the Panel's review into the form of the standard and the 2026 Reliability Standard and Settings Review.

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The Commission requires a rule change to give effect to the final recommendation

The Commission will require a rule change request to be submitted to give effect to the recommendation in the final report.

Why did the Commission review the IRM?

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.

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