INFORMATION

Rule extending the application of Interim Reliability Measure to the Retailer Reliability Obligation

The Australian Energy Market Commission has made a rule to extend the application of the interim reliability measure (IRM) to the retailer reliability obligation (RRO) until 30 June 2028. The Commission considers the extension of the measure, as a 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.

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

The Australian Energy Market Commission (the AEMC or Commission) has made a final rule to continue the application of the interim reliability measure (IRM) to the retailer reliability obligation (RRO) from 1 July 2025 to 30 June 2028. The Commission has not included any requirements in the final rule to review the IRM beyond 2028 and notes that, absent a rule change to extend the mechanism, it will cease on 30 June 2028. This is because we consider that the IRM is a temporary measure while the Panel considers the longer-term approach to the reliability standard.

Reliability risk must be considered differently as the power system moves to a high variable renewable energy (VRE), energy-limited power system. This is particularly relevant for tail risk which represents low-probability events that could have a high impact on reliability outcomes. In making the final rule, 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.

While stakeholder feedback was largely against extending the IRM, the Commission considers the final rule is in the long-term interest of consumers

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

In preparing its final determination, the Commission considered submissions from stakeholders on the draft rule, the findings of its 2023 Review of the Interim Reliability Measure, and the feedback stakeholders provided during the review. Key to this was the Commission's findings 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.

Stakeholders 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. Stakeholders also commented on the efficacy of the IRM and the RRO. The Commission has taken these views into account in considering AEMO's rule change request. In balancing the options, the Commission is of the view that extending the IRM is warranted considering the changing drivers of reliability risk.

The IRM would play an important role in addressing 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 Commission considers that retaining the IRM until the new reliability standard is in place serves as a 'safety net' if this risk does emerge sooner. In the Commission's view, therefore, it is an appropriate balance of the potential risk and cost compared to removing the measure.

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Transitional arrangements were included in the final rule

The final rule includes transitional arrangements to allow AEMO to update its reliability forecasts and ensure that AEMO can request a T-3 reliability instrument in time, should there be a reliability gap for a region that starts on 1 December 2026. These transitional arrangements have been made in response to feedback provided by AEMO about the implementation impact of the final rule on how the RRO is triggered.

The transitional arrangements allow AEMO to publish an update to the most recent ESOO showing the IRM applies until 2028 and identifying reliability gaps against the IRM.
to publish an update to the most recent ESOO if, in its opinion, the extension of the IRM would materially change a previous reliability forecast. It also allows AEMO to make a request for a T-3 Reliability Instrument at least two months before the T-3 cut-off day for the relevant forecast reliability gap (rather than three months). The AER will still have two months to seek stakeholder feedback in accordance with the Reliability Instrument Guidelines and assess AEMO's request against the relevant criteria. No other timelines in the RRO process will be affected.

What is the background for this rule change?

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.

The AEMC was required to review the IRM as part of its obligations under the National Electricity Rules (NER) and self-initiated a review in March 2023. Following consultation, the AEMC published a final report in May 2023. The report recommended that the application of IRM to the retailer reliability obligation (RRO) be extended to 30 June 2028.

On 13 June 2023, AEMO submitted a rule change request seeking to extend the application of the IRM to the RRO in line with the recommendation of the AEMC's 2023 review.

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