

# ENERGY SECURITY BOARD INTERIM RELIABILITY RESERVE

Recommendation for  
National Electricity Amendment  
(Interim Reliability Measure) Rule 2020  
Decision Paper  
July 2020

## Energy Security Board

### **Recommendation under section 90F of the National Electricity Law for the making of the *National Electricity Amendment (Interim Reliability Measure) Rule 2020***

Pursuant to section 90F of the *National Electricity Law*, the Energy Security Board unanimously recommends the making of the *National Electricity Amendment (Interim Reliability Measure) Rule 2020* to the Energy Ministers, sitting as the Ministerial Council on Energy (MCE).

As required by section 90F(4) of the *National Electricity Law*, the Energy Security Board makes the recommendation, being satisfied that:

- a) the recommended Interim Reliability Measure Rules are in connection with energy security and reliability of the NEM or long-term planning for the NEM; and
- b) the recommended Interim Reliability Measure Rules are consistent with the National Electricity Objective (see Chapter 4 of the Decision Paper); and
- c) consultation has been undertaken by the Board in accordance with the requirements determined by the MCE in the “MCE Approved Rule Recommendation Process Guide” [See Attachment C Summary of submissions and ESB’s response].

Agreed

Dr Kerry Schott, Chair

David Swift, Deputy Chair

Merryn York, Acting Chair, AEMC

Clare Savage, Chair, AER

Audrey Zibelman, CEO & Managing Director, AEMO

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# 1. Introduction

## 1.1 Purpose & context

The purpose of this document is to describe amendments to the National Electricity Rules (Rules) that will implement the temporary out-of-market capacity reserve agreed to by Ministers at the March 2020 COAG Energy Council Meeting.

The Energy Security Board (ESB) has developed a set of changes to the National Electricity Rules (Rules) to implement the temporary out-of-market capacity reserve agreed to by Ministers at the March 2020 COAG Energy Council Meeting. The ESB recommends to Energy Ministers the making of the *National Electricity Amendment (Interim Reliability Measure) Rule 2020* (hereafter “Interim Reliability Measure Rules”). If the Energy Ministers approve the making of the recommended Interim Reliability Measure Rules, the scheduled commencement date is 21 August 2020.

At the COAG Energy Council Meeting in November 2019, Energy Ministers tasked the Energy Security Board (ESB) with providing advice by March 2020 on the implementation of interim measures to preserve reliability and system security in the National Electricity Market (NEM), including reviewing the reliability standard, during the transition to the post-2025 market design.<sup>1</sup>

The ESB undertook a review of the reliability standard between November 2019 and February 2020. The review examined reliability measures, reliability standards and mechanisms (from a resource adequacy point of view) and the costs and benefits of moving to a higher reliability standard. During this period, targeted consultation was undertaken with a range of industry bodies and other stakeholders<sup>2</sup>. Participation by all market bodies in the review also ensured that feedback from prior consultations on related reviews and rule change requests were also considered.

In undertaking the review, the ESB commissioned ACIL Allen to undertake analysis to determine whether there is an economic benefit in changing the reliability standard using the latest available data on costs and benefits. Ernst and Young (EY) were also engaged to undertake modelling to provide indicative figures on the market price cap required to bring on additional capacity to achieve a higher standard. Both reports and their findings are attached.

At the March 2020 COAG Energy Council Meeting, the ESB presented the findings and recommendations from its Review of the Reliability Standard<sup>3</sup>. The analysis undertaken by the ESB found that:

- Regions that were forecast to just meet the current standard of 0.002% expected unserved energy (USE) should expect that some involuntary load shedding would occur, on average, once out of every three years (absent interventions such as the Reliability and Emergency Reserve Trader (RERT)).
- A tighter standard in the range of 0.0010%-0.0005% expected USE was found to have net positive benefits overall across a range of scenarios

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<sup>1</sup> <http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/Reliability%20and%20Security%20Measures%20-%20Scope%20of%20work.pdf>

<sup>2</sup> Representatives of the Energy Security Board held meetings with a range of stakeholders while developing its recommendations for the former COAG Energy Council including the following organisations; the Australian Energy Council, the Clean Energy Council, the Energy Users Association of Australia, Grattan Institute, the Public Interest Advocacy Centre.

<sup>3</sup> <https://prod-energy.slicedtech.com.au/sites/prod.energycouncil/files/ESB%20Review%20of%20the%20Reliability%20standard.pdf>

- Moving to a standard of 0.0006% expected USE would best meet the expectation that electricity supply remain reliable during a 1 in 10-year summer that was referred to in the Terms of Reference for the review.
- Estimates of the net benefits are sensitive to the value of customer reliability used in the analysis and the availability and price of demand response.

The ESB recommended that, if Energy Ministers agreed that a higher standard was necessary to meet community expectations (as set out in the COAG EC Terms of Reference for the review), a combination of amended and existing mechanisms were required, including:

- Amending the Retailer Reliability Obligation (RRO) trigger to align with a higher standard.
- Delinking the requirement for a T-3 trigger to enable a T-1 trigger.
- Establish an additional out of market capacity reserve to replace long notice RERT on a temporary basis.
- Continue to use short and medium notice RERT to manage unexpected contingencies under the current RERT framework.
- Leave the market price settings unchanged.

COAG Energy Council Ministers agreed<sup>4</sup> to two interim measures to improve reliability:

- The establishment of an **out of market capacity reserve** triggered to keep unserved energy to no more than 0.0006% in any region in any year that would apply for the 2020-2021 summer and beyond.
- **Amending the triggering arrangements for the RRO** to improve incentives on retailers to contract and support reliability.

#### *Interim Reliability Reserve*

The out of market capacity reserve is an interim measure ahead of the post 2025 market design project making more permanent recommendations. The National Electricity Amendment (Interim Reliability Measure) Rule 2020, provides for the following features:

- The volume of reserve capacity to ensure expected USE is no more than 0.0006% in any region in any year (**the Interim Reliability Measure**) as forecast in the Electricity Statement of Opportunities (ESOO) report or ESOO update<sup>5</sup>.
- AEMO would be responsible for procuring the **Interim Reliability Reserve** following consultation with and approval from the relevant Energy Council Minister of directly impacted states and/or territories.
- AEMO should be encouraged to procure at least part of the reserve through a reverse auction process that would allow for the development of standardised contracting.
- Contract terms of up to 3 years would be allowed depending on:
  - whether an exceedance of the interim reliability measure has been forecast for two out of the three years with an exceedance occurring in the first year of the term; and
  - the option is more cost effective than entering shorter duration contracts covering the same period.

<sup>4</sup> <http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/EC%20-%20communique%20-%2020200320.pdf>

<sup>5</sup> [AEMO is required to update the most recent statement of opportunities if significant new information becomes available to AEMO.](#)

- The volume procured under a multi-year contract, must be no more than AEMO considers is reasonably necessary to ensure the reliability of supply in the region. In addition, for each year of the contract, the volume is to be no more than AEMO considers to be reasonably necessary to address the largest **Interim Reliability Exceedance** identified for the contract period.
- The reserve would temporarily replace long notice RERT (with the short and medium notice RERT to remain in place).
- Activation and dispatch of RERT would remain unchanged.
- The last date AEMO can enter into a 3-year contract for **Interim Reliability Reserve** will be in January 2022 for the 2024/25 summer. However, AEMO would be able to continue to enter into shorter term contracts for the 2024/25 summer under the Interim Reliability Reserve.
- The commencement of the rule would enable AEMO to procure interim reliability reserves for the coming 2020-21 summer, should they be required.
- The **Interim Reliability Reserve** replaces the need for the Victorian Jurisdictional Derogation final rule for multi-year contracting of RERT, with the deletion of the derogation coinciding with the commencement of this rule, given this rule will have similar effect but apply across the NEM.
- Builds on the comprehensive reporting requirements from the Victorian Jurisdictional Derogation final rule, to ensure there is an appropriate level of transparency over AEMO's decisions to procure reserves under the 0.0006% Interim Reliability Measure.

#### *Amending the Trigger for the Retailer Reliability Obligation*

The contracting requirements for the RRO will be unchanged however the following changes were agreed by the COAG Energy Council in March:

- Align the trigger for the RRO with the new **Interim Reliability Measure** (0.0006% USE).
- Amend the T-1 instrument so that it will no longer require a T-3 instrument to first be made.
- Amendments to the T-3 and T-1 instruments will require changes to the National Electricity Law, which means the earliest possible date for making the T-1 instrument would be in 2021/22 for the following year.

## **1.2 Legislative basis**

The ESB is undertaking this Rule change process in accordance with section 90F of the NEL. The ESB may recommend rules to the COAG Energy Council if the following requirements are satisfied:

- the Rules are in connection with energy security and reliability of the NEM or long-term planning for the NEM;
- the Rules are consistent with the national electricity objective; and
- there has been consultation on the Rules in accordance with any requirements determined by the COAG Energy Council.

Any final Rules will be made by the South Australian Minister for Energy on the recommendation of the Energy Ministers. The former COAG Energy Council has provided guidance to the ESB in

relation to consultation on the Draft National Electricity Amendment (Interim Reliability Measure) Rule 2020 via a “Rule Recommendation Process Guide”. The release of the Consultation Paper and the Draft National Electricity Amendment (Interim Reliability Measure) Rule 2020 was carried out in accordance with that guidance which includes public consultation and responses to submissions.

If Energy Ministers approve the making of the ESB’s recommended amending Rules (the *National Electricity Amendment (Interim Reliability Measure) Rule 2020*), the scheduled commencement date is 21 August 2020.

## 2. Interim Reliability Reserve

### 2.1 Interim Reliability Measure

Location in Rules: clauses 3.9.3C

At the March 2020 COAG Energy Council, Ministers agreed to establishing a new interim reliability measure that would seek to ensure that maximum expected Unserved Energy (USE) is no more than 0.0006% in any region in any financial year. This measure is intended to supplement the existing reliability standard for a limited period of time by allowing the Retailer Reliability Obligation to be triggered by a forecast exceedance of this measure and allowing AEMO to procure out of market reserves in the event that this measure is expected to be exceeded.

This change has been made to clause 3.9.3C, rather than being included in the new transitional rule (11.xxx) because it will also be relevant to the RRO, or in an update to the ESOO.

### 2.2 Interim Reliability Exceedance

Location in Rules: clauses 11.xxx.1 Definitions

An exceedance of the **Interim Reliability Measure** in any financial year in any region, is to be determined by AEMO in the Electricity Statement of Opportunities (ESO), which is published at least once a year, by 31 August.

It is not proposed that the Medium-Term Projected Assessment of Adequacy (MT PASA) would be used to identify an exceedance of the 0.0006% Interim Reliability Measure. MT PASA currently forecasts system reliability two years in advance (one year short of the forecast horizon needed for a three-year reserve contract). The data currently published from MTPASA does not consider the Interim Reliability Measure and it is not proposed that changes should be made to the Rules governing MTPASA to account for the 0.0006% Interim Reliability Measure.

### 2.3 Interim Reliability Reserve

Location in Rules: clauses 11.xxx.1 Definitions

The **Interim Reliability Reserve** consists of reserves contracted to mitigate the risk of exceeding the **Interim Reliability Measure** in any financial year in any region. The Interim Reliability Reserve is intended to operate in place of the existing long-notice RERT mechanism on a temporary basis during the transition to the post-2025 market design.

The Interim Reliability Exceedance and Interim Reliability Reserve do not affect the existing rules and guidelines regarding medium and short notice RERT. However, they will operate in place of long notice RERT until the expiry of this rule on 31 March 2025 after which the existing long notice RERT provisions based on 0.002% Reliability Standard will be reinstated.

### 2.4 Multi-year Reserve Contract

Location in Rules: clauses 11.xxx.1 Definitions

A multi-year contract is a reserve contract with a length greater than 12 months but no more than three years, that is entered into for the provision of interim reliability reserves in any region. (Note AEMO can enter into an interim reserve contract for periods of 12 months or less.)

## 2.5 Requiring AEMO to Obtain Approval from the Relevant Jurisdictions

Location in Rules: 11.xxx.4(d) application of clauses 3.20.3 (d)

AEMO is required to consult on the expected costs for any reserve contracts entered for the **Interim Reliability Reserve** with the relevant jurisdictions and obtain approval prior to the contracts being entered.

## 2.6 Requirements for Procuring Reserves for the Interim Reliability Reserve

Location in Rules: 11.xxx.4 (f)

AEMO may only enter reserve contracts for the **Interim Reliability Reserve** if the forecast **Interim Reliability Exceedance** occurs in the period during where long notice RERT would apply, , the contract is entered into no more than 12 months before first forecast exceedance during the term of the contract, and the term of the contract ends before 1 March 2025.

This means AEMO must not procure a contract for the **Interim Reliability Reserve** if the forecast is published less than 10 weeks before the forecast exceedance is expected to occur. In these cases, AEMO must use medium and short notice RERT in accordance with the existing *RERT Guidelines* which is on the basis of unserved energy exceeding the 0.002% Reliability Standard under a medium term situation (low reserve condition) or there is a forecast lack of reserve under a short term situation.

## 2.7 AEMO must have regard to the RERT Principles, RRO and relative cost

Location in Rules: 11.xxx.4(g)

AEMO must have regard to the RERT principles, which aim to minimise impacts on customer bills and market distortions, and the potential impact on the interaction with the Retailer Reliability Obligation. AEMO must also have regard to whether the total payments made by AEMO under a multi-year reserve contract are likely to be lower than the aggregate payments it would have made under single year contracts.

AEMO can only procure reserves under the Interim Reliability Reserve for reserves that are out-of-market. Resources that have been scheduled in the last 12 months cannot participate in the Interim Reliability Reserve. In addition, non-scheduled resources in the wholesale energy market, must not offer in resources under the interim reliability reserve, for the same dispatch intervals. These out-of-market rules mirror those that currently apply to resources participating in the RERT. Provisions relating to out of market reserves were amended under the Enhancement to the RERT rule in 2019 and commenced on 26 March 2020.

## 2.8 Requirements for Procuring Multi-year Reserves

Location in Rules: 11.xxx.4 (h) and (i)

The maximum period AEMO will be allowed to enter a multi-year reserve contract for the **Interim Reliability Reserve** is three years, and this will only be permitted when there is forecast **Interim Reliability Exceedance** in at least two of the three years including in the first year. As noted above, where AEMO is considering entering into a multi-year reserve contract, AEMO must have regard to whether it is a more cost-effective option, compared to procuring single year contracts over the same period. The Rule contains a clause regarding AEMO's procurement process in order to facilitate this comparison. See 2.10 below for more details.

Multi-year contracting can provide a means for procuring reserves more cost effectively where upfront fixed costs can be spread over a longer duration. The inclusion of the above tests for entering a multi-year contract, combined with the requirement to consult with the relevant jurisdictions and the reporting requirements outlined below, will help to address the risk of unnecessary amounts of emergency reserves being procured.

## 2.9 The Amount of Reserves that can be Procured

Location in Rules: 11.xxx.4 (i)

For a single year reserve, the amount of reserve procured is to be no more than AEMO considers is reasonably necessary to address the interim reliability exceedance in that year for that region.

For multi-year contracts, the maximum volume that can be procured by AEMO in any financial year in any region to meet the **Interim Reliability Measure** shall be:

- on an annual basis, no more than is reasonably necessary to address the largest **Interim Reliability Exceedance** identified during the period for which the contract would apply, and
- with respect to the total amount of reserve procured over the contract term, no more than reasonably necessary to secure reliability of supply in the relevant region.

While it is important that the rules provide AEMO with sufficient flexibility to procure the reserves in the most cost effective way, it is also appropriate that there is an upper limit on the volume that can be procured, in order to help to minimise the costs.

## 2.10 AEMO must request tenderers to offer a single-year contract

Location in Rules: 11.xxx.4 (j)

During a procurement process, AEMO must include a request that tenderers who offer a multi-year reserve contract also offer a single year reserve contract for the first year of that multi-year contract. This is intended to assist AEMO in assessing whether the payments made by AEMO under a multi-year contract are likely to be lower than the payments it would have made under single-year contracts for the same period. If a tenderer does not offer a single-year contract, then AEMO may nevertheless enter into a multi-year reserve contract with that tenderer but must record the basis on which it made the above assessment and make that available to the AEMC for the purposes of its review of the **Interim Reliability Reserve**.

## 2.11 AEMO may vary existing reserve contracts

Location in Rules: 11.xxx.4 (k)

AEMO may extend or increase reserve contracts for the **Interim Reliability Reserves** when the conditions to enter new reserve contracts exist subject to the requirements of clause 11.xxx and the applicable parts of existing clause 3.20.3.

## 2.12 Reporting Requirements for the Interim Reliability Reserves

Location in Rules: 11.xxx.5 application of clauses 3.20.6 (d)

In addition to the current requirements for RERT reporting, for contracts procured under the **Interim Reliability Reserve** by AEMO, AEMO will be required to:

- Identify the contracts entered for the **Interim Reliability Reserve** including if they are multi-year contracts.
- Include an explanation of why AEMO considered the amount procured under each contract was reasonably necessary.
- An explanation of how AEMO had regard to any potential impact on, and interaction with the Retailer Reliability Obligation.
- The basis on which AEMO had regard to the RERT principles.
- An explanation of whether the total payments made by AEMO under the contract are likely to be lower than the aggregate payments AEMO would have made under reserve contracts that are not multi-year reserve contracts for the same period.

This information will be published in AEMO's RERT quarterly reports.

## 2.13 Amending the RERT Guidelines

Location in Rules: Clause 11.xxx.7

The Reliability Panel will be required to amend the RERT Guidelines by 21 August 2020 and other than consulting with AEMO, will not be required to comply with the consultation requirements in clause 8.8.3(d)-(l). This is because the changes to the guidelines must be limited to implementing the proposed rule, and so are envisaged to be relatively minimal.

The Reliability Panel must also amend the RERT Guidelines to take into account the expiry of this Amending Rule, prior to the expiry date, and is similarly not required to comply with the consultation requirements at clause 8.8.3(d)-(l).

## 2.14 Amending the RERT Procedures

Location in Rules: 11.xxx.8

AEMO will be required to amend the RERT Procedures by 31 August 2020 and will not be required to comply with the *Rules consultation procedures*. This is because the changes to the procedures will be limited to implementing the proposed rule.

## 2.15 Amending the Reliability Standard Implementation Guidelines

Location in Rules: 11.xxx.9

AEMO will be required to amend the *Reliability standard implementation guidelines* by 31 August 2020 and will not be required to comply with the *Rules consultation procedures*. This is because the changes to the guidelines will be limited to implementing the proposed rule.

## 2.16 Commencement of the rule and AEMO's Preparatory Activities

Location in Rules: 11.xxx.10

The timing of the commencement of the Rule is 21 August 2020. It is proposed that the rule will commence and that the updated RERT guidelines, Reliability Standard Implementation Guidelines and RERT procedures will be issued by the publication of the ESOO by 31 August 2020.

Prior to the commencement of the rule, AEMO will be able to undertake preparatory activities other than entering into contracts. These could include:

- modelling whether there is an interim reliability exceedance
- publishing the forecast of whether there is an interim reliability exceedance in the ESOO
- issuing procurement documents, including tendering (or equivalent) documents and forms of reserve contracts for interim reliability reserves; and
- negotiating reserve contracts

This is to enable reserves to be procured prior to the 2020-21 summer, should they be required.

## 2.17 Establish for Interim Measures to be Reviewed by 1 July 2023

Location in Rules: 11.xxx.12

The AEMC must conduct a review of the interim reliability measure and the procurement of interim reliability reserves by AEMO by 1 July 2023. This will be conducted in conjunction with the existing review of the RRO.

For the purposes of the review, AEMO must provide AEMC with all final bid data made to AEMO to provide interim reliability reserves and any records referred to in clause 11.xxx.4(j) above.

### 3. Changes since the publication of the Consultation Draft ISP Rules

The purpose of this section is to describe how the ESB has amended the final Interim Reliability Measure Rules in response to stakeholder feedback on the draft Interim Reliability Measure Rules.

A detailed summary of submissions on the Consultation Draft Interim Reliability Measure Rules, together with the ESB's response to the issues raised, is set out in an accompanying document.

#### 3.1 Requiring AEMO to Obtain Approval from the Relevant Jurisdictions

Location in Rules: 11.xxx.4(d) application of clauses 3.20.3 (d)

During consultation with jurisdictions, it was requested that an explicit requirement for AEMO to obtain approval from the relevant jurisdictions prior to any contracts for **Interim Reliability Reserve** was included. As a consequence, 11.xxx.4 (d) has been updated to incorporate clearer language around the policy intent.

#### 3.2 The Amount of Reserves that can be Procured

Location in Rules: 11.xxx.4 (i) (2) (ii)

During consultation some stakeholders raised concerns about the potential conflict between 11.xxx.4 (i) (2) (i) and 11.xxx.4 (i) (2) (ii). The final rule now incorporates the words "in total" to remove some concerns about apparent confusion. The intention of this rule is that AEMO, in any one year of the multi-year reserve contract, may procure no more than is reasonably necessary to address the largest Interim Reliability Exceedance during the contract term and the total procured over the whole term of the contract is no more than AEMO considers reasonably necessary to ensure reliability of supply in the relevant region.

#### 3.3 Requirements for Procuring Multi-year Reserves

Location in Rules: Rule 11.xxx.4(j)

During consultation stakeholder support for AEMO entering multi-year contracts for out of market reserves was on the basis that the forecast level of unserved energy exceeds 0.0006 per cent for two out of the three years; and the multi-year contract is more cost effective than entering into shorter duration contracts covering the same period.

The final rule now includes Rule 11.xxx.4(j) which requires AEMO to request offerors provide single year reserve contract pricing that should support AEMO's ability to demonstrate the benefits of entering multi-year contracts. Where offerors do not provide single year pricing, AEMO may nevertheless enter into the multi-year reserve contract but must record on the basis on which it made the assessment at clause 11.xxx.4(g)(3) and make that available to the AEMC for the purposes of its review of the **Interim Reliability Reserve**.

#### 3.4 Reporting Requirements for the Interim Reliability Reserves

Location in Rules: Rule 11.xxx.12 (a)

During consultation stakeholders requested that the costs of multi-year contracts and the Interim Reliability Measure should be more transparent. It is important to note that AEMO already have an obligation to report on costs under 3.20.6(d)(1) which will apply to the Interim Reliability Reserve. However, the final rule now includes additional requirements on AEMO to provide final bid data annually to the AEMC that will assist the AEMC in conducting its review by July 2023.

### **3.5 Other minor changes from Consultation Draft Interim Reliability Measure Rules**

The ESB has also made the following minor amendments to the recommended Interim Reliability Measure Rules since the Consultation Draft Interim Reliability Measure Rules:

Location in Rules: 11.xxx.4 (f) (1)

The final rule has removed the notice period of 10 weeks for entering an Interim Reliability Reserve contract from the rules and instead reflects that the notice period is stipulated in the RERT Guidelines. This maintains consistency with existing governance arrangements where notice periods are specified in the Guidelines.

Location in Rules: 11.xxx.7 (e)

The final rule provides a transitional rule that will allow the Reliability Panel to update the RERT Guidelines without the usual consultation requirements at the cessation of the Interim Reliability Reserve.

## 4. Assessment framework

This section describes the ESB's assessment of the recommended Interim Reliability Measure Rules.

### 4.1 Explanation of the issues & rationale for proposed solution

Analysis undertaken by the ESB for COAG Energy Council highlighted that regions that were forecast to just meet the current standard of 0.002% expected unserved energy (USE) could expect that some involuntary load shedding would occur, on average, once out of every three years (absent interventions such as the Reliability and Emergency Reserve Trader (RERT)).

In support of the advice that the ESB presented to COAG Energy Council, ACIL Allen demonstrated that the costs and benefits of a tighter standard in the range of 0.0010%-0.0005% expected USE was found to have net positive benefits overall.

The ESB concluded that moving to a standard of 0.0006% expected USE would best meet the expectation from COAG Energy Council that wholesale electricity supply should remain reliable during a 1 in 10-year summer that was referred to in the Terms of Reference for the review.

The proposed solution is an interim measure that has been put in place to take care of immediate reliability concerns. This interim arrangement will cease in March 2025. The proposed solution builds on interim arrangements in place for Victoria but can now apply to other regions. This interim arrangement will be reviewed by the AEMC in 2023. At the same time, the ESB and Market Bodies are currently working on longer term arrangements to improve reliability and security in a more enduring way. This will be developed and implemented as a part of the Post 25 Work Program (eg Two Sided Markets; resource adequacy mechanisms).

The rules to establish this interim arrangement include processes to address the concerns raised by stakeholders include the need for AEMO consider the relative costs to consumers and measures that support transparency on the costs of the arrangements. Importantly jurisdictions will continue to be involved prior to emergency reserve contracts being entered into by AEMO.

### 4.2 Costs and benefits of the recommended Interim Reliability Measure Rules

ACIL Allen undertook analysis that underpinned the ESB's recommendations to the former COAG Energy Council. Their analysis found that the current reliability standard may not represent the most economically efficient trade-off between the cost incurred during load shedding and the cost of resources that would prevent load shedding (where Reliability and Reserve Emergency Trader (RERT) offers were used as the best available indicator of the cost of demand response and certain assumptions about the Value of Customer Reliability). The analysis provides support for an interim tighter standard under certain scenarios, including when there is sufficient demand response at a cost that is lower than the cost of load shedding. An interim out of market solution was chosen by the ESB as this approach would allow for greater visibility and understanding of the availability and cost of demand side resources in the NEM.

The analysis undertaken by ACIL Allen was generic and time independent, it was not designed to find the cost of meeting a particular standard in a particular region in 2023-24.

In its analysis, ACIL Allen incorporated RERT contract data provided by AEMO on a confidential basis as the best available evidence of demand side management costs. The volumes of demand side used were limited to the 2019 AEMO RERT contracted quantities except in the expanded RERT analysis where the quantities were doubled. This was an arbitrary limitation for the purpose of undertaking the modelling. There is no evidence to suggest that the 2019-20 levels contracted by AEMO exhaust the potential for all demand side offerings in the NEM (be they contracted via the RERT or provided through market-based arrangements). In fact, the policy

initiatives such as Wholesale Demand Response and Two-Sided Markets is predicated on there being far more potential for demand response.

In June 2020 the AEMC made a final determination to establish a Wholesale Demand Response Mechanism, however in the longer term (through the Post 2025 Work Program) it considers that moving to a two-sided market will assist the NEM in effectively evolving and transitioning to the future power sector. In the meantime, the Interim Reliability Reserve provides a low risk approach to supporting greater resource (including demand response) participation in supporting reliability.

The Interim Reliability Reserve has been designed in a way that minimises the risk of market distortion, encourages transparency and maintains oversight on the associated costs.

### 4.3 Consistency with the national electricity objective and Strategic Energy Plan

Under the National Electricity Law, the ESB may recommend rules to the COAG Energy Council if the following requirements are satisfied:<sup>6</sup>

- the Rules are in connection with energy security and reliability of the NEM or long-term planning for the NEM.
- the Rules are consistent with the national electricity objective; and
- there has been consultation on the Rules in accordance with any requirements determined by the COAG Energy Council.

The national electricity objective is “to promote efficient investment in, and efficient operation and use of, electricity services for the longer-term interests of consumers of electricity with respect to (a) price, quality, safety, reliability and security of supply of electricity; and (b) the reliability, safety and security of the national electricity system.”<sup>7</sup>

Having considered issues during the development of its advice to COAG Energy Council, the ESB’s view is that the Draft Interim Reliability Reserve Rules are consistent with the NEO for the following reasons:

- COAG Energy Council has advised that community expectations support an electricity system that will remain reliable during a “1 in 10” year summer.
- Modelling indicates that the current reliability standard (unserved energy not to exceed 0.002% within a region over a year) is not consistent with the value that consumers place on reliability.
- The Interim Reliability Reserve, an out of market capacity reserve, is designed to keep expected unserved energy at no more than 0.0006% in any region in any year and would improve reliability in the NEM to meet the community expectations.
- An out of market capacity reserve would be more cost effective and able to be implemented sooner than varying the reliability standard and associated market price settings.
- Any distortions to the national energy market are minimised by the:
  - restriction on in-market resources participating in the mechanism,
  - the requirement for AEMO to consider cost minimisation principles, impacts on and interactions with the RRO, as well as any other market distortions prior to entering into contracts and
  - by the fact the rule is intended to be in place for a limited period.
- The procurement of reserves for the Interim Reliability Reserve will need to consider the relative costs to consumers, will be subject to comprehensive public reporting and will continue to have jurisdictional oversight.

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<sup>6</sup> Section 90F of the National Electricity Law.

<sup>7</sup> Section 7 of the National Electricity Law.



**A *National Electricity Amendment (Interim Reliability Measure) Rule 2020***

[See attached document.]

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