



**ENERGY SECURITY BOARD  
INTERIM RELIABILITY MEASURES -  
RRO TRIGGER**

Consultation on Draft Rules  
September 2020

# Contents

<b>1. Introduction.....</b>	<b>3</b>
1.1 Purpose .....	3
1.2 Context .....	3
1.3 Legislative basis .....	5
1.4 How to make a submission and next steps .....	6
<b>2. Feedback from earlier Consultation on Amending the Trigger for the Retailer Reliability Obligation .....</b>	<b>7</b>
<b>3. Amending the Retailer Reliability Obligation trigger.....</b>	<b>8</b>
3.1 Book Build .....	8
3.2 Reliability Standard.....	8
3.3 Transitional arrangement for 2020 .....	8
3.4 When a decision by the AER must be made during 2020 .....	8
3.5 Reliability Forecast Guidelines.....	8
3.6 AEMO preparatory activities .....	9
3.7 AER preparatory activities .....	9
<b>4. Assessment framework.....</b>	<b>10</b>
<b>A Draft National Electricity Amendment (Retailer Reliability Obligation trigger) Rule 2020.....</b>	<b>11</b>
<b>B Abbreviations and Technical Terms.....</b>	<b>12</b>

# 1. Introduction

## 1.1 Purpose

The purpose of this document is to give stakeholders the opportunity to comment on draft amendments to the National Electricity Rules (Rules) that will amend the triggering arrangements for the Retailer Reliability Obligation (RRO) that were agreed to by Energy Ministers at the March 2020 meeting of the former COAG Energy Council.

In August 2020 Energy Ministers agreed pursuant to section 90F of the National Electricity Law, to recommend that the South Australian Minister make the National Electricity Amendment (Interim Reliability Measure) Rule 2020 in accordance with the recommendation of the Energy Security Board (ESB)<sup>1</sup>. This Rule was gazetted by the South Australian Energy Minister on the 20<sup>th</sup> of August and commenced on the 21<sup>st</sup> of August 2020.

In August 2020, the ESB also sought approval from Energy Ministers to defer rule changes to decouple the T-3 instrument from the T-1 instrument of the RRO whilst broader work on resource adequacy in the Post 2025 Work Program is conducted. This approval was sought following earlier consultation in May 2020 (further details on the feedback provided are detailed in section 1.3 below). Ministers agreed with the recommendation of the ESB and consequently the focus of the Draft National Electricity Amendment (Retailer Reliability Obligation trigger) Rule 2020 is to align the RRO with the Interim Reliability Measure (0.0006% USE).

## 1.2 Context

At the March 2020 meeting of the former COAG Energy Council, the ESB presented the findings and recommendations from its Review of the Reliability Standard<sup>2</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 by ACIL Allen to have net positive benefits overall across a range of scenarios.<sup>3</sup>
- 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 former COAG Energy Council 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.

---

<sup>1</sup> <http://www.coagenergycouncil.gov.au/reliability-and-security-measures/interim-reliability-measures>

<sup>2</sup> <http://www.coagenergycouncil.gov.au/reliability-and-security-measures/review-reliability-standard>

<sup>3</sup> <http://www.coagenergycouncil.gov.au/sites/prod.energycouncil/files/publications/documents/ESB%20Consultation%20-%20ACIL%20Allen%20Report%20to%20ESB%20on%20Reliability.pdf>

- 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.

Energy 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.
- 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.

<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 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.
- The reporting requirements are drawn from the obligations in 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 former 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.

As mentioned earlier, in August 2020 Energy Ministers agreed to defer rule changes to decouple the T-3 instrument from the T-1 instrument of the RRO whilst broader work on resource adequacy in the Post 2025 Work Program is conducted. Consequently, the Draft National Electricity Amendment (Retailer Reliability Obligation trigger) Rule 2020 that is being consulted on in this paper is to align the trigger for the RRO with the new Interim Reliability Measure (0.0006% USE). As this change no longer requires changes to the National Electricity Law and is a much narrower reform than was originally proposed, it is intended that this rule will come into effect later this year. This would enable a T-3 instrument to be requested for any region and for a period three years out based on a forecast reliability gap calculated using the Interim Reliability Measure (0.0006% USE) from the commencement of this rule.

### **1.3 Legislative basis**

The ESB is undertaking this Rule change process in accordance with section 90F of the NEL. The ESB may recommend rules to Energy Ministers 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 COAG Energy Council. The COAG Energy Council has provided guidance to the ESB in relation to consultation on the Draft National Electricity Amendment (Retailer Reliability Obligation

trigger) Rule 2020 via a “Rule Recommendation Process Guide”. The release of this Consultation Paper and the Draft National Electricity Amendment (Retailer Reliability Obligation trigger) Rule 2020 is being carried out in accordance with that guidance which includes public consultation and responses to submissions.

#### 1.4 How to make a submission and next steps

The ESB invites comments from interested parties in response to the Draft Interim Reliability Measure Rules and this consultation paper by 6th October 2020. Submissions will be published on the COAG Energy Council’s website, following a review for claims of confidentiality. All submissions should be sent to **info@esb.org.au**.

<b>Submission close date</b>	<b>6<sup>th</sup> October 2020</b>
<b>Lodgement details</b>	Email to: info@esb.org.au
<b>Naming of submission document</b>	[Company name] Response to Consultation on Draft Interim Reliability RRO Trigger Rules
<b>Form of submission</b>	Clearly indicate any confidentiality claims by noting “Confidential” in document name and in the body of the email.
<b>Late submissions</b>	Late submissions will not be accepted.
<b>Publication</b>	Submissions will be published on the COAG Energy Council’s website, following a review for claims of confidentiality.

Following consideration of submissions made to the consultation on Draft Interim Reliability Measure Rules, the ESB’s recommended Rule changes will be finalised and presented to the COAG Energy Council.

<b>Deliverable</b>	<b>Indicative timing</b>
Publish Draft National Electricity Amendment (Interim Reliability Measure) Rule 2020 for consultation	9th September 2020
Submissions due	6 <sup>th</sup> October 2020
Final Amendments to the Retailer Reliability Obligation	Late 2020

## 2. Feedback from earlier Consultation on Amending the Trigger for the Retailer Reliability Obligation

In May 2020, whilst consulting on the rule changes for the Interim Reliability Reserve, the ESB sought feedback on associated changes to the Retailer Reliability Obligation (RRO) that would be required to support the decoupling of the T-3 and T-1 instruments. Feedback from stakeholders:

- a. reported concerns that the changes would increase the likelihood of the RRO being triggered, which could increase the risk and cost to liable entities in the event of an unexpected triggering of the RRO one year out (T-1 instrument).
- b. requested that there should be wide consultation on the associated changes to support decoupling (which includes the contract position day, market liquidity obligation and opt-in timeframes for large customers).
- c. highlighted that the changes would be a significant deviation from the design of the RRO, which was only implemented last year, and that undertaking this change was unnecessary given the timing and work on Post 2025 project.

Following feedback from stakeholders, the ESB resolved to request approval from Energy Ministers to defer decoupling of the T-1 instrument from the T-3 instrument under the RRO rules in light of the work being undertaken under the Post 25 Work Program that could result in further changes to resource adequacy mechanisms within the market.

In August 2020, Energy Ministers agreed with the ESB recommendation to defer further consideration of decoupling into the Post 25 Work Program. Consequently, this consultation paper is solely focused on aligning the triggering of the RRO with the Interim Reliability Measure (0.0006% USE). This change only requires relatively minor changes to the National Electricity Rules rather than the changes to the National Electricity Law that were required to decouple the T-1 instrument from the T-3 instrument.

## 3. Amending the Retailer Reliability Obligation trigger

### 3.1 Book Build

Location in Rules: Clause 4A.H.3

The draft rules propose that the book-build mechanism under the Retailer Reliability Obligation changes from a mandatory to a voluntary requirement for AEMO. This change is intended to avoid an overlap between the interim reliability reserve and the book build. It also provides flexibility for AEMO when there is limited interest from participants in the conduct of a book build.

### 3.2 Reliability Standard

Location in Rules: 11.xxx.2

In March 2020 as a part of the package of Interim Reliability Measures, the former COAG Energy Council requested that the ESB align the trigger for the Retailer Reliability Obligation with the new Interim Reliability Measure (0.0006% USE). This transitional rule provides that linkage by prescribing that the Interim Reliability Measure be prescribed under the rules to be the standard against which the Forecast Reliability Gap is assessed.

### 3.3 Transitional arrangement for 2020

Location in Rules: 11.xxx.3

The 2020 ESOO was released on the 27<sup>th</sup> August 2020. The ESOO identified a forecast reliability gap in 2023-24 in NSW of 154 MW against the Interim Reliability Measure for the period from 1 January 2024 to 29 February 2024. Rule 11.xxx.3 provides an additional two months for AEMO to finalise the request for a T-3 instrument in 2020. Rules 11.xxx.7 and 11.xxx.8 provide AEMO and the AER opportunity to undertake preparatory activities, before the rules commence, to support the request and making of the T-3 instrument as a result of the forecast reliability gap in NSW for the period from 1 January 2024 to 29 February 2024.

### 3.4 When a decision by the AER must be made during 2020

Location in Rules: 11.xxx.4

Rule 11.xxx.4 provides clarity around the timing for the AER to decide whether or not to make the reliability instrument that is requested in 2020. In the event that AEMO request the T-3 instrument with less than two months before the T-3 cutoff date, then the AER will have less than two months to finalise its decision. To assist rules 11.xxx.7 and 11.xxx.8 provide AEMO and the AER opportunity to undertake preparatory activities to support the request and making of the T-3 instrument before the rules commence.

### 3.5 Reliability Forecast Guidelines

Location in Rules: 11.xxx.5

AEMO is required to update its Reliability Forecast Guidelines to take into account the linkage to the Interim Reliability Measure, the date to finalise this update is still under review.

### 3.6 AEMO preparatory activities

Location in Rules: 11.xxx.6

The timing of the commencement of the Rule is still under review. It is proposed that the rule will commence no later than November 2020 and allow the RRO to be triggered off a Forecast Reliability Gap against the Interim Reliability Measure identified in the 2020 ES00.

Prior to the commencement of the rule, AEMO will be able to undertake activities that could later be used to request a T-3 instrument on the basis of a Forecast Reliability Gap that was calculated using the Interim Reliability Measure. These could include:

- modelling whether there is a Forecast Reliability Gap
- publishing the Forecast Reliability Gap in the ES00

This would enable a T-3 Instrument to be requested following the commencement of the rule and allowing a T-3 instrument to be made, following the AER's review of the request for 2024 onwards. Based on the 2020 ES00, and the presence of a forecast reliability gap in NSW for 2023-24, this would enable AEMO to request a T-3 instrument for that year.

### 3.7 AER preparatory activities

Location in Rules: 11.xxx.7

The timing of the commencement of the Rule is still under review. It is proposed that the rule will commence no later than November 2020 and allow the RRO to be triggered off a Forecast Reliability Gap against the Interim Reliability Measure identified in the 2020 ES00.

Prior to the commencement of the rule, the AER will be able to undertake activities that could later be used to approve a T-3 instrument on the basis of a Forecast Reliability Gap that was calculated using the Interim Reliability Measure.

## 4. Assessment framework

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 long 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 the former COAG Energy Council, the ESB’s view is that the Draft Interim Retailer Reliability Obligation trigger Rules are consistent with the NEO as the rule change is aimed at aligning the Interim Reliability Measure with the Retailer Reliability Obligation. This will provide the opportunity in most cases for a market response to close a Forecast Reliability Gap prior to AEMO needing to use out of market resources ensure reliability. This element of the interim reliability measures should provide stronger signals for efficient investment in electricity services, which will promote reliability outcomes for consumers and assist in minimising the cost of using out of market resources.

**The Draft Interim Retailer Reliability Obligation trigger Rules are published in an accompanying document. Stakeholders are invited to provide comments on whether the Draft Interim Retailer Reliability Obligation trigger Rules are consistent with the NEO.**

---

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

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

## **A Draft National Electricity Amendment (Retailer Reliability Obligation trigger) Rule 2020**

[See attached document.]

## **B Abbreviations and Technical Terms**

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
COAG EC	Council of Australian Governments Energy Council
ESB	Energy Security Board
ESOO	Electricity Statement of Opportunities
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
RERT	Reliability and Emergency Reserve Trader
RRO	Retailer Reliability Obligation
USE	Unserviced Energy

Contact details:  
Energy Security Board  
E: [info@esb.org.au](mailto:info@esb.org.au)  
W: <http://www.coagenergycouncil.gov.au/energy-security-board>