



# IEEFA Submission to: AEMC Draft Rule Determination – National Electricity Amendment (Extension of the Application of the IRM to the RRO) Rule

## Submission to the Australian Energy Market Commission

Dear Ms Anna Collyer, Chair of the Australian Energy Market Commission (AEMC)

The Institute for Energy Economics and Financial Analysis (IEEFA) welcomes the opportunity to respond to the AEMC Draft Rule Determination – National Electricity Amendment (Extension of the Application of the IRM to the RRO) Rule.<sup>1</sup>

IEEFA has reviewed the draft rule determination to extend the application of the interim reliability measure (IRM) to the retailer reliability obligation (RRO) until 30 June 2028.

IEEFA finds there is not sufficient evidence that consumers are willing to pay for this measure. After undertaking an extensive exercise, the Reliability Panel found that the level of reliability stipulated by the IRM does not reflect customer willingness to pay for reliability.

“The Panel’s analysis indicates the IRM, at 0.0006% expected USE, is significantly tighter than a level of reliability consistent with consumer willingness to pay for reliability. The Panel, therefore, does not consider the IRM is a suitable level for the NEM reliability standard.”<sup>2</sup>

The Reliability Panel also found that the cost of “achieving an IRM level of reliability... is likely to be in the order of \$100 million a year”.<sup>3</sup>

The extension of the Interim Reliability Measure could cause concern around energy supply adequacy, leading to expensive investments that might not be required to meet the reliability standard. The Australian Energy Market Operator’s (AEMO) Electricity Statement of Opportunities (ESOO) reports on the amount of electricity supply required to meet the reliability standard. If the ESOO reported on the requirements to meet the stringent IRM instead of, or alongside, the reliability standard (as occurred in AEMO’s media release on the February 2023 ESOO update<sup>4</sup>) this could lead to expensive decisions driving additional electricity supply, above the reliability standard and above the level of consumer willingness to pay.

Further, on reviewing the stakeholder submissions<sup>5</sup> on the AEMC’s draft recommendation to extend the application of the IRM to the RRO to 2028<sup>6</sup>, IEEFA finds there was not broad

<sup>1</sup> AEMC. [Draft Rule Determination National Electricity Amendment \(Extension of the IRM to the RRO\) Rule](#). 13 July 2023.

<sup>2</sup> Reliability Panel AEMC. [Final Report 2022 Review of the Reliability Standard and Settings](#). 1 September 2022. Page 59.

<sup>3</sup> Reliability Panel AEMC. [Final Report 2022 Review of the Reliability Standard and Settings](#). 1 September 2022. Page 57.

<sup>4</sup> AEMO. [AEMO issues NEM reliability update](#). 21 August 2023. “Reliability gaps begin to emerge against the Interim Reliability Measure from 2025 onwards”

<sup>5</sup> AEMC. [Review of the Interim Reliability Measure](#). Accessed 18 August 2023.

<sup>6</sup> AEMC. [Draft Report. Review of the Interim Reliability Measure](#). 9 March 2023.



support for the extension. EnergyAustralia considered that “extending the interim reliability measure (IRM) out to June 2028 would not be in the long-term interests of consumers”<sup>7</sup>; Alinta stated that “0.002% expected unserved energy (USE) remains appropriate”<sup>8</sup>; while the Australian Energy Council (AEC) “remains unconvinced that the IRM has led to any benefits”.<sup>9</sup>

The AEMC points out in the draft rule determination that, “Of the eight [submissions on the draft recommendation to extend the application of the IRM to the RRO], two supported the draft recommendation, five did not support and one was neutral on the need for the IRM.”<sup>10</sup>

IEEFA also notes a governance issue with extension of the IRM, given that the Reliability Panel has not deemed it necessary, and that the Reliability Panel is responsible for recommending the reliability standard.

The IRM arrangement was set to end in 2025 according to the Energy Security Board: “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.”<sup>11</sup> IEEFA finds that there has not been sufficient analysis completed justifying a change from this approach to the IRM.

There is not sufficient evidence to show that the extension of the application of the IRM to the RRO is justified. It appears from the available evidence from the Reliability Panel<sup>12</sup> that customers are not willing to pay for the measure. IEEFA therefore recommends reconsideration of the draft rule.

Regards,

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Submitted via email

24 August 2023

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<sup>7</sup> EnergyAustralia. [Submission to Review of the Interim Reliability Measure – Draft Report](#). 13 April 2023.

<sup>8</sup> Alinta Energy. [Submission – Review of the interim reliability measure](#). 13 April 2023.

<sup>9</sup> AEC. [Submission – AEMC Review of the Interim Reliability Measure: Draft Report](#). 13 April 2023.

<sup>10</sup> AEMC. [Draft Rule Determination National Electricity Amendment \(Extension of the IRM to the RRO\) Rule](#). 13 July 2023. Page i.

<sup>11</sup> Energy Security Board. [Recommendation for National Electricity Amendment \(Interim Reliability Measure\) Rule 2020 Decision Paper](#). July 2020. Page 15.

<sup>12</sup> Reliability Panel AEMC. [Final Report 2022 Review of the Reliability Standard and Settings](#). 1 September 2022. Page 59.