ENERGY SECURITY BOARD

T-3 Ministerial amendment to the RRO | Summary of submissions and responses

The Energy Security Board (ESB) is progressing a recommendation from its Post 2025 Market Design final advice to implement a T-3 Ministerial lever for the Retailer Reliability Obligation (RRO) for all regions in the National Electricity Market (NEM), as is currently in place in South Australia.

The ESB released its consultation paper on 2 August 2022. We invited comments from interested parties on the draft Bill[1] and initial Rules.[2]

Four submissions were received as at 18 August 2022 from Alinta Energy, the Australian Aluminium Council (AAC), the Australian Energy Council (AEC) and the Energy Users Association of Australia (EUAA). All submissions have been published on the ESB's website.[3]

Table 1 details the key points raised by the submissions and the ESB's response.

Table 1 Summary of submissions and response

<table>
<tr><th>Respondent</th><th>Comment</th><th>ESB response</th></tr>
<tr><td>Alinta Energy</td><td>Ministers are not best placed to forecast reliability, increasing the risk of unnecessary T-3s.</td><td>A Minister applies a different test in determining whether to issue a T-3 reliability instrument. The test requires the Minister to consider whether there is a real risk that for a specified period supply of electricity to all or part of the community in the region may be disrupted to a significant degree.
The same test has applied in South Australia since the start of the RRO.
The draft Bill requires the Minister to consult with AEMO and AER in relation to any instrument being proposed.
A Minister cannot issue a T-1 reliability instrument, however, whilst AEMO may not have forecast a gap at T-3, forecasting generally becomes more certain closer to the reliability period, and AEMO may find a reliability gap at T-1.</td></tr>
<tr><td>Alinta Energy</td><td>Unnecessary interventions create material regulatory burdens and undermine market efficiency, increasing costs.</td><td rowspan="2">The ESB considers that T-3 amendment:
• can be implemented relatively quickly, with low costs, to support additional contracting in a relevant jurisdiction
• is well understood by market participants
• complements, rather than replaces, market financial signals and so is not distortionary.
The impact on customer bills as a result of regulatory costs is expected to be negligible given that the proposal leverages the existing RRO framework. Costs of monitoring the T-3 Ministerial instrument would be borne by existing retailer regulatory functions. The proposal is designed to avoid the use of more costly RERT mechanisms to address reliability gaps.</td></tr>
<tr><td>AEC</td><td>Triggering the T-3 RRO without a requirement for independent expert reliability forecasters' results in an unnecessary compliance burden and limits the industry's freedom to decide how and when to contract.</td></tr>
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[1] The draft 'National Electricity (South Australia) (Ministerial Reliability Instrument) Amendment Bill 2022' (the draft Bill).
[2] The draft 'National Electricity Amendment (Ministerial Reliability Instrument) Rule 2022' (the initial Rules).
[3] Refer to 'T3 Ministerial lever – Stakeholder submissions' https://esb-post2025-market-design.aemc.gov.au/resource-adequacy-mechanisms-and-ageing-thermal-retirement

Respondent	Comment	ESB response
Alinta Energy	Alinta Energy questioned whether the Ministerial T-3 would have meaningful impact on the supply-demand balance since customers would defer to AEMO's assessment of reliability gaps.	The ESB considers that the Ministerial T-3 can incentivise contracting by the market to avoid the risk of an intervening event giving rise to a trigger for a T-1 reliability instrument. The ESB considers that sharing price information enables increased contracting. The MLO has "the dual benefit of assisting purchasers of the contracts in meeting their contracting obligation under the RRO, while also incentivising MLO groups to invest in dispatchable capacity."[4] The ESB notes that the benefit of the T-3 Ministerial amendment is a qualitative, rather than a quantitative assessment. It is a supporting policy lever as part of a package of reforms designed to address resource adequacy issues.
Alinta Energy and AEC	Alinta Energy and the AEC commented that the RRO was not designed for circumstances where reliability forecasts unexpectedly decline with less than three years notice. Shorter term non-market interventions are more appropriate to activate, such as the RERT.	The ESB considers that the Ministerial T-3 can incentivise contracting by the market to avoid the risk of an intervening event giving rise to a trigger for a T-1 reliability instrument.
AAC	Concerns about the potential overlap of a T3 RRO with the proposed capacity mechanism. The RRO is essentially a decentralised capacity mechanism. It can underwrite new dispatchable capacity. The Council had previously articulated its concerns about an overlap between a capacity mechanism and a potential Operating Reserve mechanism. The Council does not support overlapping mechanisms which risk customers twice for the same service provision. Council urges the ESB to consult on this overlap of policy mechanisms more formally.	The ESB agrees that the RRO amendment is proposed as a temporary measure while further detailed design work is undertaken on a capacity mechanism. . Since the consultation paper was released, Energy Ministers have instructed Senior Officials to propose a capacity framework that delivers adequate capacity, ensures orderly transition, and incentivises new investment in firm renewable energy to ensure the system can meet peak demand at all times. The ESB will support Senior Officials to assess and address any overlap between a capacity framework and the RRO. .
EUAA	Supportive of using existing mechanisms rather than introducing the capacity mechanism. In their view, short duration capacity, or intra-day capacity gaps (i.e. up to 4 hrs), may well be met with existing (FCAS and RRO) and emerging (ESS) market settings (along-side energy market revenue). A capacity mechanism (or equivalent) should have greater focus on solving longer-duration inter-day capacity and reliability.	Since the consultation paper was released, Energy Ministers have instructed Senior Officials to propose a framework that delivers adequate capacity, ensures orderly transition, and incentivises new investment in firm renewable energy to ensure the system can meet peak demand at all times. The ESB will share this submission with Senior Officials to consider as part of their framework.
EUAA	Ministers have an obligation to consumers to clearly and transparently articulate the reliability threat they see, the reliability outcome they desire and the costs and net benefits to consumers of their actions. If Ministers (or regulators) are to have greater control, they too must fully comply with the	The ESB considers that the draft Bill provides the appropriate legislative framework. The draft Bill requires the Minister to consider whether there is a real risk that for a specified period supply of electricity to all or part of the community in the region may be disrupted to a significant degree. A

4 AER, Interim Market Liquidity Guidelines (August 2019), p 16

Respondent	Comment	ESB response
	NEO and ensure their actions are prudent and efficient.	T-3 Ministerial reliability instrument can only be triggered “on reasonable grounds”. The same test has applied in South Australia since the start of the RRO. The draft Bill and initial Rules do not specify a threshold for a Ministerial reliability gap. It allows the Minister to take into account a broad range of matters and objectives in determining whether there are reasonable grounds to make a T-3 reliability instrument.
EUAA	The reliability standard, for the purpose of the Ministerial trigger should be .002 USE (unserved energy), not the interim measure of .0006 USE or other state-based reliability targets.	A Minister applies a different test to the reliability standard in order to determine whether to issue a T-3 reliability instrument. The test requires the Minister to consider whether there is a real risk that for a specified period supply of electricity to all or part of the community in the region may be disrupted to a significant degree. The draft Bill requires the Minister to consult with AEMO and AER in relation to any instrument being proposed. The ESB will share this submission with Senior Officials to consider as part of their local frameworks to assess the Ministerial reliability gap. For the purpose of the AER’s T-3 reliability instrument, the forecast reliability gap currently applies the interim reliability measure to ensure that maximum expected USE is no more than 0.0006% in any region in any financial year. The interim reliability measure It is due to expire on 31 March 2025. The AEMC will review the interim reliability measure by July 2023 which will provide an opportunity to examine whether it remains appropriate including in the context of other reforms underway. The ESB will share this submission with Senior Officials to consider as part of their local frameworks to assess the Ministerial reliability gap.