



Australian Energy Market Commission

CONSULTATION PAPER

National Electricity Amendment (Reinstatement
of long notice Reliability and Emergency
Reserve Trader) Rule 2018

Rule Proponent(s)

AEMO

26 April 2018

**RULE
CHANGE**

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About the AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

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1 Introduction

On 9 March 2018, Australian Energy Market Operator (AEMO) (proponent) submitted two rule change requests to the Australian Energy Market Commission (AEMC or Commission) relating to the Reliability and Emergency Reserve Trader (RERT):

- the first rule change request (the **subject of this paper**) seeks to **reinstate the long-notice RERT** ("long-notice RERT rule change"). This consultation paper has been prepared to facilitate public consultation in relation to this rule change request and to seek stakeholder submissions.
- the second rule change request (subject to a separate rule change request process) proposes broader changes to the RERT framework.¹

In submitting both rule change requests, AEMO has requested that the rule change to reinstate the long-notice RERT be subject to the expedited rule making process on the basis that it is an 'urgent rule' as defined in the National Electricity Law (NEL). AEMO states that it requires the first rule change (i.e. the long-notice RERT rule change) to be in place by June 2018 to enable it to use the long-notice RERT to deliver secure and reliable supply during summer 2018-19, while the AEMC considers the enhanced RERT rule change request.

For the reasons set out in this consultation paper, the Commission is progressing the two rule change requests under different timeframes.

1.1 Key dates for this rule change

The Commission considers that this long-notice RERT rule change request is a request for an urgent rule under the NEL and, therefore, has decided to use the expedited rule change process for the rule change request provided that it does not receive any valid requests not to do so.² Under section 96 of the NEL, stakeholders may object to the Commission using the expedited process.

Consistent with the timelines and requirements for an expedited rule change process under the NEL, the **key dates** for stakeholders in this process are as follows:³

- Commencement of the rule change process: **26 April 2018**
- Stakeholder workshop: **3 May 2018**

1 See <https://www.aemc.gov.au/rule-changes/enhancement-reliability-and-emergency-reserve-trader>.

2 See chapter 6 of this consultation paper for more information on the treatment of this rule change request as urgent.

3 These timelines would be subject to change in the event the Commission receives a valid objection to the expedited process.

- Objections to the Commission’s decision that the rule change request is a request for an urgent rule (and be subject to the expedited process) to be received by: **10 May 2018**
- Submissions to the consultation paper to be received by: **24 May 2018**
- Final determination and final rule to be published under an expedited process by: **7 June 2018**

The enhanced RERT rule change will be progressed through a standard timeframe, with a consultation paper expected to be published in June 2018.

1.2 Stakeholder workshop

The Commission will host a stakeholder workshop to facilitate consultation and keep stakeholders informed on the process for this rule change.

Details of the workshop are as follows:

- Date: Thursday 3 May 2018
- Time: 10:30am to 11:30am AEST
- Location: via teleconference

To register for the workshop, please contact Sarah-Jane Derby at sarah.derby@aemc.gov.au or on (02) 8296 7823 by Tuesday 1 May 2018.

1.3 Structure of this paper

The structure of this paper is as follows:

- chapter 2 provides background information on the RERT
- chapter 3 summarises AEMO's rule change request
- chapter 4 sets out the assessment framework
- chapter 5 identifies a number of questions and issues in order to facilitate consultation on this rule change request
- chapter 6 discusses the treatment of this rule change request as a request for an urgent rule
- chapter 7 outlines the process for making submissions
- appendix A details the RERT framework
- appendix B summarises the ARENA-AEMO RERT trial
- appendix C provides indicative drafting on the amended RERT guidelines.

2 Background

The RERT is an existing intervention mechanism in the NEM which allows AEMO to contract for reserves (generation or demand-side capacity that is not otherwise being traded in the market). AEMO can use the RERT in the event that it projects that the market is not meeting the reliability standard (i.e. when AEMO projects that unserved energy is expected to be greater than 0.002 per cent) and, where practicable, to maintain power system security. The existing RERT can therefore be considered a form of "strategic reserve".

The RERT, or some form of mechanism for the market operator to contract for reserves (i.e., a strategic reserve), has been a feature of the NEM since its commencement in December 1998. At the time, such a mechanism was deemed to be necessary due to uncertainty around how the market would respond to price signals, but the intention was that it would be removed after a period of time.

Over time, periodic reviews of the reserve trader provisions have led to various amendments, including postponing its expiry date, as well as changes to its scope and operation. The RERT was developed as part of the Panel's 2007 *Comprehensive Reliability Review*. The RERT was incorporated into the NER in July 2008, and replaced the reserve trader provisions.

While the RERT was originally designed with a sunset clause, in June 2016, the Commission extended it indefinitely.⁴ In its decision, the Commission noted that ongoing uncertainty raised the likelihood that future electricity demand may not be adequately met, and also raised the likelihood that the ensuing market responses to address projected shortfalls⁵ may be insufficient. The Commission's decision is discussed in more details below.

The NER provide the high-level framework for the RERT,⁶ including:

- setting out the RERT principles⁷
- requiring the Reliability Panel to publish RERT guidelines⁸
- requiring AEMO to publish procedures for the exercise of the RERT.⁹

AEMO's discretion as to how it should procure and dispatch the RERT is limited by a number of provisions in the NER, including those relating to the application of the

⁴ AEMC, Extension of the Reliability and Emergency Reserve Trader, Final Determination, 23 June 2016.

⁵ Projected shortfalls generally refer to AEMO's projections of a breach of the reliability standard, noting that AEMO may also use the RERT for power system security reasons.

⁶ Rule 3.20 of the NER.

⁷ Clause 3.20.2(b) of the NER.

⁸ Clause 3.20.8 of the NER.

⁹ Clause 3.20.7(e) of the NER.

RERT principles. The relevant aspects of the RERT framework for this rule change request are summarised next. A more detailed description of the RERT is found in appendix A.

Relevant aspect of the RERT framework: procurement lead time

Currently, AEMO must not enter into, or renegotiate, a reserve contract more than 10 weeks ahead of when it reasonably expects that the reserve under that contract may be required to ensure reliability of supply and, where practicable, to maintain power system security.¹⁰ There are currently two types of RERT based on how much time AEMO has to procure the RERT prior to the shortfalls occurring:¹¹

- medium-notice RERT - between ten and one week's notice of a projected shortfall
- short-notice RERT - between seven days' and three hours' notice of a projected shortfall.

Typically, AEMO sets up a RERT panel of providers for both the medium-notice and short-notice RERT and only enters into a reserve contract under the relevant notice mechanism when it has identified a projected shortfall and after seeking offers from RERT panel members.¹² Prior to 1 November 2017, AEMO could contract for reserves for up to nine months ahead of projected shortfalls through the long-notice RERT. There was no panel for the long-notice RERT; rather, contracts were signed following the close of the tender process. The removal of the long-notice RERT is discussed next.

Removal of the long-notice RERT

On 10 December 2015, the COAG Energy Council submitted a rule change request seeking to extend the RERT from its then expiry of 30 June 2016 to 30 June 2019. On 23 June 2016, the Commission made its final rule in which it:¹³

- Removed the sunset clause of the RERT, indefinitely extending the RERT provisions.
- Removed the long-notice RERT, reducing the procurement lead time from nine months to 10 weeks.

In removing the long-notice RERT, at that time, the Commission noted that reducing the lead time would minimise market distortions and costs of making the RERT a permanent feature in the reliability framework. Specifically:¹⁴

¹⁰ Clause 3.20.3(d) of the NER.

¹¹ Definitions of the medium-notice situation RERT and short-notice situation RERT are set out in the RERT guidelines.

¹² AEMO has the discretion to use a tender process in addition to using panel members in the case of the medium-notice RERT.

¹³ AEMC, *Extension of the Reliability and Emergency Reserve Trader*, Final Determination, 23 June 2016.

¹⁴ Ibid.

- Give market participants greater time and opportunity to respond to a projected shortfall, before AEMO seeks to enter into RERT contracts. A market response is a more economically efficient outcome than reserve contracting.
- Minimise the likelihood that, in contracting for reserves, AEMO crowds out potential market-based arrangements (such as retailers seeking to engage with their customers to reduce load)
- By only being able to act closer to real time, allow AEMO to utilise new and more up-to-date information to inform both its assessments of capacity adequacy, and its decisions on whether to enter into reserve contract(s). This can reduce the risk that reserve contracts are unnecessarily entered into and not dispatched, with the associated costs being ultimately borne by consumers.

ARENA-AEMO trial

AEMO and ARENA are currently undertaking a trial to increase the amount of demand response participating in the RERT. The three-year pilot program provides up to 200 MW of reserve capacity (primarily, demand response) which AEMO can call upon when reserves are low, i.e. through the short-notice RERT.

As the trial is ongoing, there are limited publicly available lessons learned to date. However, a key early lesson from the trial as relevant to this rule change request is that short procurement lead times has made it challenging for RERT providers to recruit some consumers in time to provide the service to AEMO.¹⁵

Appendix B discusses the trial in more detail.

¹⁵ ARENA, submission to AEMC's *Reliability Frameworks Review* - interim report, pp. 8-9. The lesson summarised here are also based on discussion at a workshop hosted by ARENA with workshop participants.

3 Details of the rule change request

This chapter provides a summary of the rule change request. AEMO has proposed that the Commission make a rule to reinstate the long-notice RERT by June 2018 to allow it to manage what it has identified as reliability risks for the 2018-19 summer and provide for a sufficient lead time for the procurement of reserves capacity in proceeding years in a competitive and cost-effective manner.¹⁶ This chapter sets out:

- the issues raised by AEMO in its rule change request
- the details of AEMO's proposed solution to these issues.

3.1 Issues raised in the rule change request

In its rule change request, AEMO provides its rationale for the rule change and raises two core issues. According to AEMO, the problems are:

- the current energy transformation in the NEM is creating operational challenges
- the current procurement lead times available under the RERT are insufficient.

These are discussed in turn next.

Operational challenges

AEMO states that the current energy transformation, in which the broader range of energy resources creates variability in the supply and demand balance, places greater challenges on operating the system in real-time.¹⁷ Even in regions where the projected unserved energy averaged over a broad range of scenarios does not breach the reliability standard on a long-term planning basis, AEMO projects that the risk of some unserved energy is high compared with recent levels.¹⁸

AEMO is concerned that in the absence of reserve procurement, there is a risk that the reliability standard may not be met, particularly during a particularly 'peaky' demand year (e.g. under a scenario with extremely high demand) even if, averaged over all scenarios, the projected unserved energy is less than 0.002 per cent (that is, the reliability standard is projected to be met).¹⁹

Insufficient lead time

The current procurement lead time under the RERT framework in the NEM is up to 10 weeks ahead of a projected shortfall, i.e. the identification of a projected breach of the reliability standard. AEMO considers that the current 10-week period does not provide

¹⁶ AEMO, *Electricity rule change proposal - reinstatement of long notice RERT*, 9 March 2018, pp.5 and 7.

¹⁷ *Ibid.*, p.5

¹⁸ *Ibid.*, p.5

¹⁹ *Ibid.*, p.5

a sufficient lead time for the procurement of reserve capacity in the most competitive and cost-effective way when it is most required by the market.²⁰ It states that the length of the procurement period places limits on the range of reserves AEMO can access, acting as a barrier to entry.²¹

For example, AEMO states that diesel and demand response options generally require a longer commitment period, as evidenced through its experience with the ARENA-AEMO RERT trial, discussed in appendix B, and the long-notice RERT procurement process in 2017.²² Specifically, these experiences demonstrated that significant demand response capacity can be procured at a low cost if providers are given sufficient notice and the certainty to negotiate with their customers, according to AEMO.²³

The procurement lead time is particularly problematic according to AEMO due to its concerns around load shedding for the 2018-19 summer. For example in respect of Victoria, it is projecting, under its “neutral” demand growth scenario, that the risk of breaching the reliability standard is nine per cent, and the risk of some unserved energy is approximately 25 per cent.²⁴

3.2 Proposed solution

AEMO's proposed solution is to increase the procurement lead time for the RERT under the NER to nine months, up from 10 weeks (in effect, reinstating the long-notice RERT).²⁵

The rule change request includes a proposed rule. Specifically, AEMO proposes the following change to clause 3.20.3(d) of the NER: “10 weeks” would be omitted and substituted with “nine months”.²⁶

20 Ibid, p.5

21 Ibid, p.5

22 Ibid, p.5

23 Ibid, p.5

24 Ibid, p.5.

25 Ibid, p.7

26 Ibid, p.7

4 Assessment framework and legal tests

The Commission's assessment of this rule change request must consider whether the proposed rule meets the national electricity objective (NEO) as set out under section 7 of the NEL.

4.1 Achieving the NEO

Under the NEL the Commission may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the NEO.²⁷ This is the decision making framework that the Commission must apply.

The NEO is:²⁸

“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.”

Based on a preliminary assessment of this rule change request, the Commission considers that the relevant aspects of the NEO are the efficient investment in, and efficient operation and use of electricity services with respect to the price and reliability of supply of electricity, and reliability of the national electricity system because:

- the RERT is one of the intervention mechanisms available to AEMO primarily to manage reliability of the power system in the event that the market is projected to fail to meet the reliability standard.
- the direct costs of the RERT are passed on to consumers, meaning that the RERT has an impact on prices, while the indirect costs such as market distortions also have implications for reliability and prices.

In assessing the rule change request, the Commission proposes to consider whether or not the rule change improves the efficiency of the RERT process and reliability of the system. In particular, it will consider the following principles:

- **Minimising market distortions:** Minimising market distortions is important in order to minimise indirect costs, which could be substantial. The Commission will have regard to the distortionary impact of the proposed solution.

²⁷ Section 88 of the NEL.

²⁸ Section 7 of the NEL.

- **Minimising direct costs:** Procurement efficiency is an important aspect of the RERT and helps to minimise direct costs and improves AEMO's ability to manage reliability. The Commission will assess the potential costs and benefits of improvements to the procurement process.
- **Promoting reliability of the power system:** A reliable power system is a crucial part of the energy market and the long-term interest of consumers. The Commission will have regard to the potential benefits to reliability brought about by the proposed solution, weighed against the likely costs, including market distortions.

4.2 Making a more preferable rule

Under s. 91A of the NEL, the Commission may make a rule that is different (including materially different) to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule will or is likely to better contribute to the achievement of the NEO.

4.3 Northern Territory

From 1 July 2016, the NER, as amended from time to time, apply in the Northern Territory, subject to derogations set out in Regulations made under the Northern Territory legislation adopting the NEL.²⁹ Under those Regulations, only certain parts of the NER have been adopted in the Northern Territory. As the proposed rule relates to parts of the NER that currently do not apply in the Northern Territory (i.e. chapter 3 of the NER) and any consequential changes to other chapters of the NER will have no practical effect in the Northern Territory (i.e. if transitional arrangements were introduced under Chapter 11 of the NER), the Commission does not consider that the proposed rule needs to be assessed against additional elements set out under the Northern Territory legislation.³⁰

Question 1 Assessment framework

(a) Is the assessment framework appropriate for considering the changes proposed in the rule change request?

(b) Are there any other relevant considerations that should be included in the assessment framework?

²⁹ National Electricity (Northern Territory) (National Uniform Legislation) (Modifications) Regulations.

³⁰ See section 14A of Schedule 1 to the National Electricity (Northern Territory) (National Uniform Legislation) Act 2015, inserting section 88(2a) into the NEL as it applies in the Northern Territory and section 14B of Schedule 1 to the National Electricity (Northern Territory) (National Uniform Legislation) Act 2015, inserting section 88AA into the NEL as it applies in the Northern Territory.

5 Issues for consultation

Taking into consideration the assessment framework, a number of issues have been identified for consultation. Stakeholders are encouraged to comment on these issues, including the proposed assessment framework.

The Commission has identified a number of key issues for consultation as part of this rule change request. Given the broader scope of issues raised in the separate enhanced RERT rule change request submitted by AEMO, stakeholders are encouraged to raise broader and more comprehensive issues in relation to the RERT framework as part of the enhanced RERT rule change process. The Commission intends on publishing a consultation paper for the enhanced RERT rule change in June 2018.

5.1 Procurement efficiency and costs

Procurement lead time refers to the period ahead of when AEMO may procure the RERT through the identification of a projected shortfall. AEMO may only procure the RERT up to 10 weeks ahead of a projected shortfall under the NER. In particular, AEMO must not enter into, or renegotiate, a reserve contract more than 10 weeks prior to the date that AEMO reasonably expects that the reserve under that contract may be required to ensure reliability of supply and, where practicable, to maintain power system security.³¹

AEMO proposes to reinstate the long-notice RERT, i.e. to increase the lead time to nine months.

AEMO states in its rule change request that it requires the long-notice RERT to enable it to procure reserves ahead of this summer. It also states that a longer lead time for procurement of reserves would better enable the market to deliver additional capacity, that could include a broader range of resources including demand response. According to AEMO, this should therefore lead to enhanced competition and lower costs for consumers.³²

On the other hand, a longer lead time could also carry additional costs, both direct and indirect:

- direct costs: the longer the lead time, the more likely that AEMO's forecasting processes could not accurately predict that the reliability standard may not be met. In some instances, it might procure the RERT nine months out when it would not have done so 10 weeks out assuming better forecasting accuracy. Similarly, a longer lead time could also imply higher/longer availability payments,³³ if those are included in the contracts.³⁴

³¹ Clause 3.20.3(d) of the NER.

³² AEMO, *Electricity rule change proposal - reinstatement of long notice RERT*, 9 March 2018, p.6

³³ The NER do not prescribe any particular payment structure e.g. there are no specific guidance or limitations on availability payments.

- indirect costs: in allowing the long-notice RERT to expire in June 2016, the Commission's primary rationale was that a longer lead time was distortionary to the market, as discussed in chapter 2. AEMO states that it could now manage this in a number of ways, including through limitations on resources transitioning from the energy market to RERT and capping the availability payments that can be offered to reserves.³⁵

Question 2 Procurement efficiency and costs

(a) What are stakeholders' views on the cost implications of reinstating the long-notice RERT?

(b) Do stakeholders agree with AEMO's views that a longer lead time would improve the efficiency of the procurement process and lower costs for consumers?

5.2 Energy transformation

As discussed in chapter 2 the Commission made a final rule in June 2016 which retained the RERT as a permanent part of the NEM but removed the long-notice RERT (i.e. reduced the lead time from nine months to 10 weeks).

In its rule change request, AEMO provides examples of what has changed since 2016 when the Commission made the decision to allow the long-notice RERT to expire. In particular, AEMO states the following: "a number of conditions in the market have changed, including tighter supply/demand conditions and current and impending withdrawal of plant. These changes highlight how rapidly conditions can change in the current NEM, placing greater need for AEMO, as system operator, to have stronger mechanisms to manage the grid to minimise breaches of the reliability standard."³⁶

Similarly, as mentioned in the previous section, AEMO considers that the ARENA-AEMO trial has demonstrated that there are new types of products, particularly demand response products, that are now coming to light that can provide RERT services. As noted in chapter 2, these new types of products typically require a longer lead time.

Question 3 Energy transformation

What are stakeholders' views on the changes that have occurred in the market since 2016 that would necessitate the reinstatement of the long-notice RERT?

³⁴ However, given the bespoke nature of contracts, it is difficult to say whether this is true or not - while a longer lead time implies there could be higher availability costs, if payments are low, the total costs may be lower than, say, high availability payments for shorter periods of time.

³⁵ AEMO, *Electricity rule change proposal - reinstatement of long notice RERT*, 9 March 2018, p.6.

³⁶ AEMO, *Electricity rule change proposal - reinstatement of long notice RERT*, 9 March 2018, p.7.

5.3 Implications for guidelines and procedures

While the NER expressly prohibits AEMO from procuring reserves under the RERT framework in excess of 10 weeks out from a projected shortfall, it does not prescribe different notice periods (or 'notice situations') for procuring reserves within the permitted 10 week period. Rather, the NER provides for such notice periods to be prescribed in the RERT guidelines developed and published by the Reliability Panel.³⁷

The current RERT guidelines refer to two types of notice periods – namely 'short-notice situations' and 'medium-notice situations'. Short-notice situations are those where the RERT may be procured between seven days and three hours ahead of a projected shortfall and medium-notice situations being those where the RERT may only be procured between ten weeks and one week ahead of a projected shortfall. The RERT Guidelines also provide guidance to AEMO on the procurement process for each type of notice period.

Prior to 1 November 2017, the RERT guidelines also referred to long-notice situations which are those situations where the RERT may be procured between ten weeks and nine months ahead of a projected shortfall, and provided advice on the procurement process in relation to the long-notice situation. If a change to the NER was made to extend the permitted procurement lead time from 10 weeks to nine months, or a different procurement lead time, the RERT guidelines would need to be updated to reflect this. Under the current NER, the Reliability Panel is required to consult on any amendments to the RERT guidelines in accordance with the consultation process set out in the NER.³⁸

AEMO is also required to publish a procedure for the exercise of the RERT under clause 3.20.7(e) of the NER ("RERT procedure"). The RERT procedure includes information on how it operates the RERT Panel, how it evaluates tenders, and how it procures reserves under each type of RERT (i.e. medium-notice and short-notice situations). Under the current NER, AEMO must develop, publish and amend the RERT procedure in accordance with the rules consultation procedure.³⁹

If there are no objections to the expedited timeframe and assuming a rule is made, then the final rule would be made by 7 June 2018. AEMO has requested that the effects of the rule would be operational by June 2018. Given that the RERT guidelines and RERT procedure would need to be updated to take into account any changes made under a final rule (and that the RERT procedure would need to be amended only after any changes to the RERT guidelines had been finalised), the Reliability Panel and AEMO would only have a few weeks to update the guidelines and procedures, respectively, if the changes under a final rule were to commence in June 2018.

³⁷ See clause 3.20.8(a)(4A) of the NER.

³⁸ See clauses 3.20.8(b) of the NER which requires the Reliability Panel to develop, publish and amend the RERT guidelines in accordance with clause 8.8.3(d)-(l) of the NER.

³⁹ See rule 8.9 for further details regarding the rules consultation procedure.

However, as noted above, both documents are subject to consultation processes under the NER which could take months to complete. As a result, the Commission has explored a number of potential other options ranging from shortening the consultation periods to introducing specific amendments to the documents through the final rule. These are discussed next.

While the Commission has yet to make a decision on whether to make the proposed rule, in order to facilitate consultation on transitional arrangements under an expedited timeframe, the below sections assume that a rule is made (which may or may not be a more preferable rule).

5.3.1 Proposed approach for modifications to the RERT guidelines

The Commission's preliminary position to modify the RERT guidelines is to have a transitional rule which gives effect to specific amendments to the RERT guidelines, with those amendments taking effect on the date the final rule is made. This would mean that the Reliability Panel would not need to determine the nature of changes to the guidelines.⁴⁰ This option would also allow for a greater period of consultation for the RERT procedure. To assist with consultation on this option, the Commission has provided indicative amendments to the RERT guidelines (see **appendix C** to this paper) which could be given effect through a transitional rule.

The Commission's preliminary position gives greater time for consultation on AEMO's RERT procedure, while achieving implementation by June 2018. As discussed, the RERT guidelines must be amended and finalised first before AEMO can make changes to its RERT procedure. Under this approach, the amended RERT guidelines would take effect when the final rule is made, giving enough time to AEMO to consult and update its RERT procedure, all within the timeframe requested by AEMO i.e. by June 2018.

5.3.2 Potential options for modifications for AEMO's RERT procedures

There are a number of potential options available to update the RERT procedures to reflect the RERT framework under a final rule:

- Have a transitional rule requiring AEMO to update the procedure before the substantive aspects of the rule commence in accordance with a shortened consultation process (e.g. a consultation period of 2 or 3 weeks). Given that the RERT procedure can only be updated following changes to the RERT guidelines being finalised, the length of the consultation period would depend on the timing of the revised RERT guidelines.
- Have a transitional rule requiring AEMO to update the procedure before the substantive aspects of the final rule commence, but with no accompanying consultation requirement.

⁴⁰ It should be noted that the Reliability Panel's governance of the RERT guidelines is unchanged - the Reliability Panel will continue to be able to review and amend the guidelines as required.

- Have a transitional rule reinstating the old (pre-expiry of the long-notice RERT) RERT procedure (without any accompanying consultation requirements).

The Commission considers that if a rule is made, its preliminary position is that the best approach to implement changes to AEMO's procedures would be to have a transitional rule requiring AEMO to:⁴¹

- amend and publish the RERT procedures to take into account the final rule and changes to the RERT guidelines by 1 July 2018
- consult on the amendments in accordance with a shortened consultation period of two to three weeks.

AEMO is best placed to amend its RERT procedure. Also, a consultation period, albeit a shortened one, is appropriate in this circumstance.

Question 4 Preliminary position on RERT guidelines and AEMO's RERT procedure

(a) What are stakeholders' views on the Commission's preliminary position on process for making changes to the RERT guidelines and AEMO's RERT procedure to take in account changes to the RERT framework under a final rule (if made)?

(b) Do stakeholders have views on the proposed amendments to the RERT guidelines set out in appendix C?

5.4 Option for a temporary reinstatement

In its rule change request, AEMO states that its modelling shows an increased risk of load shedding in 2018-19 and 2019-20 in Victoria and, potentially, South Australia. It further notes that even when the reliability standard is projected to be met, the probability of *some* unserved energy is increasing; for example, in Victoria in 2018-19, under AEMO's "neutral" demand growth scenario, the probability of not meeting the standard is projected to be about nine per cent, while the risk of some unserved energy is approximately 25 per cent.⁴²

AEMO is requesting that the changes to extend the procurement lead time from 10 weeks to nine months be reinstated by June 2018 so that it can be used for summer 2018-19, while the Commission considers the enhanced RERT rule change. In addition to the proposal to enhance the existing RERT framework, the Commission notes that there is uncertainty around policy decisions being made relevant to the RERT, with proposals such as the National Energy Guarantee,⁴³ yet to be finalised.

⁴¹ Assuming that the final rule is made on 7 June 2018 with changes commencing on 1 July 2018.

⁴² AEMO, *Electricity rule change proposal - reinstatement of long notice RERT*, 9 March 2018, p.7

⁴³ One of the steps of the Guarantee is to have a procurer of last resort.

There is therefore uncertainty about future market design changes and what they may look like. In the context of holistically looking at the reliability framework in the NEM and the uncertainty surrounding the market design changes within it, it may be appropriate, if the long-notice RERT is reinstated, that it is reinstated on a temporary basis.

In other words, the long-notice RERT would expire after a set period and revert back to the current limit of 10 weeks, perhaps after two years in order to give AEMO the appropriate tools to manage the two summers it has identified as being high risk. The need for an enduring long-notice or similar mechanism can be considered in the context of the broader issues which will be explored in the enhanced RERT rule change.

On the other hand, having an expiry date itself may create uncertainty for the market and for potential providers of the RERT, which was one of the Commission's reasons for making removing the sunset clause (i.e. a clause which allowed the RERT to expire after a number of years) in 2016.

Question 5 Option for temporary reinstatement

Assuming that the long-notice RERT is reinstated, should the long-notice RERT expire?

5.5 Other issues

As discussed, AEMO submitted two rule change requests to the Commission in relation to the RERT. The second rule change, the enhanced RERT rule change, raises a number of issues with the broader RERT framework such as RERT and the reliability standard (i.e. the risk assessment framework used for procuring the RERT).

AEMO's rule change request and the high-level design of an enhanced RERT provided with the rule change request may be found on the Commission's website.⁴⁴

The Commission encourages stakeholders to raise concerns in respect of those broader issues as part of the enhanced RERT rule change process. The Commission intends to start the consultation process for the enhanced RERT rule change request in June 2018.

⁴⁴ See <https://www.aemc.gov.au/rule-changes/enhancement-reliability-and-emergency-reserve-trader>.

6 Treatment as an urgent rule change

AEMO submitted that the rule change request should be treated as a request for an urgent rule under section 96 of the NEL.

The Commission considers that the rule change request should be subject to the expedited rule making process under s. 96 of the NEL on the grounds that it considers the request to be a request for an urgent rule.⁴⁵ More specifically, the Commission considers that if the rule change request is not considered by June 2018, the effective operation and administration of the wholesale electricity market and the reliability of the national electricity system could be prejudiced or threatened, as there may be additional reliability risks on the market during summer 2018-19.

This decision has been informed by AEMO's views set out in the rule change request that the risk to reliability in terms of involuntary load shedding is a reasonable possibility over summer 2018-19.⁴⁶ This view is based on the following:

- The risk of involuntary load shedding is higher during extreme weather conditions, conditions that have been occurring more often, particularly over summer. AEMO's projections show a tightening of the demand and supply balance and an increasing risk of insufficient reserves over summer 2018-19.
- Given that the rule change requests proposes to increase the lead time, it would be appropriate to consider the request urgently in order to have rules (if made) in place by June 2018 to give AEMO the appropriate amount of time to use its tools to manage reliability this summer.

Rule change requests that are considered to be urgent may be progressed under an expedited (faster) process involving only one round of consultation.⁴⁷ The Commission has decided to use an expedited process to consider this rule change request provided that it does not receive any valid requests not to use the expedited process by **10 May 2018**. To be valid, an objection should set out the reasons why the rule change request is not a request for an "urgent rule" as defined in s. 87 of the NEL.⁴⁸

Under an expedited rule change process, the Commission must publish its final rule determination within six weeks of commencing the rule change process. A final rule determination and final rule (if made) for this rule change request will be published on 7 June 2018.

⁴⁵ An 'urgent rule' is defined in section 87 of the NEL as "a rule relating to any matter or thing that, if not made as a matter of urgency, will result in that matter or thing imminently prejudicing or threatening: (a) the effective operation or administration of the wholesale exchange operated and administered by AEMO; or (b) the safety, security or reliability of the national electricity system".

⁴⁶ AEMO, *Electricity rule change proposal - reinstatement of long notice RERT*, 9 March 2018, p.7.

⁴⁷ The AEMC has published a notice under sections 95 and 96 of the NEL to commence and assess this rule change request as an urgent rule.

⁴⁸ Section 87 of the NEL.

7 Lodging a submission

The Commission invites requests not to make a rule under the expedited process and written submissions on this rule change proposal.

All enquiries on this project should be addressed to Sarah-Jane Derby on (02) 8296 7823 or sarah.derby@aemc.gov.au.

7.1 Lodging a request not to make a rule under an expedited process

Written requests not to make a rule under the expedited process in s. 96 of the NEL must include reasons for the request, and must be lodged with the Commission by 10 May 2018, either online or by mail.

7.2 Lodging a submission to this rule change request

Written submissions on the rule change request must be lodged with Commission by 24 May 2018, either online or by mail, in accordance with the requirements specified below.

Where practicable, submissions should be prepared in accordance with the Commission's guidelines for making written submissions on rule change requests.⁴⁹ The Commission publishes all submissions on its website, subject to a claim of confidentiality.

7.3 Lodging a submission electronically

Electronic submissions, or requests not to make a rule under the expedited process, must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code ERC0238.

The request or submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

7.4 Lodging a submission by mail

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The request or submission should be sent by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

The envelope must be clearly marked with the project reference code: ERC0238

⁴⁹ This guideline is available on the Commission's website www.aemc.gov.au.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
Commission	See AEMC
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
RERT	Reliability and Emergency Reserve Trader

A RERT framework

A.1 NER framework

The NER provide the high-level framework for the RERT,⁵⁰ including:

- setting out the RERT principles⁵¹
- requiring the Reliability Panel to publish RERT guidelines⁵²
- requiring AEMO to publish procedures for the exercise of the RERT.⁵³

AEMO's discretion as to how it should procure and dispatch the RERT is limited by a number of provisions in the NER, including those relating to the application of the RERT principles, discussed next.

A.1.1 RERT principles

When procuring and dispatching the RERT, AEMO must do so in accordance with the following RERT principles as set out in the NER:⁵⁴

- actions taken are to be those which AEMO reasonably expects, acting reasonably, to have the least distortionary effect on the operation of the market
- actions taken should aim to maximise the effectiveness of reserve contracts at the least cost to end use consumers of electricity.

A.1.2 Procurement and dispatch of the RERT

Under the NER, AEMO may procure the RERT to ensure that the reliability of supply in a region meets the reliability standard for that region, and to maintain power system security if practicable.⁵⁵ AEMO must not enter into, or renegotiate, reserve contracts more than 10 weeks ahead of a projected shortfall.⁵⁶ The NER do not contain a specific limitation on the number of times that AEMO can procure the RERT.

The NER state that AEMO may dispatch reserves to ensure that the reliability of supply meets the reliability standard, and where practicable, to maintain power system

⁵⁰ Rule 3.20 of the NER.

⁵¹ Clause 3.20.2(b) of the NER.

⁵² Clause 3.20.8 of the NER.

⁵³ Clause 3.20.7(e) of the NER.

⁵⁴ Clause 3.20.2(a)(3) and clause 3.20.2(b) of the NER.

⁵⁵ Clause 3.20.3(b) of the NER.

⁵⁶ Clause 3.20.3(d).

security.⁵⁷ The NER also state a sequence of events that AEMO must use its reasonable endeavours to act in accordance with during periods of supply scarcity, namely:⁵⁸

- all valid dispatch bids and offers submitted by scheduled generators, semi-scheduled generators or market participants are dispatched (including those priced at the market price cap)
- then, after all such bids and offers are exhausted, AEMO may exercise the RERT under rule 3.20, and
- finally, if necessary, implement any further corrective action under clauses 4.8.5B and 4.8.9 (namely, issue directions and clause 4.8.9 instructions).

A.1.3 Other aspects of the RERT

There is no restriction in the NER as to what type of technologies can participate in the RERT. For example, demand-side participation can provide reserves. Reserves may be scheduled or unscheduled⁵⁹ and must not otherwise be available to the market.⁶⁰

The NER require that AEMO's costs associated with contracting for the provision of reserves be met by fees imposed on market customers in the region where the RERT has been procured and/or dispatched.⁶¹

AEMO is also required to provide information to the public in relation to the exercise of the RERT, including costs. For example, the RERT guidelines state that AEMO may publish the names of reserve contract counterparties, as well as the amount of reserves procured and timing within one month of the contracts being signed.

If the RERT is dispatched, the NER require AEMO to, as soon as practicable thereafter, publish a report detailing a number of things, including:⁶²

- the circumstances giving rise to the need to dispatch reserves
- the basis on which it determined the latest time for that dispatch and on what basis it determined that a market response would not have avoided the need for dispatch
- the changes in dispatch outcomes as a result of the dispatch of reserves
- the process implemented by AEMO to dispatch reserves.

57 Clause 3.20.7(a) of the NER.

58 Clause 3.8.14(a) of the NER.

59 Clause 3.20.3(a) of the NER

60 Clause 3.20.3(j) of the NER.

61 Clause 3.15.9(a) of the NER.

62 Clause 3.20.6(a) of the NER.

The remainder of clause 3.20.6 of the NER requires AEMO to provide more information to the market, including reporting on the cost and recovery of the cost of the RERT. For example, AEMO is also required, within 30 days of the end the financial year, to report on the costs and finances of the RERT.⁶³ AEMO is also required to provide the amounts arising under a reserve contract in a final statement to market participants, including a breakdown of the recovery of costs by each category of market customer in each region.⁶⁴

A.2 RERT guidelines

The Reliability Panel's RERT guidelines provide additional guidance to AEMO on the RERT principles⁶⁵ and to the cost effectiveness of the RERT.⁶⁶ AEMO is required to comply with the RERT guidelines. The RERT guidelines specify what AEMO may take into account when it is determining whether to enter into contracts for the RERT (that is, in procuring the RERT)⁶⁷ and in dispatching the RERT.⁶⁸ However, it is not highly prescriptive in doing so and gives AEMO an amount of discretion. The RERT guidelines provide some guidance to AEMO as to how it may contract for reserves.⁶⁹

The RERT guidelines specify how much time AEMO has to procure the RERT prior to the projected shortfalls occurring, namely, between ten and one week for the medium-notice RERT and between seven days and three hours for the short-notice RERT.⁷⁰

A.3 AEMO's procedures

AEMO publishes a procedure for the exercise of the RERT under clause 3.20.7(e) of the NER. That document is subject to the rules consultation procedures. AEMO also makes and publishes an operating procedure for the dispatch and activation of reserve contract.⁷¹

AEMO typically procures the RERT when, in the medium-term project assessment of system adequacy (PASA) that is run weekly, AEMO identifies low reserve conditions. It may also procure the RERT when it identifies lack of reserve conditions (LOR), in the short-term PASA, pre-dispatch and / or dispatch. AEMO may also use any other information it thinks is relevant. As far as the Commission is aware, AEMO does not publish any methodology as to how exactly it calculates how much reserves to procure.

⁶³ Clause 3.20.6(c) of the NER.

⁶⁴ Clause 3.20.6(b) of the NER.

⁶⁵ See section 5 of the RERT guidelines.

⁶⁶ See section 5 of the RERT guidelines.

⁶⁷ Section 4 of the RERT guidelines.

⁶⁸ Ibid.

⁶⁹ Section 8 of the RERT guidelines.

⁷⁰ Section 4 of the RERT guidelines

⁷¹ See: AEMO's SO_OP3717

Once AEMO has procured reserves, AEMO may then dispatch such reserves in an operational timeframe when it identifies that reserves are running low, typically through LOR2 or LOR3 declarations, typically after it has sought a market response and one has not been forthcoming.

B ARENA-AEMO trial

In its rule change request, AEMO notes that its experience with procuring the RERT through the ARENA-AEMO trial has shown that significant capacity, particularly from distributed generation and demand response, can be procured at low cost if providers are given sufficient notice and the certainty to negotiate with their customers. The trial is summarised in this section.

B.1 Details of the trial

AEMO and ARENA are currently undertaking a trial to increase the amount of demand response participating in the RERT. The three-year pilot program, announced in May 2017, aims to provide up to 200 MW of reserve capacity (primarily, demand response) which AEMO can call upon when reserves are low, i.e. through the RERT.

Under the program, energy users or their service providers (for example, aggregators and energy retailers) receive a grant from ARENA as an incentive, or availability payment, to provide standby capacity to be used during emergency or reserve shortfall events. Recipients of ARENA funding through the trial are also short-notice RERT panel members and so are paid a usage payment by AEMO through the RERT should it be dispatched. Usage payments through the trial are capped at \$1,000/MWh.

Total funding which has been provided by ARENA and the NSW Government for the trial amounts to \$37.5 million.

The trial consists of two standardised products, a 60-minute product and a 10-minute product. This refers to the notification period, i.e. the notification period AEMO gives to providers ahead of dispatch. For example, a 10-minute product means that providers are given 10 minutes to be ready for dispatch.

ARENA has noted that the average ARENA grant amounts to \$65,824/MW/year, and that this pricing is at the lower end of the range observed in a number of international examples of strategic reserves.⁷² In fact, ARENA adds that this result exceeds the initial target set by ARENA of securing 165MW of reserves at an average cost of \$75,000/MW/year.⁷³ ARENA expects that pricing for strategic reserves could be further reduced as the market for these services matures.⁷⁴

The grant funding or availability payments are primarily enabling energy users to become demand response enabled e.g., funding for equipment or appliance load controls, metering and communications technology, storage and distributed generation asset.⁷⁵

⁷² ARENA, submission to AEMC's *Reliability Frameworks Review* - interim report, p. 7.

⁷³ Ibid. p.7

⁷⁴ Ibid. p.7

⁷⁵ Ibid. p.7

B.2 Lessons learnt so far

As the trial is ongoing, there are limited publicly available lessons learned to date.

However, the key early lesson provided by ARENA and relevant to this rule change request may be summarised as such:⁷⁶

- Short procurement lead times made it challenging for some RERT providers to recruit some consumers to provide emergency demand response.
- However, customer recruitment has been achieved by the majority of projects despite the challenges.

⁷⁶ Ibid. pp. 8-9. The lesson summarised here are also based on discussion at a workshop hosted by ARENA with workshop participants.

C Indicative drafting - amended RERT guidelines

1 Interpretation

These *RERT guidelines* are made under clause 3.20.8 of the National Electricity Rules (*Rules*) and commence on [\[xx\]4 November 2018](#)⁷.

Italicised expressions in the *RERT guidelines* have the meaning given to that expression in the glossary in Chapter 10 of the *Rules*.

For the avoidance of doubt, if any inconsistency arises between the *Rules* and the *RERT guidelines*, the *Rules* are to prevail.

2 Scope of the RERT guidelines

The *Reliability and Emergency Reserve Trader (RERT)* is a function conferred on AEMO to take all reasonable actions to ensure reliability of *supply* and where practicable, maintain *power system security* by negotiating and entering into contracts to secure the availability of *reserves* under *reserve contracts*.⁷⁷ AEMO must take the *RERT guidelines* into account (among other things) when exercising the *RERT*.⁷⁸

The *Reliability Panel* must develop and *publish* the *RERT guidelines* for or with respect to:⁷⁹

1. what information AEMO must take into account when deciding whether to exercise the *RERT*;
2. the relevance of the *RERT principles* to the exercise of the *RERT*;
3. the actions that AEMO may take to be satisfied that the *reserves* that are to be the subject of a *reserve contract* are not available to the *market* through any other arrangement;
4. the process AEMO should undertake in contracting for *reserves* including the process for tendering for contracts for such *reserves*;
5. the process AEMO should undertake in contracting for *reserves* in relation to different notice situations, as described in the *RERT guidelines*, to ensure reliability of supply and, where practicable, maintain *power system security*;
6. any specific or additional assumptions about key parameters that AEMO must take into account in assessing the cost effectiveness of exercising the *RERT*;
7. matters relevant to AEMO managing a portfolio of *reserve contracts*; and
8. additional forecasts that AEMO should take into account prior to exercising the *RERT*.

Sections 3 to 9 of this document set out the *RERT guidelines* developed by the *Reliability Panel*.⁸⁰

⁷⁷ Rule 3.20 of the *Rules*.

⁷⁸ Clause 3.20.7(f) of the *Rules*.

⁷⁹ Clause 3.20.8(a) of the *Rules*.

⁸⁰ Developed in accordance with Clause 3.20.8 of the *Rules*.

3 Operation of the RERT

The operation of the *RERT* is divided into the following two stages:

1. Stage 1: when *AEMO* is determining whether to enter into contracts for the provision of additional *reserves* under clause 3.20.3; and
2. Stage 2: when *AEMO* is considering whether to *dispatch scheduled reserves under scheduled reserve contracts* or *activate unscheduled reserves under unscheduled reserve contracts* under clause 3.20.7.

4 Information that AEMO must take into account when deciding whether to exercise the RERT

AEMO should inform itself of the circumstances relating to reliability of *supply* when deciding whether to exercise the RERT. AEMO should consider the information set out further below at the two key stages in addition to generally monitoring this information.

4.1 During Stage 1 of the RERT process

(a) Long-notice situations where AEMO determines it has more than ten weeks of notice of a projected shortfall in reserves.

When it is considering whether to enter into reserve contracts during Stage 1 of the RERT process for long-notice situations, AEMO may take into account:

- the details of the outcome of the *medium term PASA*;
- the outcome of the *energy adequacy assessment projection (EAAP)*; and
- any other information that AEMO considers relevant.

(ba) Medium-notice situations where AEMO has between ten weeks and seven days of notice of a projected shortfall in reserves.

When it is considering whether to enter into reserve contracts during Stage 1 of the RERT process for medium-notice situations, AEMO may take into account the information identified in paragraph (a) above.

- ~~• the details of the outcome of the *medium term PASA*;~~
- ~~• the outcome of the *energy adequacy assessment projection (EAAP)*; and~~
- ~~• any other information that AEMO considers relevant.~~

(cb) Short-notice situations where AEMO has between three hours and seven days of notice of a projected shortfall in reserves.

When it is considering whether to enter into reserve contracts during Stage 1 of the RERT process for short-notice situations, AEMO may take into account:

- the details of the outcome of the *short term PASA* and *pre-dispatch* processes; and
- any other information that AEMO considers relevant.

4.2 During Stage 2 of the RERT process

During Stage 2 of the *RERT* process, *AEMO* may review the information it took into account during Stage 1 and also consider for the *period* where *reserves* may be required to ensure reliability of *supply* and where practical, maintain *power system security*:

- the details of the outcome of the *short term PASA*;
- the details of the *pre-dispatch schedule* in terms of the anticipated available *reserves*; and
- any other information that *AEMO* considers relevant.

5 Relevance of the RERT principles to the exercise of the RERT

Clause 3.20.2(b) of the *Rules* identifies two principles referred to as the *RERT principles* which *AEMO* must have regard to in exercising the *RERT*. These principles are:

1. actions taken are to be those which *AEMO* reasonably expects, acting reasonably to have the least distortionary effect on the operation of the *market*; and
2. actions taken should aim to maximise the effectiveness of *reserve contracts* at the least cost to end use consumers of electricity.

5.1 Actions to have the least distortionary effect on the operation of the market

When exercising the *RERT*, actions should be taken which *AEMO* reasonably expects to have the least distortionary effect on the operation of the *market*, both in relation to the short term impact on the *spot prices* and the long term impact on investment signals. In determining the action to take, *AEMO* must consider:

- how it seeks offers, and contracts, for *reserves*; and
- in relation to *scheduled reserve contracts* and subject to clauses 3.9.3(c) and (d) of the *Rules*, setting the *dispatch price* and *ancillary service prices* for an *AEMO intervention price dispatch interval* at a value which *AEMO*, in its reasonable opinion, considers would have applied had the *AEMO intervention event* not occurred.

The considerations above aim to reduce the distortionary impacts from *AEMO* intervening in the *market* to respond to a projected shortfall in *reserves*, and preserve *market* signals to foster a *market* response to those projected shortfalls. It provides an appropriate balance between allowing *market* responses to projected shortfalls to develop and providing a temporary mechanism to maintain the reliability of *supply* and where practicable, *power system security*.

5.2 Actions to maximise the effectiveness of reserve contracts at the least cost to end use consumers of electricity

Any consideration of the cost effectiveness of exercising the *RERT* must be done by *AEMO* in consultation with the relevant *participating jurisdictions* in accordance with clause 3.20.3 of the *Rules*.⁸¹ The factors that would be relevant to this consideration and consultation include:

⁸¹ Note that for short-notice situations consultation with the *participating jurisdictions* would be limited to that outlined in section 8.2.

- the cost for stages 1 and 2 (as defined in section 3 of these guidelines) of the *reserve contracts* for the amount of *reserves* delivered;
- what extra payment is required to be made if the contracted *reserves* are actually *dispatched* or *activated*;
- any penalty costs that AEMO would need to pay if it terminates an existing contract early (this is unlikely to apply in short-notice situations);
- the nature of the *reserves* being offered including:
 - how firm the capacity is;
 - the minimum and maximum time the *scheduled reserves* could be *dispatched* under *scheduled reserve contracts* or *unscheduled reserves activated* under *unscheduled reserve contracts*; and
 - how much notice is required to *dispatch* a particular *scheduled reserve* under a *scheduled reserve contract* or *activate* an *unscheduled reserve* under an *unscheduled reserve contract*. For example, some *loads* require twenty four hours of notice so they can adjust the timing of processes, while others may only require a few hours;
- the duration of the projected capacity shortfall;
- the size of the projected capacity shortfall, in megawatts (MW); and
- the likelihood of the proposed capacity shortfall being resolved.

Where AEMO has *reserve contracts* in place to meet a projected shortfall in *reserves*, and there is sufficient notice of a material increase in the shortfall, it may seek offers from RERT panel members and other potential *reserve* providers in order to achieve the optimal contract portfolio in accordance with the *RERT principles*, which may result in the execution of new *reserve contracts* or the early termination of existing *reserve contracts*.

Under some circumstances AEMO will be required to *dispatch* or *activate reserves* that are contracted under the [long-notice or](#) medium-notice situations as well as contracting for additional *reserves* under the short-notice situations. Under these circumstances, AEMO should aim to maximise the effectiveness of *reserve contracts* at the least cost to end use consumers of electricity by selecting the least cost combination of *reserves* contracted under the [long](#), medium and short-notice situations. However, where AEMO has only a few hours' notice of a *reserve* shortfall it may have insufficient time to determine the least cost combination of *reserves*. In which case AEMO should *dispatch* or *activate* its [long-notice and](#) medium-notice *reserve contracts* ahead of contracting for further *reserves* using the short-notice RERT. Nevertheless, where AEMO has sufficient time to perform the necessary analysis it should aim to maximise the cost effectiveness of the RERT by selecting the combination of *reserve contracts* that has the lowest incremental cost.

6 AEMO's use of a RERT panel

6.1 Constitution of the RERT panel

AEMO may form a *RERT* panel of entities that may be called upon to make *reserve* offers, and enter into, a contract for *reserves* for medium-notice situations where there is between ten weeks and seven days of notice and short-notice situations of between three hours and seven days of notice of a projected shortfall in *reserves*. The process for submitting expressions of interest for the medium-notice and short-notice *RERT* differ significantly with each process outlined in sections [6.26.3](#) and [6.36.4](#) of the *RERT guidelines*.

AEMO should:

- inform the market before it forms the *RERT panel* and when it commences negotiations for *reserves contracts*;
- operate the *RERT* panel on a continuous basis and periodically open the *RERT* panel for new members; and
- subject to any decision by AEMO under section 8.1, ~~or~~ 8.2 or 8.3 to publish relevant details following contracting of *reserves*, treat information on the *RERT* panel membership as confidential information.

Members of the *RERT* panel:

- would negotiate and agree with AEMO on technical and legal requirements in sufficient detail for them to be able to enter into *reserve contracts* if AEMO uses the *RERT* with less than ten weeks' notice of a projected shortfall in *reserves*;
- do not recover any payments from AEMO for being a member of the *RERT* panel;
- are free to contract their capacity with other parties, including *Market Participants*; and
- should advise AEMO if their *reserves* are not available to be contracted under the *RERT* at any time over the next twelve months, including due to the fact that it is already contracted to other parties.

When AEMO makes a decision to contract for *reserves* with between three hours and seven days of notice of a projected shortfall in *reserves*, then it would *publish* to all eligible members of the *RERT* panel (that is, those with *reserves* in the associated *region* that can be *dispatched* or *activated* within the period of *reserve* shortfall) a schedule of the requirements and request members to confirm by a set deadline:

- the availability of the service for the period covered by the schedule (capacity and minimum/maximum usage times etc);

- the required enablement time;
- confirmation that the service is not already contracted for the period covered by the schedule.

Based on this information *AEMO* would then determine, in accordance with the *RERT principles*, which services should be procured to meet the schedule of requirements and would then contract with these selected *RERT* panel members on the basis of the standard terms and conditions of the short-notice *reserve contract*.

6.2 Operation of the RERT panel for long-notice situations (more than ten weeks of notice)

AEMO should not rely exclusively on the RERT panel when it has more than ten weeks' notice of a projected shortfall in reserves. Under these circumstances, AEMO is expected use a full tender process, which should include requesting tender responses from both members of the RERT panel and other potential reserve providers.

6.32 Operation of the RERT panel for medium-notice situations (between seven days and ten weeks of notice)

The Panel considers that *AEMO* may operate a *RERT* panel for situations with between seven days and ten weeks of notice of a projected shortfall in *reserves*, and would need to develop a standard form of medium-notice *reserve contract* for use in these situations.

The Panel considers that the expressions of interest from entities that wish to be members of the *RERT* panel for medium-notice situations should conform to the standard form of *reserve contract*.

These expressions of interest should include:

- the location of the service;
- the likely available capacity;
- the minimum and/or maximum period for which the offered service is likely to be continuously available;
- the enablement time required prior to actual usage;
- any period in the next twelve months during which the service would be unavailable due to the fact that it is already contracted to other parties;
- an estimate of the likelihood that the service would be available if the *RERT* panel member was advised of a requirement within between seven days and ten weeks of notice;
- twenty four hour contact details; and

- an undertaking to advise *AEMO* of changes of any of the above details as soon as reasonably practical after the *RERT* panel member becomes aware of the change.

6.43 Operation of the RERT panel in short-notice situations (between three hours and seven days of notice)

The Panel considers that, in addition to the requirements in sections 6.1 to 6.23, for situations with between three hours and seven days of notice of a projected shortfall in *reserves*:

- *AEMO* would need to develop a standard form of short-notice *reserve contract*; and
- members of the *RERT* panel that are interested in providing *reserves* with less than seven days of notice will be required to provide *AEMO* with confirmation of the location and availability of their *reserves*.

The Panel considers that the expressions of interest from entities that wish to be members of the *RERT* panel for short-notice situations should include:

- the location of the service;
- the likely available capacity;
- the minimum and/or maximum period for which the offered service is likely to be continuously available;
- the enablement time required prior to actual usage;
- the enablement and usage price for the service;
- any period in the next twelve months during which the services would be unavailable due to the fact that it is already contracted to other parties;
- an estimate of the likelihood that the service would be available if the *RERT* panel member was advised of a requirement with less than seven days of notice;
- twenty four hour contact details; and
- an undertaking to advise *AEMO* of changes of any of the above details as soon as reasonably practical after the *RERT* panel member becomes aware of the change.

Entities that wish to be members of the *RERT* panel for short-notice situations should submit an expression of interest that conforms to the standard form of short-notice *reserve contract*, thus indicating their willingness to participate in an expedited provision of *reserves* if called upon by *AEMO* with less than seven days of notice.

In short-notice situations of between three hours and seven days of notice of a projected shortfall in *reserves*, *AEMO* may decide to only consider *reserve* offers from

RERT panel members that agreed to participate in an expedited process and submitted complying *reserve* offers, including short-notice enablement and usage prices.

7 **Actions that AEMO may take to be satisfied that the reserve that is to be the subject of a reserve contract is not available to the market through any other arrangement**

AEMO must take steps to inform itself that the *reserves* that are to be the subject of a *reserve contract* between AEMO and a party is not available to the *market* through any other arrangements.

7.1 **Long-notice and medium-notice situations of more than seven days of notice**

In situations where there is more than seven days of notice of a projected shortfall in *reserves*, the steps which AEMO may take to inform itself if the *reserves* are not the subject of any other arrangements include:

- requiring a prospective party to a *reserve contract*, at the initial stage for *reserve contracts*, to enter into an undertaking with AEMO which states that the *reserve* is not available to the *market* through any other arrangement;
- making reasonable enquiries in the *market*;
- assessing any information that is available to AEMO and relevant to whether the *reserves* are available to the *market* through any other arrangement; and
- improving AEMO's measures when it develops its *RERT procedures* to reduce the likelihood that AEMO will enter into a *reserve contract* with a party who had made the *reserves*, the subject of the *reserve contract*, available to the *market* through any other arrangements.⁸²

7.2 **Short-notice situations with between three hours and seven days of notice**

In short-notice situations, with between three hours and seven days of notice of a projected shortfall in *reserves*, the steps that AEMO may take to inform itself if the *reserves* are not the subject of other arrangements should include:

- requesting a member of the *RERT panel* to inform AEMO when the *reserves* for which the expression of interest related to are no longer available to the *market* as a result of another arrangement; and
- prior to contracting of *reserves*, AEMO should confirm with the *RERT panel* members that the *reserves* for which their expression of interest relates are not available to the *market* as a result of another arrangement; and

⁸² AEMO is required to take into account the *RERT guidelines* when it develops its *RERT procedures* in accordance with clause 3.20.7(e).

- after contracting of *reserves*, *AEMO* should assess any information that is available to it and relevant to whether the *reserves* are available to the *market* through any other arrangement.

AEMO's RERT procedures should consider what measures are necessary to reduce the likelihood that *AEMO* will enter into a *reserve contract* with a party who has made the *reserves*, the subject of the *reserve contract*, available to the *market* through any other arrangements.⁸³

⁸³ *AEMO* is required to take into account the *RERT guidelines* when it develops its *RERT procedures* in accordance with clause 3.20.7(e).

8 Process for contracting for reserve contracts

8.1 Process for contracting for reserve contracts in long-notice situations (more than ten weeks of notice)

The relevant actions that AEMO may take in relation to the exercise of the RERT with more than ten weeks of notice of a projected shortfall in reserves include:

- establishing arrangements for contracting reserves in situations where there is more than ten weeks of notice of a projected shortfall in reserves;
-
- continually monitoring the medium term PASA and the EAAP, and any other information AEMO considers is relevant, to inform itself of any periods of low reserves;
- determining whether to enter into reserve contracts;
- consulting with persons nominated by the relevant participating jurisdictions which AEMO is determining whether to contract for reserves in;
-
- calling for tenders in relation to providing reserves in the respective regions or in some circumstances, combined regions;
- evaluating the tenders and dispensing with any tenders that do not provide an undertaking that the reserves are not available to the market through any other arrangements except on terms agreed with AEMO, taking into account:
 - whether the commercial requirements are met;
 - whether the tender is credible, that is, whether it is likely that the tenderer can deliver the offered reserves; and
 - the optimal combination of contracts to deliver the reserves necessary to meet the shortfall;
- selecting the tenders that AEMO considers to be the optimal portfolio of reserve contracts; and
- giving consideration to including an early termination clause in the event that the capacity is not needed.

Following contracting of reserves, the actions that AEMO may take includes:

- monitoring the medium term PASA and the EAAP to determine if there have been any changes since the tenders were prepared and evaluated; and
- within one month after entering into a contract for reserves, publish the name of the counterparty to the contract and the volume and timing of reserves procured under the contract.

Box 8.1 Explanatory note

In medium-notice situations, *AEMO* may secure *reserve* contracts by seeking:

- *reserve* offers from *RERT* panel members; or
- *reserve* offers from *RERT* panel members and, at *AEMO*'s discretion, offers from other potential *reserve* providers, which may include a tender process.⁸⁴

8.2 Process for contracting for reserve contracts in medium-notice situations (between seven days and ten weeks of notice)

The relevant actions that *AEMO* may take in relation to the exercise of the *RERT* with between seven days and ten weeks of notice of a projected shortfall in *reserves* include:

- establishing arrangements for contracting for *reserves* in situations where there is between seven days and ten weeks of notice of a projected shortfall in *reserves*;
- continually monitoring the *medium term PASA* and the *EAAP*, and any other information *AEMO* considers is relevant, to inform itself of any periods of *low reserves*;
- determining whether to enter into *reserve contracts*;
- consulting with persons nominated by the relevant *participating jurisdictions* which *AEMO* is determining whether to contract for *reserves* in;
- notifying *RERT* panel members in relation to providing *reserves* in the respective *regions* or in some circumstances, combined *regions*;
- calling for *reserve* offers from other potential *reserve* providers in relation to providing *reserves* in the respective *regions* or in some circumstances, combined *regions*;
- evaluating the *reserve* offers and dispensing with any *reserve* offers that do not provide an undertaking that the *reserves* are not available to the *market* through any other arrangements except on terms agreed with *AEMO*, taking into account:
 - whether the commercial requirements are met;
 - whether the *reserve* offer is credible, that is, whether it is likely that the *RERT* panel member or other potential *reserve* provider can deliver the offered *reserves*; and

⁸⁴ *AEMO* may determine whether a tender process is open to the public or limited to specific potential *reserve* providers.

- the optimal combination of contracts to deliver the *reserves* necessary to meet the shortfall;
- selecting the *reserve* offers that AEMO considers to be the optimal portfolio of *reserve contracts*; and
- giving consideration to including an early termination clause in the event that the capacity is not needed.

Following contracting of *reserves*, the actions that AEMO may take includes:

- monitoring the *medium term PASA* and the *EAAP* to determine if there have been any changes since the *reserve* offers were prepared and evaluated; and
- ~~giving consideration to including an early termination clause in the event that the capacity is not needed; and~~
- within one month after entering into a contract for *reserves*, publish the name of the counterparty to the contract and the volume and timing of *reserves* procured under the contract.

8.2 Process for contracting for reserve contracts in short-notice situations (between three hours and seven days of notice)

Explanatory note

The execution of short-notice *reserve* contracts would need to be a simplified process but it is likely to be more involved than a simple telephone call for reasons of probity. Therefore execution of short-notice *reserve* contracts would require a minimum 3 hour response time.

The relevant actions that AEMO may take in relation to the exercise of the *RERT* for situations with between three hours and seven days of notice of a projected shortfall in *reserves*, as defined in clause 3.20.8(a)(6), include:

- establishing arrangements for contracting for *reserves* in situations where there is between three hours and seven days of notice of a projected shortfall in *reserves*;
- continually monitoring the *pre-dispatch schedule* and *short term PASA*, for periods of *low reserves* or *lack of reserve* (LOR2);
- determining whether to enter into *reserves contracts*;
- consulting in advance with the *participating jurisdictions*⁸⁵ to determine a maximum average price threshold (in \$/MWh) that AEMO should pay to

⁸⁵ Given the reduced timeframe for the short-notice *RERT*, it would not be possible to fully consult with affected *participating jurisdictions* on all matters considered when executing the *reserve contracts*.

dispatch or activate reserve contracts in the relevant region under the short-notice RERT (reflecting the opportunity cost of shedding customer load in that region);

- excluding in advance entities from the *RERT* panel for short-notice situations that have an average cost (in \$/MWh) that is greater than the maximum average price threshold approved by the respective *participating jurisdiction*;
- agreeing in advance with the *participating jurisdiction* as to the cost sharing arrangements between *participating jurisdictions* in short-notice *reserve* shortfall situations;
- using a *RERT* panel arrangement to identify which panel members are technically able, on the basis of their expressions of interest, to provide *reserves* within the applicable notice period and in the required *regions* or in some circumstances, combined *regions*;
- contacting those eligible *RERT* panel members to confirm the quantity of *reserve* available and period for which it is available;
- evaluating the *reserve* offers from the eligible list of *RERT* panel members; and
- selecting the optimal portfolio of *reserve contracts* to meet a shortfall from the available expressions of interest using reasonable endeavours and subject to practical limitations including the extent of notice available of an impending reliability or *power system security* event.

Following contracting of *reserves*, the actions that *AEMO* may take includes:

- monitoring the *pre-dispatch schedule* and *short term PASA* to determine if there have been any changes to the relevant *reserve* requirements; and
- within one month after entering into a contract for *reserves*, publish the name of the counterparty to the contract and the volume and timing of *reserves* procured under the contract.

9 Use of contracted reserves for security events

AEMO may dispatch or activate reserves under reserve contracts to address a power system security event in a transmission network that it has oversight for, if there are suitable reserves that AEMO has contracted under the RERT for [long](#), medium or short-notice situations at an appropriate location, and there is sufficient notice of the power system security event to allow AEMO to dispatch or activate these reserves.