



Enhancement to the RERT final rule

AEMC publishes final determination on NEM's safety net, the Reliability and Emergency Reserve Trader (RERT)

The Commission's final rule provides AEMO with the flexibility and appropriate discretion when using the RERT (or emergency reserves) to manage the transition in the power system, while minimising costs to consumers, and in a transparent manner.

Context for enhancing the RERT

The RERT is one element of a broader framework for reliability in the NEM. Market participants operating in a competitive environment, as well as the system operator, all have a role in facilitating reliable outcomes in the NEM.

Reliability outcomes in the NEM are largely driven by market participants making investment and operational decisions, taking into account expectations and information that is provided on future demand and supply, including the information provided under the Retailer Reliability Obligation from 1 July 2019. Generators and retailers have strong financial incentives to provide in-market reserves, in order to support the broader reliability framework in the NEM.

The RERT is an existing mechanism that allows AEMO to contract for emergency reserves, such as generation or demand response, that are out of market. It is an important part of the regulatory framework that AEMO uses as a last resort at times when the market has not provided enough reserves to meet demand e.g. during extreme heat events.

The recent increased use of the RERT reflects changing system needs, including: a growing proportion of variable renewable generation, an aging fleet of thermal generation, a tightening supply-demand balance, peakier demand and increasing temperatures.

As the power system changes, what AEMO does and how it discharges its responsibility for reliability will necessarily need to change as well. The RER give AEMO the flexibility to evolve and adapt its approach for how it operationalises the reliability standard in order to account for those changes.

There are concerns that the RERT will continue to be used frequently in the next few years, as the NEM transitions. A consequence of using emergency reserves more frequently is that the costs associated with emergency reserves have increased. Consumers have expressed concerns with the lack of transparency about the procurement and use of emergency reserves and its impact on electricity bills. The final rule enhances the existing RERT framework in order to address these trends and concerns.

Final rule and benefits of the final rule

The final rule provides AEMO with the flexibility it needs to meet the operational challenges arising from the transition that is currently occurring in the NEM, which are making it harder to manage the power system, while minimising the costs of doing so. The final rule enhances flexibility for AEMO in procuring and using emergency reserves by:

- linking the RERT procurement trigger and volume to the reliability standard, which provides transparency to market participants of when and how emergency reserves will be used
- providing flexibility to AEMO as to how many emergency reserves it can procure through its

flexibility and discretion as to how the reliability standard is incorporated in its day-to-day operations, particularly through its modelling and forecasting of power system risk

- increasing the procurement lead time from 9 to 12 months, which will broaden the pool of RERT providers, allowing emergency reserves to be procured at lower cost for consumers. It also promotes consistency with the Retailer Reliability Obligation.

Alongside these changes, there also needs to be recognition of the impacts of the RERT on the wholesale market, both for market participants and consumers. As a result, the final rule also:

- clarifies the out-of-market provisions so that reliability is more likely to be delivered at minimal cost to consumers, including by reducing the risk of gaming by reserve providers
- provides additional guidance to AEMO when entering into emergency reserve contracts around the appropriate cost of these
- aligns the cost of emergency reserves with, where possible, those customers who caused the need for the RERT
- increases transparency and reporting, to assist market participants and consumers in planning for RERT costs.

There is no change to the reliability standard as part of this final rule. Questions about the reliability standard and what it should be are dealt with by the Reliability Panel as part of its regular review, which considers the reliability standard in the context of the broader reliability framework. The Panel may consider turning its mind to the reliability standard and settings again, after the VCR review that is currently being conducted by the AER, has been finalised. In addition, stakeholders can raise issues directly with the Panel if at any time there is an informed position that consumers value reliability more than reflected in the reliability standard.

The final rule incorporates stakeholder feedback made to the draft determination; most notably in relation to the out-of-market provisions, with the final rule providing more flexibility as to how these out-of-market provisions operate, including specifying them in such a way that their operation can be adapted over time.

Implementation

Implementation of enhanced RERT will be through a staggered, two-stage approach whereby specific reporting requirements will commence by 31 October 2019, while all the remaining elements of the final rule commence on 26 March 2020.

This approach aligns with the timeframe requested by AEMO in its submission to the draft determination since it gives it the time it needs to finalise its internal processes. At the same time, in recognition of the pressing need for improved transparency, AEMO is required to start reporting on some aspects of the RERT from October 2019, so that increased transparency will be in place for the summer 2019-20.

Consistent with the relevant consultation processes, the final rule also requires the Panel to update its RERT guidelines by 30 August 2019. AEMO is then to publish its RERT procedures by 26 March 2020, when the enhanced RERT framework will commence, as per AEMO's request that it commence post summer 2019-20.

Interaction with other reforms

The RERT is only one part of the reliability framework; it cannot address all the changes in the market. Together with the ESB, other market bodies and stakeholders, we are working to promote in-market reserves and reduce reliance on the RERT. Work includes:

- RRO – builds on existing spot and financial market arrangements in the electricity market to facilitate investment in dispatchable capacity and demand response. This is expected to come into effect on 1 July 2019.
- Wholesale demand response rule changes – these proposals are currently being progressed by the Commission and aim to facilitate wholesale demand response in the NEM. A draft determination for these rule changes is expected on 1 July 2019.
- Generator three-year notice of closure rule change – equally important as investment is the process of disinvestment; this rule was made last year and requires large electricity

generators to provide at least three years' notice to the market before closing, helping market participants to respond to possible future shortfalls in electricity generation.

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