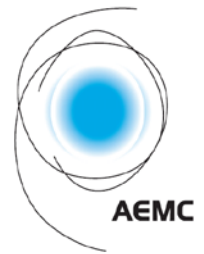


Review of the Reliability and Emergency Reserve Trader Guidelines

AEMC Terms of Reference to the Reliability Panel

23 May 2019



Introduction

These terms of reference are intended to guide the Reliability Panel (the Panel) in its next review of the Reliability and Emergency Reserve Trader (RERT) guidelines. The background, scope, process and timing for this review are set out below.

Background

The National Electricity Rules (NER) currently provide for a RERT mechanism that enables AEMO to contract for emergency reserves such as generation or demand response that are not otherwise available in the market. AEMO can use these emergency reserves as a safety net in the event that a shortfall in market reserves is forecast.

In response to a rule change request from AEMO,¹ on 2 May 2019 the Commission made the National Electricity Amendment (Enhancement to the Reliability and Emergency Reserve Trader) Rule 2019 (amending rule) that introduces a number of enhancements to the RERT framework. Key enhancements include:

- Linking the RERT procurement trigger and volume to the reliability standard, which provides transparency to market participants of when and how the RERT will be used.
- Providing flexibility to AEMO as to how many emergency reserves it can procure since AEMO - as is appropriate for the system operator - has flexibility and discretion as to how the reliability standard is incorporated in its day-to-day operations, particularly through its modelling and forecasting of the risk to the power system.
- Increasing the procurement lead time from nine to 12 months, which will broaden the pool of RERT providers, allowing emergency reserves to be procured at lower cost for consumers. This also promotes consistency with the retailer reliability obligation.
- Clarifying the out of market provisions – so that reliability is more likely to be delivered at minimal costs to consumers, including by reducing the risk of gaming by reserve providers.
- Introducing a new RERT principle to provide additional guidance to AEMO when entering into emergency reserve contracts around the appropriate cost of these reserves.
- Aligning the cost of emergency reserves with, where possible, those customers who caused the need for the RERT.
- Increasing transparency and reporting, to assist market participants and consumers in planning for RERT costs.

¹ For more information see: <https://www.aemc.gov.au/sites/default/files/2018-06/Rule%20change%20request.pdf>

Clause 3.20.8 of the NER requires the Panel to develop and publish guidelines for the RERT. The guidelines provide additional guidance to AEMO on the RERT principles and the cost-effectiveness of emergency reserves. The RERT guidelines also specify what AEMO may take into account when it is determining whether to enter into contracts for emergency reserves (that is, in procuring the RERT) and in dispatching/activating emergency reserves. AEMO is required to take into account the RERT guidelines when exercising emergency reserves.

Scope of this review

In accordance with clause 11.115.2, the Commission requests the Panel amend the RERT guidelines to reflect the amending rule. The amended RERT guidelines must be expressed to take effect from 26 March 2020 when the changes to the RERT provisions (other than certain reporting obligations that commence by 31 October 2019) commence operation.

The Commission does not expect the Panel to undertake a comprehensive review of the RERT guidelines at this time given the time constraints associated with the amendment of the procedures. The Commission will likely request that the Panel complete a comprehensive review of the RERT guidelines in 2021 or earlier if new relevant information comes to light. This will allow the Panel to consider the operation of the guidelines in light of AEMO's experiences in using the RERT (if needed) over the 2020-21 summer and incorporate any learnings.

Process and timing

Clauses 8.8.3(a)(3) and 3.20.8(b) of the NER require the Panel to determine the RERT guidelines in accordance with the consultation process outlined in clause 8.8.3(d)-(l) of the NER. The Commission suggests that it will be important for the Panel to specifically consult with large and small energy users in the course of its work, given the cost impact that the RERT has on these parties.

Consistent with this consultation process, clause 11.115.2 of the amending rule requires that the Panel must amend the RERT guidelines by 30 August 2019 in order to allow AEMO to meet the implementation date of 26 March 2020.