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Reliability Panel AEMC

**FINAL REPORT**

REVIEW OF THE RELIABILITY AND  
EMERGENCY RESERVE TRADER  
GUIDELINES 2019

25 JULY 2019

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## ABOUT THE RELIABILITY PANEL

The Panel is a specialist body established by the Australian Energy Market Commission (AEMC) in accordance with section 38 of the National Electricity Law and the National Electricity Rules. The Panel comprises industry and consumer representatives. It is responsible for monitoring, reviewing and reporting on reliability, security and safety on the national electricity system, and advising the AEMC in respect of such matters.

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## SUMMARY

- 1 The Reliability and Emergency Reserve Trader (RERT or emergency reserves) is an existing intervention mechanism under the National Electricity Rules (NER) that allows the Australian Energy Market Operator (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 in the event that a shortfall in market reserves is forecast. These additional reserves are commonly referred to as “emergency reserves” since they are used as a last resort when the market has not otherwise provided reserves to reduce the likelihood of blackouts, typically during periods when the demand supply balance is tight, for example, summer.
- 2 The NER requires the Reliability Panel (Panel) to develop and publish RERT guidelines (Guidelines). The Guidelines provide additional guidance to AEMO on how to operate the RERT framework, including on the cost-effectiveness of emergency reserves. For example, the Guidelines 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 under the NER to take into account the Guidelines when exercising the RERT.
- 3 In response to a rule change request from AEMO, on 2 May 2019, the Australian Energy Market Commission (AEMC or Commission) made a final rule determination on the RERT provisions in the NER. Some of the key features of the final rule 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 (RRO).<sup>1</sup>
  - 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.

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<sup>1</sup> The Energy Security Board has prepared a final package of rules to facilitate the commencement of the obligation by 1 July 2019. This package of rules is currently be considered by the COAG Energy Council. The RRO builds on existing spot and financial market arrangements in the electricity market to facilitate investment in dispatchable capacity and demand response. It is designed to incentivise retailers, on behalf of their customers, to support the reliability of the power system through their contracting and investment decisions.

- Increasing transparency and reporting, to assist market participants and consumers in planning for RERT costs.

4 The final rule requires the Panel to amend the Guidelines to reflect the changes made as a result of the final rule. This final report therefore sets out changes to reflect the final Enhancement to the RERT rule, consistent with the terms of reference issued by the Commission.

5 In light of the tight implementation timeframes associated with the final *Enhancement to the RERT* rule and consistent with the Terms of Reference issued by the Commission, the scope of this review is limited to amending the guidelines so that they are consistent with the final rule. The Panel will undertake a comprehensive review of the RERT guidelines once the enhanced RERT framework has been used, in order to incorporate any lessons learnt.

6 The final Guidelines made by the Panel are published with this final report. The key amendments made to the Guidelines reflect:

- updated out-of-market provisions
- additional reporting requirements
- a new RERT principle that provides guidance on RERT costs.

7 The final Guidelines are similar to the draft Guidelines, with some minor changes made to reflect stakeholder submissions, to improve consistency with the final rule and provide further clarity to market participants. In particular, the changes are to clarify:

- that AEMO may only procure RERT if there has been a forecast breach of the reliability standard
- that AEMO may, with respect to the short-notice period, exercise RERT based on declaration of lack of reserve conditions such as LOR2 or LOR3s
- the language used around the out-of-market provisions to align with the final rule
- that the guidance around standardisation only applies in the event that AEMO chooses to standardise RERT products.

8 AEMO may now commence its update of the RERT procedures, taking into account the final Enhancement to the RERT rule and the final Guidelines, prior to the new RERT procurement arrangements coming into effect on 26 March 2020.

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# 1 INTRODUCTION

On 2 May 2019, the Australian Energy Market Commission (AEMC or Commission) made a final rule determination on the Reliability and Emergency Reserve Trader (RERT or emergency reserves) provisions in the National Electricity Rules (Rules). The final rule (RERT final rule) requires the Reliability Panel (Panel) to amend the RERT guidelines (Guidelines) to reflect the changes made to the NER as a result of the RERT final rule.<sup>2</sup>

This final report sets out how the Panel has amended the Guidelines to reflect the RERT final rule and is structured as follows:

- Chapter 1 provides background and context for the review and outlines the consultation process carried out.
- Chapter 2 outlines the changes made to the Guidelines and provides the Panel's rationale for those changes.

The final Guidelines made by the Panel are provided in a separate document and are published with this final report.

## 1.1 Overview of the RERT — existing arrangements

The NER currently provides 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. Some form of a regulatory mechanism that allows the operator to contract for emergency reserves has existed since the start of the NEM.

Under existing arrangements, clause 3.20.8 of the NER requires the Panel to develop and publish Guidelines that:

- Provide guidance to AEMO on the relevance of the RERT principles to the exercise of the RERT<sup>3</sup> and what must be taken into account in assessing the cost-effectiveness of the RERT.
- Specify what AEMO is required to take into account when deciding whether to exercise the RERT.
- Provide guidance to AEMO as to the process for contracting for reserves in relation to difference notice situations specified in the Guidelines.

The current Guidelines specify that AEMO's operation of the RERT is divided into two stages:

1. Stage 1: when AEMO is determining whether to enter into reserve contracts;

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<sup>2</sup> The requirements for the review are set out in a terms of reference, available on the project page.

<sup>3</sup> Clause 3.20.2(b) of the NER sets out the RERT principles which are: (i) actions taken should be those which AEMO reasonably expects, acting reasonably, to have the least distortionary effect on the operation of the market; (ii) actions taken should aim to maximise the effectiveness of reserve contracts at the least cost to end use consumers of electricity. The final RERT rule introduced a third principle which is: the average amount payable by AEMO under reserve contracts for each MWh of reserves for a region should not exceed the estimated average VCR for that region. This last principle is discussed in more detail in Section 2.3.

2. Stage 2: when AEMO is considering whether to dispatch scheduled reserves or activate unscheduled reserves.

The Guidelines also specify the types of information AEMO must take into account in each of these stages, which depends on how much time AEMO has prior to its projected reserve shortfall. Currently, the Guidelines specify the following three timeframes:

1. at least ten weeks' (up to nine months') notice of a projected reserve shortfall (long-notice situation)
2. between one and ten weeks' notice of a projected reserve shortfall (medium-notice situation)
3. between three hours and seven days' notice of a projected reserve shortfall (short-notice situation).

The Guidelines set out the process that AEMO may follow when contracting for reserve contracts under different notice situations. Currently, under the Guidelines:

- AEMO may establish a panel of entities, a RERT panel, that can tender for, and enter into, reserve contracts for medium-notice and short-notice situations. The RERT panel consists of entities that have resolved some of the technical and legal issues that lengthen the time necessary to negotiate a reserve contract. Once reserve providers are members of the RERT panel, reserve contracts can be finalised more quickly than through a full tender process. That said, AEMO is able to procure reserves from parties who are not members of the RERT panel — however, in the case of short-notice RERT, it is unlikely that AEMO would have enough time to run a tender process. As a result, for short-notice situations, AEMO is likely to only use the RERT panel to enter into new contracts (notwithstanding contracts it may have entered into prior).
- AEMO must use a full public tender process when contracting for long-notice situations. There is no panel for the long-notice RERT.

In comparison to the long-notice situations, in short and medium-notice situations AEMO may assess the need for additional capacity and respond accordingly much closer to real time and when projected shortfalls are more accurate. AEMO may also address projected reserve shortfalls that arise at relatively short-notice.

The Guidelines also set out:

- The actions AEMO may take to be satisfied that the reserves it contracts are not otherwise available to the market.
- The circumstances under which the RERT may be dispatched by AEMO to address power system security issues.

AEMO publishes a procedure for the exercise of the RERT under clause 3.20.7(e) of the NER. This procedure takes into account the RERT principles and RERT guidelines. AEMO's procedure for the exercise of the RERT document provides information on AEMO's procedures in relation to the RERT panel, the evaluation of tenders, procurement of the RERT, the publication of information and the activation/dispatch of the RERT. The timing associated with AEMO's review of the procedures is discussed in section 1.2.



## 1.2 Context of the review

On 9 March 2018, AEMO submitted a rule change request which sought to extend to nine months the period allowed for AEMO to contract for reserves ahead of a projected shortfall in supply to meet demand, in effect, reinstating the long-notice RERT. The Commission considered this an urgent rule and so progressed it under an expedited process, making the final rule on 21 June 2018. As part of the final rule, a transitional rule was introduced that gives effect to amendments to the Guidelines to reflect the reinstatement of the long-notice RERT. The amendments were limited to reintroducing Panel guidance in relation to long-notice situations. The Panel published the amended Guidelines on 13 July 2018.

Also on 9 March 2018, AEMO submitted a rule change request to the Commission seeking broad changes to the RERT. These proposed changes included:

- increasing the amount of time AEMO has to enter into emergency reserve contracts prior to projected shortfalls from nine months to one year (and beyond in some circumstances);
- taking into account a broader risk assessment framework when procuring emergency reserves;
- establishing standardised RERT products, with standardised elements including notification lead times and availability periods.

AEMO considered that these broader changes to the RERT framework would help manage the “risks of unanticipated shortfalls” of supply to meet demand in light of greater uncertainty and a tightening supply-demand balance, “driven by a growing proportion of variable renewable generation, an aging fleet of thermal generation and unexpected retirement of capacity increasing risk of forced outages.

In response to this rule change request, on 2 May 2019, the Commission made a final rule determination on the RERT provisions in the NER. Some of the key features of the final rule 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.

The final rule requires the Panel to amend the Guidelines to reflect the changes made as a result of the final rule. Via transitional arrangements the final rule requires:

- The Panel to publish its final RERT guidelines, taking into account the amending rule, by 30 August 2019.
- AEMO to publish its RERT procedures, taking into account the amending rule and the updated RERT guidelines, by 26 March 2020.

#### **BOX 1: RECENT RERT USAGE DRIVEN BY CHANGING POWER SYSTEM DYNAMICS**

Prior to 2017, AEMO had only entered into RERT contracts three times and it had never been dispatched. This changed in 2017, when AEMO entered into a number of emergency reserve contracts. Since that time, AEMO has used the RERT a number of times, including November 2017, January 2018, and most recently in January 2019.

This increase in 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 higher temperature peaks. Further, a necessary consequence of using emergency reserves more frequently is that there are costs associated with the RERT that have made their way onto consumer bills. Consumers have expressed concerns with the lack of transparency about the procurement and use of emergency reserves and its impact on electricity bills.

In response, the Commission has enhanced the emergency reserve framework to provide AEMO with the flexibility it needs to meet the operational challenges arising from the transition, while containing the increased costs of doing so. The Commission has also improved the transparency of the RERT framework to: increase the understanding of the drivers of RERT actions, help parties explain the benefits and costs of the RERT and to assist consumers (particularly, large users) with budgeting.

Source: AEMC, Enhancement to the Reliability and Emergency Reserve Trader, final rule determination, 02 May 2019

Note: Not all the changing market dynamics noted can be addressed by one part of the market and one regulatory arrangement, the RERT - at the very least it will only help these issues indirectly, at a very high cost.

The terms of reference issued by the Commission for this review clearly sets out the review's scope. The terms of reference states "In accordance with clause 11.115.2, the Commission requests the Panel amend the RERT guidelines to reflect the amending rule... 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 [RERT] procedures."<sup>4</sup>

<sup>4</sup> AEMC, Terms of reference for the Review of the Reliability and Emergency Reserve Trader Guidelines, p. 2

The Panel acknowledges this terms of reference and will undertake a comprehensive review of the RERT guidelines once the enhanced RERT framework has been used. A comprehensive review following the use of the enhanced RERT framework, rather than now, allows the Panel to incorporate any lessons from the use of the RERT during the 2019-20 summer and from the implementation of the Enhanced RERT framework from March 2020. To help inform a future holistic review of the RERT guidelines, the Panel encourages stakeholders to record their future experiences with the RERT.

### 1.3 Consultation process

Clauses 8.8.3(a)(3) and 3.20.8(b) of the NER require the Panel to determine the Guidelines in accordance with the consultation process outlined in clause 8.8.3(d)-(l) of the NER. This consultation process involves

1. The publication of a notice of commencement of the review of the Guidelines.
2. A period of at least four weeks for stakeholders to provide submissions, following publication of the notice.
3. The Panel holding a public meeting (either at its own initiative or if requested).
4. The Panel publishing a report, following its consideration of submissions.

Consistent with this consultation process, clause 11.115.2 of the amending rule requires that the Panel must amend the Guidelines by 30 August 2019.

### 1.4 Submissions

The Panel published a draft report and draft Guidelines on 23 May 2016. Consultation on the draft report closed on 20 June 2019 and four submissions were received. Issues raised by stakeholders are discussed and responded to in this final report.

No requests for a public meeting on the RERT guidelines were received from stakeholders. The Panel did not hold any public meeting.

## 2 AMENDMENTS TO THE RERT GUIDELINES

This chapter sets out the key amendments the Panel has made to the Guidelines so that they reflect the RERT final rule. The amendments relate to:

- updated out-of-market provisions
- additional reporting requirements
- a new RERT principle that provides guidance on RERT costs.

Other minor amendments have also been made and are discussed below.

### 2.1 Clarified out-of-market provisions

In the Enhanced RERT final rule, out-of-market provisions in relation to RERT providers were strengthened to minimise distortions to the energy market and promote reliability by providing clear signals to the wholesale market that the RERT is only to be used after market responses have been exhausted.<sup>5</sup>

As per clauses 3.20.3(g)-(l) of the RERT final rule, the out-of-market provisions state that:

- scheduled RERT providers<sup>6</sup> who have been in the market for 12 months prior to signing an emergency reserve contract cannot participate in the RERT
- scheduled RERT providers also cannot participate in the market for the duration of the contract (i.e. from the time the contract is signed to the end of the contract)
- unscheduled RERT providers<sup>7</sup> cannot participate in the market for the trading intervals to which their contract relates
- AEMO will clearly articulate how it will apply out-of-market provisions for unscheduled emergency reserves to promote transparency and clarity.

The Panel has made amendments to Section 5.1 of the Guidelines detailing the clarified out-of-market provisions as these are directly linked to the RERT principle of minimising distortions associated with AEMO's RERT actions.<sup>8</sup>

In its submission to the draft report and draft Guidelines, Origin proposed some amendments to the proposed drafting of Section 5.1 of the Guidelines to reflect better the requirements of the final rule.<sup>9</sup> The Panel considered that these changes would improve consistency and reduce any potential ambiguity and has incorporated those changes in its final drafting.

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5 The clarified provisions limit incentives for potential RERT providers to partake in inefficient behaviour, such as withdrawing capacity from the wholesale market.

6 The NER define scheduled reserves as: the amount of surplus or unused capacity of scheduled generating units, or of scheduled network services, or arising out of the ability to reduce scheduled loads.

7 The NER define unscheduled reserves as: the amount of surplus or unused capacity of generating units (other than scheduled generating units), or arising out of the ability to reduce demand (other than a scheduled load).

8 The Panel notes that under the RERT final rule, RERT providers are obligated to ensure the reserves are out of market during the relevant period of time. However, as the role of the Guidelines is to provide guidance to AEMO, any amendments to the Guidelines relate to the steps AEMO needs to take to ensure it complies with the new provisions rather than the compliance process that participants need to follow.

9 Origin, submission to draft report, p. 1.

In relation to out-of-market provisions, most of the changes have been made to Section 7 of the Guidelines as this covers the actions AEMO may take to ensure the out-of-market status of reserves.<sup>10</sup> While no material changes have been made to the actions AEMO may take, references to out-of-market provisions have been revised - with the different provisions that apply to scheduled and unscheduled reserves reinforced. Minor amendments to Section 8 on the process for contracting for reserve contracts have also been made so that the steps outlined in the Guidelines accurately reflect the out-of-market provisions.

The Panel considers these amendments:

- improve the clarity of the Guidelines with respect to the revised out-of-market provisions
- promote consistency between the RERT final rule and the Guidelines.

## 2.2 Additional reporting requirements

In the RERT final rule, the Commission improved the reporting arrangements in relation to the RERT, increasing transparency in order to better inform market participants, policy makers, consumers and other interested parties about the costs and drivers of the RERT. The Commission stated that this increased transparency will enable these entities to better budget for RERT related charges and make more informed operational and investment decisions. The enhanced reporting requirements, established in clause 3.20.6 of the enhanced RERT final rule, include:

1. A quarterly RERT report<sup>11</sup> that is:
  - a. forward-looking and details indicative costs of emergency reserves, and analysis of any procurement of emergency reserves;
  - b. backward-looking and details updated emergency reserve costs and volumes, forecasts that indicated RERT intervention was required, and the impact on market reliability.
2. A concise report within five business days of the dispatch/activation of the RERT, that provides a preliminary estimate of the total payments made under RERT contracts (i.e. event-specific costs such as pre-activation and usage charges) and estimated volumes of emergency reserves dispatched/activated.
3. A methodology report, explaining how AEMO determined the amount of emergency reserves to procure, and the appropriate term of RERT contracts, as part of its RERT procedures.

Of the three reporting streams outlined above, the first is of most relevance to the Guidelines.<sup>12</sup>

The Panel has made changes to Section 5.1 of the Guidelines that recognise the interactions between the RERT principle that relates to minimising distortions and the increased reporting

<sup>10</sup> Clause 3.20.8(3) of the NER requires the Panel to develop guidelines with respect to 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.

<sup>11</sup> Published if necessary due to the availability of new information.

<sup>12</sup> Clause 3.20.8(2) of the NER requires the Panel to publish guidelines on the relevance of the RERT principles to the exercise of the RERT.

requirements. The Panel notes that increasing transparency may reduce distortions associated with the RERT.

The Panel considers these amendments clarify how the new reporting requirements directly relate to the RERT principles.

The amendments contained in the final Guidelines are the same as proposed in the draft Guidelines with respect to reporting requirements. The Panel did not receive any stakeholder feedback on this aspect of the Guidelines.

## 2.3 Introduction of a new RERT principle that provides guidance on RERT costs

In the RERT final rule the Commission introduced an additional RERT principle that the average amount payable by AEMO under reserve contracts for each MWh of reserves for a region should not exceed the estimated average value of customer reliability (VCR)<sup>13</sup> for that region.<sup>14</sup> This principle provides additional guidance to AEMO on RERT costs and recognises that the costs of emergency reserves should be less than the costs of involuntary load shedding (based on estimates of values of customer reliability).

The RERT final rule requires the RERT guidelines to provide more guidance on how the estimated average VCRs would be determined and applied by AEMO. Clause 3.20.8(a)(5A) of the RERT final rule states that the Panel must publish guidelines with respect to: "the information, assumptions and parameters AEMO must take into account when determining the estimated average VCRs, and the application of those estimated average VCRs for the purposes of the RERT principle in clause 3.20.2(b)(3)".

The Panel has made amendments to Section 5.3 of the Guidelines to reflect the introduction of the new RERT principle. To reflect the RERT final rule, the Panel specifies the main input that will inform AEMO's determination of the estimated average VCR is any of the AER's VCR values.<sup>15</sup>

While the degree of segmentation of the AER's VCR estimates is not yet known, the Panel has outlined a number of factors in the Guidelines that AEMO should consider, to the extent possible, in determining the most appropriate VCR figures for the estimated average VCR, to approximate the value of load shedding. These factors include:

- The jurisdictional load shedding schedules, including the type of customers most likely to be load shed in each region - this is to reflect that involuntary load shedding is determined by the load shedding schedules, which differ from region to region, and indeed, from event-to-event due to the rotating nature of load shedding lists. Moreover, different types of customers (e.g residential, industrial or commercial) use electricity for different purposes which is reflected in the different value they place on reliable supply.

13 The final RERT rule defines the "estimated average VCR" for a region as: the average VCR (expressed in \$/MWh) determined by AEMO, having regard to the RERT guidelines and any values of customer reliability developed by the AER under rule 8.12

14 Clause 3.20.2(b)(3) of the final rule.

15 The AER is currently conducting a value of customer reliability review. Its final determination (and final VCR estimates) must be published by December 2019.

- The location of customers most likely to be load shed, considering cost sharing arrangements.
- The time load shedding is most likely to occur. The Panel notes AEMO has the flexibility to estimate a seasonally weighted average VCR (e.g. based on a summer VCR and winter VCR) or to use multiple VCR figures for different seasons.

Also in Section 5.3 of the Guidelines, the Panel has suggested that AEMO may determine the estimated average VCR on a financial year basis to reflect how the reliability standard is operationalised. However, the Panel notes AEMO has the discretion to determine the time frame over which estimated VCR figure applies.

The Panel has also included an amendment for AEMO to publish the VCR figures it has used to determine the estimated average VCR. The Panel expects AEMO to update its estimated average VCR figure if the information that it has used to set the figure changes, for example, if the AER updates its VCR estimates or if the load shedding priority list changes.

References to the new RERT principle have also been included in Section 6 on AEMO's use of the RERT Panel and Section 8 where the process for contracting for reserves is set out. AEMO must have regard to the new RERT principle in some cases.

The Panel considers these amendments:

- provide useful guidance to AEMO in determining the estimated average VCR
- promote consistency between the Guidelines and the NER
- improve transparency with regards to how the estimated average VCR is determined and applied.

The amendments contained in the final Guidelines are the same as proposed in the draft Guidelines with respect to guidance on the RERT principles. The Panel did not receive any stakeholder feedback on this aspect of the Guidelines.

## 2.4 Other amendments

The Panel has also made a number of other minor amendments to the Guidelines. These amendments have been made to increase the clarity of the Guidelines and improve their consistency with the RERT final rule. They are:

- Removing references to specific data inputs such as MT PASA, and instead focusing on the role of *low reserve* and *lack of reserve* declarations in contracting for reserves (Sections 4 and 8).<sup>16</sup> Stakeholder feedback on this aspect of the Guidelines is discussed below.
- Emphasising that AEMO may dispatch the RERT for power system security purposes if emergency reserves have already been procured, but may not procure RERT to meet power system security requirements (Section 4).
- Stating that AEMO "must" rather than "may" (Section 8):

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<sup>16</sup> These declarations are made under clause 4.8.4 of the NER.

- publish the name of counter parties to reserve contracts and the volume and timing of reserves, within one month after entering into a reserve contract.
- Reflecting the extension of the procurement lead time — replacing instances of nine months with 12 months, i.e. extending the long-notice RERT lead time rather than introducing a new type of notice (throughout the Guidelines). Stakeholder feedback on this aspect of the Guidelines is discussed below.
- Providing guidance to AEMO that, should they choose to standardise RERT products, then they should do so only if it does not lead to a material reduction in RERT providers or inefficient cost outcomes. In its submission to the draft report, AEMO expressed concern the Panel's proposed statement on product standardisation in the draft Guidelines could have led to confusion or misinterpretation by stakeholders that standardisation of RERT products is necessary.<sup>17</sup> In response, the Panel clarified the guidance to avoid stakeholders incorrectly assuming that AEMO is required to standardise RERT products.
- Removing references to a minimum three-hour response time for short-notice RERT situations — this reflects recent experiences that indicate that some reserves are capable of responding at much shorter notice (throughout the Guidelines). For example, as part of the AEMO-ARENA demand response trial, AEMO successfully trialed a 10-minute and 60-minute product, i.e. reserves with a response time of 10-minutes or 60-minutes.<sup>18</sup>

### **Stakeholder comments on procurement and dispatch trigger**

ERM Power and the EUAA, in submissions to the draft report, stated that the Guidelines refer to Clause 4.8.4 which states that AEMO may declare an LRC if it considers the reliability standard will not be met, rather than "may only".<sup>19</sup> They stated that this may be inconsistent with the final Enhanced RERT rule. The Panel understands that their concern is making sure that RERT procurement does not commence without a forecast breach of the reliability standard. ERM Power suggested drafting changes, supported by the EUAA, to reflect this.<sup>20</sup>

The Panel considers that as currently drafted, the guidance provided by the Guidelines are sufficiently clear and are consistent with the NER. The Guidelines specifically refer to low reserve conditions (LRCs) and the relevant lack of reserve conditions (LOR2 and LOR3), which are AEMO's assumptions for a breach of the reliability standard, consistent with the Reliability Standard Implementation Guidelines (RSIG). The Panel considers that this is consistent with the final Enhanced RERT final rule, which clearly linked RERT procurement to a breach of the reliability standard.

Incorporating the changes suggested by ERM Power into the RERT Guidelines would, in effect, provide guidance around how AEMO should operationalise the reliability standard. This is outside of the scope of these Guidelines. The Panel also considers that reference to the AER's Forecasting Best Practice Guidelines are not required - AEMO is also required to follow these guidelines in its ESOO process, as required by the NER, to identify a breach of the

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17 AEMO, submission to draft report, p. 2.

18 Noting that the actual lead time may be longer, with some emergency reserves, including the 10-minute product, requiring activation or pre-activation lead times.

19 ERM Power and EUAA: submissions to draft report.

20 Ibid.



reliability standard. AEMO then declares an LRC based on this, according to its latest update of the RSIG.

However, to avoid any doubt in stakeholders' mind and to provide confidence to market participants that the RERT may only be procured following a breach of the reliability standard, the Panel has added a clarifying statement in the final RERT Guidelines to reflect this. Specifically, where a low reserve condition is discussed, the Guidelines note that they are a low reserve condition "as declared by clause 4.8.4 of the NER for a forecast breach of the reliability standard".

Further, AEMO, in its submission, stated that the NER no longer specifies specific LOR level but now allows AEMO make to reserve level declaration guidelines that set out how AEMO will determine an LOR condition.<sup>21</sup> AEMO suggested that the Guidelines should refer generally to declarations under NER 4.8.4 to ensure that the Guidelines do not need to be updated should AEMO change its LOR levels.<sup>22</sup> Alternatively, AEMO suggested including references to LOR3 conditions as it is operationally possible to declare LOR3 without LOR2 being declared.<sup>23</sup>

The Panel agrees with AEMO that flexibility is warranted in this instance in order to minimise the burden of making small changes in order to align guidelines, e.g. if AEMO changes its LOR levels and naming convention through the reserve level declaration guidelines, the Panel would need to update its RERT Guidelines. As a result, the Panel has added "such as a LOR2 or LOR3" to its guidance with respect to the procurement trigger and dispatch trigger in the final Guidelines. This introduces flexibility such that AEMO may introduce new levels with the need to update the Guidelines.<sup>24</sup> At the same time, it keeps the existing practice as part of the Guidelines, to provide further confidence to stakeholders with respect to the procurement trigger.

### **Stakeholder comments on procurement lead time**

ERM Power, in its submission to the draft report, suggested that the extension of the long-notice RERT to 12 months is a case to extend the medium-notice RERT to 13 weeks (from 10 weeks).<sup>25</sup> This was echoed in EUAA's submission.<sup>26</sup>

The experience of RERT in the past two summers has not provided any specific lessons in terms of the medium-notice RERT. The Panel acknowledges that it would be worthwhile, over the coming summers, should the RERT be used, to identify any potential improvements to the medium-notice period. The Panel intends to work with AEMO on this, with the intent of considering changes to the medium-notice period in a more comprehensive review of the RERT Guidelines after the enhanced RERT framework has been used. Further, as noted by

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21 AEMO, submission to draft report, p. 2.

22 Ibid.

23 Ibid.

24 Although the Panel may still choose to do so to reflect current practice.

25 ERM Power, submission to draft report, p. 2.

26 EUAA, submission to draft report, p. 1.

AEMO in its submission to the draft report, there are still lessons to be learnt from the AEMO-ARENA trial which is currently underway.<sup>27</sup>

The Panel did not make any changes to the medium-notice period in the final Guidelines.

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<sup>27</sup> AEMO, submission to draft report, p. 2.

## ABBREVIATIONS

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Commission	See AEMC
EAAP	Energy adequacy assessment projection
LOR	Lack of reserve notices
MT PASA	Medium term projected assessment of system adequacy
NEL	National Electricity Law
NEO	National electricity objective
RERT	Reliability and emergency reserve trader
VCR	Value of customer reliability