

1 June 2009

Mr Ian Woodward
Chairman
AEMC Reliability Panel
PO Box A2449
Sydney South NSW 1235
Australia

Your Project Ref: REL0035

By email: submissions@aemc.gov.au

Dear Ian,

**Submission on Improved RERT Flexibility and Short-term Reserve Contracts -
Exposure Draft Rule and Interim RERT Guidelines**

Thank you for the opportunity to make a submission to the AEMC Reliability Panel (**the Panel**) on its proposed changes to the interim RERT Guidelines (**the Guidelines**) and associated National Electricity Rules (**Rules**). The proposed changes seek to improve the flexibility of the current RERT arrangements by allowing NEMMCO to contract for reserves at short notice through the operation of a RERT panel.

The AEMC's terms of reference (**ToR**) for this review required the Panel to consider "the need and possible design of a short-term version of the Reliability and Emergency Reserve Trader (**RERT**) that could be used in a critical emergency", and noted a desire for NEMMCO to implement any appropriate changes in preparation for the summer of 2009/10.

NEMMCO notes the terms of reference arise from an earlier directive of the Ministerial Council on Energy (**MCE**) to "review energy market frameworks in light of the impact on electricity supplies of the extreme heat wave of 29-31 January 2009". The terms of reference are also consistent with an MCE request that NEMMCO review options for increased flexibility in the RERT arrangements. NEMMCO is pleased to be able to work with the Panel to progress this increased flexibility.

NEMMCO considers that it would be unrealistic to expect the proposed arrangements to fully mitigate the need for load shedding given a repeat of the circumstances of the 29-31 January 2009.

Notwithstanding this, NEMMCO broadly supports the proposed changes, and we note that the inclusion of a panel arrangement in the proposed Guidelines is consistent with NEMMCO's submission to the proposed National Electricity Amendment (NEM Reliability Settings: Information, Safety Net and Directions) Rule 2008.

NEMMCO considers that it is very important to have a clear and common understanding of the proposed arrangements, given that NEMMCO will be required to amend its RERT procedures in an expedited manner based on the amended Rules and our interpretation of the proposed Guidelines. To this end, Attachment 1 of this submission outlines our understanding of the proposed arrangements.

NEMMCO appreciates the opportunity to work with the Reliability Panel to discuss the design of the proposed arrangements so the most efficient outcome can be achieved.

NEMMCO has identified some issues with the proposed arrangements and its interaction with the existing arrangements for which we seek clarification, and have suggested changes where this is appropriate.

Attachment 2 of this submission outlines those issues, in terms of:

- The interaction between current and future RERT arrangements, specifically:
 - the interaction with the RERT rolling tender process; and
 - the interaction between the current and future RERT procedures,
- The proposed Interim RERT Guidelines, specifically:
 - the need for the RERT Panel to provide indicative prices;
 - the need for NEMMCO to ensure contracted reserve is not otherwise available; and
 - the contracting and use of reserves for power system security events, and
- The limited time for NEMMCO to implement amended interim RERT procedures

Attachment 3 provides our comments on the proposed Rule changes and transitional arrangements.

Attachment 4 provides our suggested marked-up changes to the proposed interim RERT Guidelines to address the issues mentioned above, and our rationale for these changes.

We look forward to the Panel's consideration of our submission. If there are an enquiries regarding this submission please contact Ross Gillett on (02) 9239 9114.

Yours sincerely,



Brian Spalding
Chief Executive Officer

ATTACHMENT 1: NEMMCO Understanding of Proposed Arrangements

NEMMCO understands the proposed arrangements are as follows:

NEMMCO/AEMO would conduct a full and open tender process to procure reserves per the current arrangements, but only where NEMMCO/AEMO has more than 10 weeks' notice (long-notice) of a projected reserve shortfall. To put it another way, NEMMCO/AEMO must not resort to an expedited tender process through the RERT Panel where it has more than 10 weeks' notice of a projected reserve shortfall.

NEMMCO/AEMO would create and operate a RERT panel of pre-qualified providers that would allow NEMMCO/AEMO to expedite the negotiation and contracting of reserves in situations where it has less than 10 weeks' notice of a projected reserve shortfall. Panel recruitment would be by way of a standing invitation for expressions of interest to provide reserves for power system reliability under the two circumstances highlighted below. NEMMCO/AEMO would periodically review new and existing panel membership based on their assessed capability and availability to provide reserves in accordance with those expressions of interest, and with price considerations irrelevant at this stage.

To support the use of a RERT panel, NEMMCO/AEMO would develop a standard form of reserve contract with options to suit situations where:

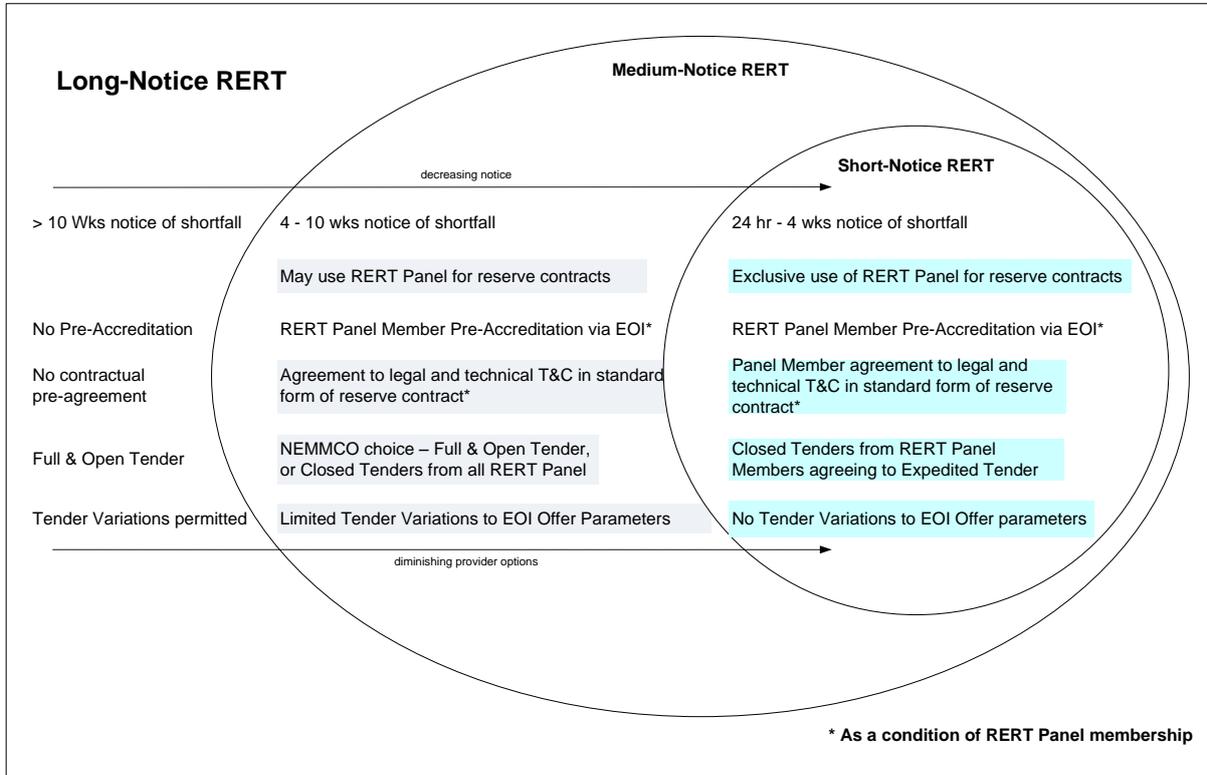
- 1) The provider has between 4-10 weeks' notice (medium-notice) of a projected reserve shortfall; or
- 2) The provider has less than 4 weeks', but more than 24 hours' notice (short-notice) of a projected reserve shortfall.

NEMMCO/AEMO may also use short-notice reserve contracts to address power system security issues in the transmission network.

The standard form of reserve contract would delineate the process to be followed when NEMMCO/AEMO calls for offers to provide reserve, the form of the offer and the terms of acceptance.

NEMMCO/AEMO would select the most appropriate offers tendered, whereupon a reserve contract would be entered into with the provider.

The diagram below illustrates the different contracting approaches aligned with the various notice timeframes. Note that the terms "long-notice RERT", "medium-notice RERT" and "short-notice RERT" have been introduced to better explain our understanding.



ATTACHMENT 2: NEMMCO Issues with Proposed Arrangements

Issues with interaction between current and future arrangements

Interaction with the RERT rolling tender process

NEMMCO understands that the current arrangements include the concept of a rolling tender¹, however we are unsure how that process would interact with the proposed RERT panel arrangement and we seek clarification of this as we think it could make the rolling tender process largely redundant.

Interaction between current RERT procedures and future interim RERT procedures

Section 9.1 of the current RERT procedures expressly prohibits the use of a RERT panel arrangement, based on NEMMCO's interpretation of the Rules and the AEMC's Final Determination on the National Electricity Amendment (NEM Reliability Settings: Information, Safety Net and Directions) Rule 2008², and the current version of the RERT Guidelines³.

As the Reliability Panel has now proposed amendments that allow NEMMCO to use a RERT panel, we need to get a better understanding of how the Reliability Panel proposes to resolve the contradiction.

Issues with Interim RERT Guidelines

The need for RERT Panel Members to provide indicative prices

Sections 6.2 and 6.3 of the proposed Guidelines require that expressions of interest from prospective members of the RERT panel include "indicative enablement and usage prices". NEMMCO is unclear how indicative prices would be used to assess an application for RERT panel membership, given that the focus at that stage would be only on accrediting the availability and capability of the provider to provide reserves.

The need for NEMMCO to ensure contracted reserve is not otherwise available

NEMMCO supports the objective of avoiding double payments to providers who provide reserves to NEMMCO through the RERT process while they also provide reserves to another party through another arrangement. We note that section 7.2 of the proposed Guidelines imposes an additional requirement on NEMMCO to confirm the accuracy of the RERT panel members' declaration of reserve availability in the event that we dispatch or activate such reserves and before we make a settlement payment in relation to that event.

¹ See section 2.10 of Reliability Panel's Final Report on RERT Guidelines, 24 November 2008, <http://www.aemc.gov.au/Market-Reviews/Completed/Reliability-and-Emergency-Reserve-Trader-RERT-Guidelines.html>

² AEMC Final Rule determination, 26 June 2008, <http://www.aemc.gov.au/Electricity/Rule-changes/Completed/NEM-Reliability-Settings-Information-Safety-Net-and-Directions.html>

³ Appendix A of Reliability Panel's Final Report on RERT Guidelines, 24 November 2008, <http://www.aemc.gov.au/Market-Reviews/Completed/Reliability-and-Emergency-Reserve-Trader-RERT-Guidelines.html>

We consider this requirement imposes an unnecessary administrative burden on NEMMCO, since NEMMCO would have already sought and received an undertaking from the provider and made inquiries prior to entering into a reserve contract. Furthermore, there is a requirement in section 9.4(b) of the RERT procedures that NEMMCO reject any tenders where the tenderer has not provided their consent to enable NEMMCO to make appropriate market inquiries. We consider that this would be sufficient protection to ensure that only those tenderers whose offered reserve was not otherwise made available to the market would seek to submit tenders.

We also note that this requirement does not appear to apply consistently to all reserve contracts with longer notice lead-times, and query why this is so.

The contracting and use of reserves for power system security events

The consultation document and the requirements in section 9 of the proposed Guidelines do not seem to address the use of RERT for power system security purposes in a consistent and logical manner.

Can NEMMCO only use existing reserve contracts to address a power system security issue? Can NEMMCO also enter into new reserve contracts solely to address a power system security issue?

The dot points in section 9 seem to imply we can do both, and if that is the case then we seek clarification that only existing RERT Panel members would be called upon to tender where there is short notice of a power system security issue

Furthermore, where reserve contracts are established to address power system security issues, the following also needs clarification:

- Should NEMMCO follow any or all of the RERT processes outlined in the previous sections of the Guidelines?
- What is the basis for determining the allocation of reserve contract costs between Market Customers?

Proposed Rule 11.xx.3(a) requires that the proposed Guidelines include “matters relevant to NEMMCO contracting for reserves for short term reliability of supply and power system security situations. Proposed Rule 11.xx.2(a) then requires NEMMCO to develop and publish procedures “with respect to measures to contract for reserves for short term reliability of supply and power system security situations”.

How would NEMMCO meet this obligation when the proposed Guidelines are silent on the contracting of reserves for power system security purposes?

More guidelines for the contracting of reserves for power system security purposes are required in the proposed Guidelines.

Limited Time for NEMMCO to implement amended interim RERT procedures

NEMMCO is also concerned with the limited time allowed for NEMMCO to develop and publish amendments to its RERT procedures. The proposed amendment to clause 11.xx.2(a) of the Rules requires that NEMMCO complete this process within one month of the commencement date of the Amending Rule. The proposed amendment to clause 11.xx.3(a) of the Rules also requires that the Reliability Panel publish its interim RERT Guidelines within two weeks of the commencement date of the Amending Rule.

Taken together, this effectively means that NEMMCO might only have two weeks from the publication of the interim RERT Guidelines for which to develop and publish its interim RERT procedures.

Although NEMMCO is not required to formally consult on any changes to its interim RERT procedures, we still consider the time allowed is inadequate given the proposed additional complexity of the RERT process, and we believe that at least two months from the Rule commencement date would be more appropriate.

ATTACHMENT 3: NEMMCO Comments on Proposed Rule Changes

Proposed Rule Change	Reliability Panel's Rationale	NEMMCO Comment
Insert clause 3.20.3(d1): <u>(d1) For the avoidance of doubt, NEMMCO may negotiate with potential tenderers at any time.</u>	Clarify that NEMMCO can negotiate reserve contracts at anytime, thus allowing NEMMCO to form a RERT panel	No comment
Amend clause 3.20.7(a): (a) Notwithstanding clauses 4.8.5A and 4.8.5B, if NEMMCO considers the latest time for exercising the RERT by: ... has arrived, NEMMCO may dispatch such scheduled reserves or activate such unscheduled reserves <u>in order to ensure that the reliability and, where allowed by under RERT guidelines, the security of supply in a region or regions meets the relevant power system security and reliability standards established by the Reliability Panel for the region, or regions.</u>	Clarify that NEMMCO may dispatch contracted reserves during both reliability and security events	NEMMCO is responsible for the reliability of supply (reliable operating state) and power system security, NOT "security of supply". We suggest the following reword, in line with NEMMCO Rule obligation: (a) Notwithstanding clauses 4.8.5A and 4.8.5B, if NEMMCO considers the latest time for exercising the RERT by: ... has arrived, NEMMCO may dispatch such scheduled reserves or activate such unscheduled reserves in order to ensure that the reliability and, where allowed by under RERT guidelines, <u>power system security</u> the security of supply in a region or regions meets the relevant power system security and reliability standards established by the Reliability Panel for the region, or regions.
Insert clause 3.20.7(h): <u>(h) NEMMCO must, in respect of its procedures referred to in paragraph (e), publish</u>		The term "short term" is inconsistent with its use in the Guidelines, as the amended Guidelines are intended to also cover situations where there is insufficient notice (less than 10 weeks) to conduct a full and open tender for reserve

<p><u>amendments with respect to measures to contract for reserves for short term reliability of supply and power system security situations by 30 September 2010.</u></p>		<p>contracting. We propose:</p> <p>(h) <i>NEMMCO</i> must, in respect of its procedures referred to in paragraph (e), <i>publish</i> amendments <u>by 30 September 2010</u>, with respect to measures to contract for reserves for short term reliability of <i>supply and power system security</i> situations by 30 September 2010, where there is less than 10 weeks’ notice of a projected shortfall in reserves.</p>
<p>Insert clause 3.20.8(a)(5):</p> <p>(a) For the purposes of this rule 3.20, the <i>Reliability Panel</i> must develop and <i>publish</i> guidelines (the '<i>RERT guidelines</i>') for or with respect to ...</p> <p><u>(5) the process <i>NEMMCO</i> should undertake in contracting for reserves for short term reliability of supply and power system security situations;</u></p>	<p>Clarify that the Panel is to include the process <i>NEMMCO</i> should undertake in contracting for reserves including the process for reserve contracts for short-term situations</p>	<p>Again, the term “short term” is inconsistent with its use in the Guidelines, as the amended Guidelines are intended to also cover situations where there is insufficient notice (less than 10 weeks) to conduct a full and open tender for reserve contracting. We propose:</p> <p>(a) For the purposes of this rule 3.20, the <i>Reliability Panel</i> must develop and <i>publish</i> guidelines (the '<i>RERT guidelines</i>') for or with respect to ...</p> <p>(5) the process <i>NEMMCO</i> should undertake in contracting for reserves for short term reliability of <i>supply and power system security</i> situations; <u>where there is less than 10 weeks’ notice of a projected shortfall in reserves;</u></p>
<p>Insert clause 3.20.8(d):</p>		<p>As in the above comment, “short term” is inconsistent with its use in the Guidelines. We propose:</p>

<p>(d) The <i>Reliability Panel</i> must, in respect of the <i>RERT guidelines</i> referred to in paragraph (b), <i>publish</i> amendments with respect to matters relevant to <i>NEMMCO</i> contracting for <i>reserves</i> for short term reliability of <i>supply</i> and <i>power system security</i> situations.</p>		<p>(d) The <i>Reliability Panel</i> must, in respect of the <i>RERT guidelines</i> referred to in paragraph (b), <i>publish</i> amendments with respect to matters relevant to <i>NEMMCO</i> contracting for <i>reserves</i> for short term-reliability of <i>supply</i> and <i>power system security</i> situations; <u>where there is less than 10 weeks' notice of a projected shortfall in reserves</u>;</p>
<p>Insert Savings and Transitional Rule 11.xx.2: <u>11.xx.2 NEMMCO procedures for exercising RERT</u></p> <p>(a) <u><i>NEMMCO</i> must, in respect of its procedures referred to in clause 3.20.7(e) develop and publish interim amendments with respect to measures to contract for reserves for short term reliability of supply and power system security situations within one month of the commencement date, and may further amend the procedures from time to time prior to 30 September 2010.</u></p> <p>(b) <u>For the purposes of clause 11.xx.2(a):</u> (1) <u><i>NEMMCO</i> is not required to develop, publish or amend the interim amendments to its relevant procedures in accordance with the Rules consultation procedures;</u> (2) <u>the interim amendments to its relevant</u></p>	<p>Allow Reliability Panel to publish interim amendments to the RERT Guidelines and allow NEMMCO to publish interim amendments to the RERT Procedures</p>	<p>Page 19 of the Reliability Panel's consultation report describes this change as "amending the savings and transitional Rule 11.21 to allow the Panel to publish interim amendments to the RERT Guidelines and to allow NEMMCO to publish interim amendments to the RERT Procedures"</p> <p>However the Savings and Transitional Rule proposed for this Amending Rule appears to be in addition to the current Rule 11.21, with each savings and transitional arrangement both in force.</p> <p>As the Reliability Panel has published its first RERT Guidelines and NEMMCO has now published its first RERT procedure, NEMMCO considers that current Rules 11.21.3 and 11.21.4 can be deleted, and for clarity we suggest this change be included in the current set of proposed changes.</p> <p>The other concern we have is the suggestion in paragraph (a) of this transitional rule that</p>

<p><u>procedures must take into account the <i>RERT principles</i> and interim amendments to the <i>RERT guidelines</i> referred to in clause 11.xx.3(a);</u></p> <p><u>(3) the interim amendments to the relevant procedures will cease to apply when <i>NEMMCO publishes</i> amendments to its procedures for the exercise of the <i>RERT</i> as required by clause 3.20.7(h); and</u></p> <p><u>(4) for so long as those interim amendments to the relevant procedures apply, references in rule 3.20 to the procedures referred to in clause 3.20.7(e) are taken to include references to those interim amendments.</u></p>		<p>NEMMCO might be contracting separately for the provision of reserve for system security events. This does not align with section 2.4 of the Reliability Panel's consultation document. We interpret the intention to be that NEMMCO be permitted to use reserve for power system security events where a reserve contract already exists.</p>
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<p>Insert Savings and Transitional Rule 11.xx.2:</p> <p><u>11.xx.3 RERT guidelines</u></p> <p><u>(a) The Reliability Panel must, in respect of its RERT guidelines referred to in clause 3.20.8(c), develop and publish interim amendments with respect to matters relevant to NEMMCO contracting for reserves for short term reliability of supply and power system security situations within two weeks of the commencement date.</u></p> <p><u>(b) All relevant actions taken by the Reliability Panel up to two weeks after the commencement date for the purposes of developing and publishing the interim amendments to the RERT guidelines as required by clause 11.xx.3(a) are taken to satisfy the equivalent actions required for the RERT guidelines under clause 3.20.8(b). For the avoidance of doubt, the Reliability Panel does not need to develop and publish the interim amendments to the RERT guidelines as required by clause 11.xx.3(a) in accordance with clause 8.8.3(d) - (l).</u></p>	<p>Allow Reliability Panel to publish interim amendments to the RERT Guidelines and allow NEMMCO to publish interim amendments to the RERT Procedures</p>	<p>Proposed Clause 11.xx.3(a) requires that the Reliability Panel publish its interim RERT Guidelines within two weeks of the Amending Rule commencement date.</p> <p>Proposed Clause 11.xx.2(a) requires that NEMMCO publish its interim RERT procedures after publication of the above RERT Guidelines and within one month of the Amending Rule commencement date.</p> <p>As previously discussed in this submission, the combination of these requirements might effectively only allow NEMMCO two weeks to develop and publish its interim RERT procedures, which we consider is inadequate given the additional complexity in developing the RERT panel arrangements and associated legal instruments.</p> <p>Similar to our above comments on clause 11.xx.2(a), we are concerned with the suggestion in paragraph (a) of this transitional rule that NEMMCO might be contracting separately for the provision of reserve for system security events, and again we interpret the intention to be that NEMMCO be permitted to use reserve for power system security events where a reserve contract already exists.</p>
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ATTACHMENT 4: NEMMCO Proposed Changes to Interim RERT Guidelines

Refer to enclosed marked-up copy of interim RERT Guidelines

ATTACHMENT 4: NEMMCO Proposed Changes to Interim RERT Guidelines

Exposure Draft Interim Reliability and Emergency Reserve Trader (RERT) Guidelines

(under clause 3.20.8 of the National Electricity Rules)

1 Interpretation

Italicised expressions in the *RERT guidelines* have the meaning given to that expression in the glossary in Chapter 10 of the National Electricity Rules (*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 NEMMCO to take all reasonable actions to ensure reliability of *supply* by negotiating and entering into contracts to secure the availability of *reserves* under *reserve contracts*.¹ NEMMCO must take the *RERT guidelines* into account (among other things) when exercising the *RERT*.²

The *Reliability Panel* must develop and *publish* the *RERT guidelines* for or with respect to:³

- (1) what information NEMMCO 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 NEMMCO may take to be satisfied that the *reserves* that are to be the subject of a *reserve contract* is not available to the *market* through any other arrangement;
- (4) the process NEMMCO should undertake in contracting for *reserves* including the process for tendering for contracts for such *reserves*;
- (5) the process NEMMCO should undertake in contracting for *reserves* including the process for *reserve contracts* for short-term reliability or security situations;
- (6) any specific or additional assumptions about key parameters that NEMMCO must take into account in assessing the cost effectiveness of exercising the *RERT*;
- (7) matters relevant to NEMMCO managing a portfolio of *reserve contracts*; and

¹ Rule 3.20 of the *Rules*.

² Clause 3.20.2(a) of the *Rules*.

³ Clause 3.20.8(a) of the *Rules*.

- (8) additional forecasts that NEMMCO should take into account prior to exercising the RERT.

Sections 3 to ~~xx9~~ of this document set out the RERT guidelines developed by the Reliability Panel.⁴

Comment [A1]: Typo

3 Operation of the RERT

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

- (1) Stage 1: when NEMMCO is determining whether to enter into contracts for the provision of additional reserves under clause 3.20.3; and
- (2) Stage 2: when NEMMCO 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 NEMMCO must take into account when deciding whether to exercise the RERT

NEMMCO must inform itself of the circumstances relating to reliability of supply when deciding whether to exercise the RERT. NEMMCO must 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) Where NEMMCO determines it has more than four weeks of notice of a projected shortfall in reserves

Comment [A2]:
Need to clarify what the four weeks' notice relates to.

When it is considering whether to enter into reserve contracts during Stage 1 of the RERT process, NEMMCO may take into account:

- the details of the outcome of the medium term PASA;
 - the details of the drought studies prior to NEMMCO publishing the first energy adequacy assessment projection (EAAP) (due on 31 March 2010), and the outcome of the EAAP after the publication of the first EAAP⁵; and
 - any other information that NEMMCO reasonably identifies to be necessary.
- (b) Short term situations where NEMMCO has between twenty four hours and four 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 medium-term and short-term situations, NEMMCO may take into account:

⁴ Developed in accordance with Clause 3.20.8 of the Rules.

⁵ In the AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions*, Final Rule Determination (26 June 2008, Sydney), the Commission noted that while the EAAP will not be used to trigger market intervention by NEMMCO, the EAAP will provide an additional source of information to assist NEMMCO in assessing the likelihood of energy shortfalls in the NEM.

- the details of the outcome of the *medium term PASA*, *short term PASA* and *pre-dispatch* processes;
- the details of the drought studies prior to NEMMCO publishing the first *energy adequacy assessment projection (EAAP)* (due on 31 March 2010), and the outcome of the EAAP after the *publication* of the first EAAP⁶; and
- any other information that NEMMCO reasonably identifies to be necessary.

4.2 During Stage 2 of the RERT process

During Stage 2 of the *RERT* process, NEMMCO 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*:

- 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 NEMMCO reasonably identifies to be necessary.

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 NEMMCO must have regard to in exercising the *RERT*. These principles are:

- (1) actions taken should be those which NEMMCO 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*, NEMMCO must have regard to the action that is expected to create 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, NEMMCO must consider:

- how it tenders and contracts for *reserves*;
- not setting the *dispatch price* from contracted *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 *intervention price dispatch interval* at a value which NEMMCO, in its reasonable opinion, considers would have applied had the NEMMCO *intervention event* not occurred.

The considerations above aim to reduce the distortionary impacts from NEMMCO 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*.

⁶ In the AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions*, Final Rule Determination (26 June 2008, Sydney), the Commission noted that while the EAAP will not be used to trigger *market* intervention by NEMMCO, the EAAP will provide an additional source of information to assist NEMMCO in assessing the likelihood of energy shortfalls in the NEM.

Field Code Changed

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 NEMMCO in consultation with the relevant *participating jurisdictions* in accordance with clause 3.20.3 of the *Rules*. The factors that would be relevant to this consideration and consultation include:

- the cost for stages 1 and 2 (as defined to 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 NEMMCO would need to pay if it terminates an existing contract early (this is unlikely to apply in short-term 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.

6 NEMMCO's use of a RERT panel

Explanatory note

The Panel's initial set of *RERT* Guidelines that were published in November 2008 did not support NEMMCO forming a panel of potential suppliers of contracted *reserves*. NEMMCO was concerned because the AEMC in its determination indicated that it considered that the use of a panel may restrict competition and a full tender process should be used.⁷ However, the Panel considers that it is beneficial to clarify that NEMMCO may use a *RERT* panel to increase its flexibility when contracting for *reserves* but NEMMCO is expected to use the full tender process when more than ten weeks of notice exists.

6.1 Constitution of the RERT Panel

NEMMCO should form a RERT panel of entities that may be called upon to tender for, and enter into, a contract for reserves where there is less than 10 weeks' notice of a projected shortfall in reserves.

⁷ The AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions*, Final Rule Determination (26 June 2008, Sydney) is available on the AEMC website.

Comment [A3]:

This statement indicates that NEMMCO cannot use the RERT panel when it has more than 10 weeks' of notice, whereas Section 6.1 below states "NEMMCO should not rely exclusively on the RERT panel when it has more than ten weeks notice of a projected need for contracted reserves". This indicates that NEMMCO may use the RERT panel, as long as it is not used exclusively, when it has more than 10 weeks notice.

These statements need to be consistent.

Moreover, we understand that we are, at present, not permitted to use a Panel arrangement for anything.

NEMMCO should:

- operate the RERT panel on an ongoing basis and regularly recruit new RERT panel members;
- treat information on the RERT panel membership as confidential; and

Members of the RERT panel:

- would negotiate and agree with NEMMCO on technical and legal requirements in sufficient detail for them to be able to enter in reserve contracts if NEMMCO uses the RERT with less than 10 weeks' of notice of a projected shortfall in reserves;
- do not receive any payments from NEMMCO for being a member of the RERT panel;
- are free to contract their capacity with other parties, including Market Participants; and
- should advise NEMMCO, to the extent possible, if their reserves are not able to be contracted under the RERT over any period in the next two years due to the fact that it is already contracted to other parties.

6.16.2 Operation of the RERT panel in long-term situations (with more than ten weeks of notice)

The Panel considers that NEMMCO should not rely exclusively on the RERT panel when it has more than ten weeks notice of a projected shortfall in need for contracted reserves. Under these conditions NEMMCO should conduct a full tender process which should include requesting tender responses from both members of the RERT panel and other potential reserve providers.

6.26.3 Operation of the RERT panel for in medium-term situations with (between four and ten weeks of notice)

[RG: The highlighted paragraphs below are common to both the medium-term (4-10 weeks) & short-term (24 hours-4 weeks) RERT processes, and has been moved to new section 6.1 under the Explanatory Note above]

NEMMCO should form a RERT panel of entities that can potentially provide reserves under contract;

NEMMCO should:

- operate the RERT panel on a continuous basis and regularly recruit new RERT panel members;
- treat information on the RERT panel membership as confidential; and

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

Members of the RERT panel:

- would negotiate technical and legal issues with NEMMCO in sufficient detail for them to be able to enter in reserve contracts if NEMMCO uses the RERT at short notice;
- do not receive any payments from NEMMCO for being a member of the RERT panel;
- are free to contract their capacity with other parties, including Market Participants; and

Comment [A4]:

Clarify that RERT panel members should notify NEMMCO of changes to their previously-advised reserve availability for any periods over the next two years. If their reserve is unavailable over the whole two year period, then NEMMCO may reconsider their panel membership.

Comment [A5]:

This statement is ambiguous.

We interpret this as saying NEMMCO should not rely on the existence of the RERT panel where there is more than 10 weeks' notice of a shortfall - that is, NEMMCO must go through a full and open tender process.

Field Code Changed

- should advise NEMMCO, to the extent possible, if their reserves are not able to be contracted under the RERT over the next two years.

The Panel considers that the expressions of interest from entities that wish to be members of the RERT panel for short/medium-term 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 indicative enablement and usage prices;
- any period in the next two years during which the service would be unavailable due to the fact that it is already contracted to other parties;
- submitting an expression of interest that conforms to the service description in the standard form of RERT reserve contract;
- an estimate of the likelihood that the service would be available if the RERT panel member was advised of a requirement within between four and ten weeks of notice;
- twenty four hour contact details; and
- an undertaking to advise NEMMCO of changes of any of the above details as soon as reasonably practical after the RERT panel member becomes aware of the change.

6.36.4 Operation of the RERT panel in short-term situations (between twenty four hours and four weeks of notice)

The Panel considers that, in addition to the requirements in sections 6.1 and to 6.26.3, for situations with between twenty four hours and four weeks of notice of a projected shortfall in reserves:

- NEMMCO will/would need to develop a standard form for of reserve contracts in situations with between twenty four hours and four weeks of notice; and
- members of the RERT panel that are interested in providing reserves with between twenty four hours and four weeks of notice will be required to provide NEMMCO with confirmation of the location and availability of their reserves, and to tender prices for the provision of such reserves to NEMMCO. detailed expressions of interest to provide reserves.

The Panel considers that the expressions of interest from entities that wish to be members of the RERT panel for short-term 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 continuous available;
- the enablement time required prior to actual usage;
- the indicative enablement and usage prices;
- any period in the next two years in the future during which the service would be unavailable due to the fact that it is already contracted to other parties;
- submitting an expression of interest that conforms to the service description in the standard form of short-term RERT reserve contract, thus indicating their willingness to

Comment [A6]:

Typo – this section is referring to the medium-term, not the short-term

Comment [A7]: Typo

Comment [A8]:

We question whether indicative prices are fair and equitable criteria for being a panel member, and how NEMMCO would use such prices anyway, given our focus at this stage is on accrediting their physical availability and capability to provide reserves

Comment [A9]:

We consider it is better to leave out the “service description” qualification, as the service being offered is simply reserve as defined in the Rules, and the EOI must conform to ALL of the standard form of contract anyway.

Comment [A10]:

This clarification is required, as the reference to a ‘detailed’ EOI here is incorrect. Panel members would be tendering at this stage.

RERT panel applicants submit an EOI for assessment by NEMMCO. At a later stage when NEMMCO calls for reserve offers from the RERT Panel to address a shortfall, NEMMCO does not want them to update their EOI, but to submit a tender confirming their reserve availability and including tender prices for that reserve.

Comment [A11]: Typo

Comment [A12]:

Per comment [A8] above, we question whether indicative prices are fair and equitable criteria for being a panel member, and how NEMMCO would use such prices anyway, given our focus at this stage is on accrediting their physical availability and capability to provide reserves

Comment [A13]:

“In the future” is vague - why is this different to what is prescribed for the medium-term RERT process? RERT Panel members should provide timely advice of any changes to availability over the next two years. This would then also align with the MTPASA outlook.

Comment [A14]:

Same as comment [A9]

Comment [A15]:

Need to distinguish between standard form of contracts used in medium-term (4-10 weeks’ notice) versus short-term (24 hours to 4 weeks’ notice)

participate in an expedited tendering process for the provision of *reserves* if called upon by NEMMCO with between twenty four hours and four weeks of notice;

- an estimate of the likelihood that the service would be available if the RERT panel member was advised of a requirement within between twenty four hours and four weeks of notice;
- twenty four hour contact details; and
- an undertaking to advise NEMMCO of changes of any of the above details as soon as reasonably practical after the RERT panel member becomes aware of the change.

When NEMMCO makes a decision to ~~procure RERT services~~ contract for *reserves* with between twenty four hours and four weeks of notice then it would publish to all members of the RERT panel 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 min/max usage times etc);
- the required enablement time;
- the proposed enablement and usage prices; and
- confirmation that the service is not already contracted for the period covered by the schedule.

Based on this information NEMMCO 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.

In short-notice situations of between twenty four hours and four weeks of notice of a projected shortfall in reserves, NEMMCO reserves the right to only invite tenders from those RERT panel members that agreed to participate in an expedited tendering process and to submit complying service offers.

7 Actions that NEMMCO 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

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

7.1 Situations of more than four weeks of notice

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

- requiring a tenderer⁸ at the initial tender process stage for *reserve contracts* to enter into an undertaking with NEMMCO which states that the *reserve* is not available to the *market* through any other arrangement;
- making reasonable enquiries in the *market*;

⁸ A tenderer means a prospective party to a reserve contract.

Comment [A16]:

The following highlighted section describes the process of calling for tenders based on the registered EOL, and applies to BOTH the medium-term and short-term RERT.

We suggest it is either repeated under (old) section 6.2, OR moved to the common section 6.1

Comment [A17]:

This right means that NEMMCO can choose to invite tenders from ANY RERT panel member to address a short-term issue, and can reject non-complying tenders.

Comment [A18]:

Consistent with earlier wording

Field Code Changed

- assessing any information that is available to NEMMCO and relevant to whether the *reserves* are available to the *market* through any other arrangement; and
- improving NEMMCO's measures when it develops its *RERT procedures* to reduce the likelihood that NEMMCO 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.⁹

7.2 Short term situations with between twenty four hours and four weeks of notice

In short term situations, with between twenty four hours and four weeks of notice of a projected shortfall in reserves, the steps that NEMMCO may take to inform itself if the *reserves* are not the subject of other arrangements should include:

- requiring a member of the *RERT panel* to inform NEMMCO when the *reserves* for which the expression of interest relates to are no longer available to the *market* as a result of another arrangement; and
- prior to contracting of *reserves*, NEMMCO must 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.

~~Following dispatch or activation of reserves and prior to settlement, NEMMCO must check the accuracy of the RERT panel members' declaration by:~~

- ~~making reasonable enquiries in the market; and~~
- ~~assessing any information that is available to NEMMCO and relevant to whether the reserves are available to the market through any other arrangement.~~

~~NEMMCO should include a provision in its reserve contracts that prevent payment under the contract when the reserves have been shown to be subject to another arrangement at the time the reserves are contracted for, dispatched or activated.~~

NEMMCO's *RERT procedures* should consider what measures are necessary to reduce the likelihood that NEMMCO 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.¹⁰

8 Process for contracting for reserve including the tender and RERT panel processes for reserve contracts

Under clause 11.21.3 of the *Rules*, before NEMMCO publishes the first procedures for the exercise of the *RERT* (due by 30 June 2009), it may develop, publish, and may amend from time to time, interim procedures for the exercise of the *RERT*. Under clause 3.20.7(e) of the *Rules*, NEMMCO must develop, *publish*, and may amend from time to time, in accordance with the *Rules consultation procedures*, procedures for the exercise of the *RERT* that take into account the *RERT principles* and the *RERT guidelines*.

⁹ NEMMCO is required to take into account the *RERT Guidelines* when it develops its *RERT procedures* in accordance with clause 3.20.7(e).

¹⁰ NEMMCO is required to take into account the *RERT Guidelines* when it develops its *RERT procedures* in accordance with clause 3.20.7(e).

Comment [A19]:

We consider this requirement imposes an unnecessary administrative burden on NEMMCO, given that NEMMCO has already sought and received an undertaking from the reserve provider and made inquiries prior to entering into the reserve contract.

This is aside from the practical and legal issues of NEMMCO being able to identify and quantify the contractual breach, raise a dispute and have that dispute resolved in favour of withholding their reserve contract payment.

Such a process would incur additional compliance costs on NEMMCO and hence the market.

Also this requirement does not appear to apply to other reserve contracts entered into to address issues with longer notice.

In summary, we would prefer deletion of this after-the-event obligation.

8.1 Process for contracting for reserves for reserve contracts with more than ten weeks of notice

The relevant actions that NEMMCO may take in relation to the exercise of the RERT with more than ten weeks of notice 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 it 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 NEMMCO is determining whether to contract for *reserves* in;
- calling for tenders *from RERT panel* 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 NEMMCO, 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 NEMMCO considers to be the optimal portfolio of *reserve contracts*;
- monitoring the *medium term PASA* and the *EAAP* to determine if there have been any changes since the tenders were prepared and evaluated;
- 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.

Comment [A20]:

With more than 10 weeks' notice NEMMCO would call for public tenders – that is, not only from the RERT Panel.

We suggest deletion of the “RERT Panel” reference, given that our permission to use RERT panel (but not exclusively) is already covered earlier.

8.2 Process for contracting for reserves for reserve contracts with between four and ten weeks of notice

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

- establishing arrangements for contracting for *reserves* in situations where there is between four and ten weeks of notice;
- continually monitoring the *medium term PASA* and the *EAAP*, and any other information it 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 NEMMCO is determining whether to contract for *reserves* in;
- *advising on RERT panel members in relation to providing for reserves in the respective regions or in some circumstances, combined regions*;

Comment [A21]:

The order of the following dot points does not appear to follow a logical sequence, mixing up Contracting (stage 1) with Dispatch/ Activation (stage 2)

Comment [A22]:

What does this dot point mean?

We believe it is referring to the process of NEMMCO advising the RERT panel members of the reserve requirement & inviting priced reserve offers from them.

However if it relates to the previous dot point, that is, require NEMMCO to provide advice to relevant participating jurisdictions on individual RERT panel membership, then NEMMCO disagrees, as RERT Panel membership must remain confidential.

Field Code Changed

- evaluating the **reserve offers** from RERT panel members and dispensing with any 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 NEMMCO, taking into account the optimal combination of contracts to deliver the *reserves* necessary to meet the shortfall;
- selecting the **reserve offers** that NEMMCO considers to be the optimal portfolio of *reserve contracts*;
- monitoring the *medium term PASA* and the *EAAP* to determine if there have been any changes since the offers were prepared and evaluated;
- 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.

Comment [A23]:
Clarify the nature of the offer

Comment [A24]:
Clarify the nature of the offer

Comment [A25]:
The order of the following dot points does not appear to follow a logical sequence, mixing up Contracting (stage 1) with Dispatch/ Activation (stage 2)

Comment [A26]:
NEMMCO would have already evaluated many of the EOIs prior to this stage, when the entities initially applied for RERT panel membership.

When/if NEMMCO subsequently identifies a projected need to contract reserves, NEMMCO would then invite priced reserve offers (based on capability and availability in the registered EOI) and evaluate all reserve offers to meet the projected need.

8.3 Process for contracting for reserves for reserve contracts in short-term situations

The relevant actions that NEMMCO may take in relation to the exercise of the contracting for reserves for situations with between twenty four hours and four weeks of notice of a projected shortfall in reserves, as defined in clause 3.20.8(a)(5), include:

- establishing arrangements for contracting for reserves in situations where there is between twenty four hours and four weeks of notice;
- continually monitoring the *pre-dispatch schedule*, *short term PASA*, *medium term PASA* and the *EAAP* for periods of low reserves;
- determining whether to enter into *reserve contracts*;
- consulting with persons nominated by the relevant *participating jurisdictions* which NEMMCO is determining whether to contract for reserves in;
- using a RERT panel arrangement for the purpose of identifying expressions of interest for entities with capacity to contract for reserves;
- advising on RERT panel members in relation to providing for reserves in the respective regions or in some circumstances, combined regions;
- evaluating the **reserve offers expressions of interest** from the RERT panel members;
- selecting the optimal portfolio of *reserve contracts* to meet a shortfall from the available expressions of interest using reasonable endeavours, taking into account the amount of notice available;
- monitoring the *pre-dispatch schedule*, *short term PASA*, *medium term PASA* and the *EAAP* to determine if there have been any changes since the expression of interest were evaluated;
- 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.

Comment [A27]:
This requirements outlined in this section need clarification.

Can NEMMCO only use existing reserve contracts to address a power system security issue? Or can NEMMCO also enter into new reserve contracts with RERT panel solely to address a power system security issue?

The dot points imply we can do both, and if that is the case then we need to clarify that only existing RERT Panel members would be called upon to tender where there is short notice of a power system security issue.

Where reserve contracts are used to address power system security issues, the following also needs clarification:

- Should NEMMCO follow any or all of the RERT processes outlined in previous sections?
- What is the basis for determining the allocation of reserve contract costs between Market Customers?

Comment [A28]:
Even though the proposed Rule 11.xx.3(a) indicates that the RERT Guidelines should include matters relevant to NEMMCO contracting for reserves for power system security situations, there is no mention in these Guideline on the aspects of contracting.

More guidelines for the contracting of reserves for system security purposes are required in these Guidelines.

9 Use of contracted reserves for power system security events

NEMMCO may **contract for use reserves contracted** under the RERT to address issues associated with ~~for a~~ **power system security** event in a transmission network if:

Comment [A29]:
"System security" is not the defined term in the Rules. "Power system security" is.

- already suitable contracted *reserves* are in a suitable location; **or**
- there is more than twenty four hours of notice of a power system security event, the event is expected to last longer than twenty four hours and NEMMCO is able to contract with the RERT panel for the associated *reserves* ~~at short notice; or~~
- ~~NEMMCO expects that the security event will last longer than twenty four hours and is able to contract for the associated reserves at short notice.~~

Comment [A30]:

The first dot point covers the use of suitable existing reserve contracts, whether or not they are with RERT panel members

Comment [A31]:

Notice of what? The notice should refer to the 'power system security' event.

Also "short notice" is undefined, but implied to be more than 24 hours of notice of a power system security event.

Or does "short notice" have the same meaning as elsewhere in these Guidelines - that is, between 24 hours and 4 weeks of notice?

We suggest removing the reference to "short notice" and combining the last two dot point requirements as NEMMCO would only contract to address a significant (in terms of duration) power system security issue.

Field Code Changed