

Reliability Panel AEMC

## **FINAL REPORT**

### Review of the RERT Guidelines

15 December 2016

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## **About the Reliability Panel**

The Panel is a specialist body within the AEMC and 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. The Panel's responsibilities are specified in section 38 of the National Electricity Law.

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## Summary

The Reliability and Emergency Reserve Trader (RERT) is a mechanism under the National Electricity Rules (Rules) that allows AEMO to contract for additional electricity generation reserves, where there is a projected shortfall. AEMO is able to dispatch these additional reserves to assist it to maintain power system reliability and, where practicable, power system security.

On 23 June 2016, the Australian Energy Market Commission (AEMC or Commission) made a final rule determination on the RERT provisions in the Rules. Among other things, the final Rule reduced the timeframe in which AEMO may contract reserves, from nine months to ten weeks ahead of a projected shortfall.<sup>1</sup>

The final Rule requires the Reliability Panel (Panel) to amend the RERT guidelines (Guidelines) to reflect the changes made as a result of the final Rule.

This final report describes the Panel's amendments to the Guidelines, which include:

- Removing references to 'long-notice situations' in the Guidelines. This provides consistency between the Rules and the Guidelines and clarifies the processes that may be carried out by AEMO in contracting for reserves.
- Clarifying that in 'medium-notice situations', AEMO may contract reserves from RERT panel members or other potential reserve providers. It is desirable that AEMO continue to have flexibility when contracting reserves in an efficient, cost-effective manner, and that AEMO is able to contract reserves from participants that are not necessarily on the RERT panel.

The Guidelines made by the Panel are published with this final report.

The new Guidelines commence on 1 November 2017, on commencement of the final Rule.

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<sup>1</sup> The requirements for the review were set out in a terms of reference. See AEMC, Review of the Reliability and Emergency Reserve Trader Guidelines, AEMC Terms of Reference to the Reliability Panel, 29 September 2016.

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# 1 Introduction

On 23 June 2016, the Australian Energy Market Commission (AEMC or Commission) made a final rule determination on the Reliability and Emergency Reserve Trader (RERT) 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 report sets out the Panel's views on the required amendments to the Guidelines and is structured as follows:

- Chapter 1 provides background and context for the review and sets out 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

The RERT is a mechanism under the Rules that allows AEMO to contract for additional reserves, where reserves are projected to be insufficient to meet the reliability standard.<sup>3</sup> AEMO is able to dispatch these additional reserves to assist it to maintain power system reliability and, where practicable, assist it to meet power system security.

Clause 3.20.8 of the Rules requires the Panel to develop RERT guidelines that outline the scope and principles to be followed by AEMO when procuring reserve capacity. AEMO is required to develop procedures for exercising the RERT, including the process for selecting participants for the RERT panel.

The Guidelines specify that AEMO's operation of the RERT is divided into two stages:<sup>4</sup>

- Stage 1: when AEMO is determining whether to enter into reserve contracts;
- Stage 2: when AEMO is considering whether to dispatch scheduled reserves or activate unscheduled reserves.

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<sup>2</sup> The requirements for the review are set out in a terms of reference. See AEMC, Review of the Reliability and Emergency Reserve Trader Guidelines, AEMC Terms of Reference to the Reliability Panel, 29 September 2016.

<sup>3</sup> Clause 3.9.3C of the Rules defines the reliability standard for generation and inter-regional transmission elements in the NEM to be a maximum expected unserved energy in each NEM region of 0.002 per cent of the total energy demanded in that region for a given financial year.

<sup>4</sup> Clause 3 of the Guidelines and clauses 3.20.3 and 3.20.7 of the Rules.

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. 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); and
3. between three hours and seven days' notice of a projected reserve shortfall (short-notice situation).

As discussed below in section 1.2, the contracting timeframe for a long-notice situation will cease to exist as of 1 November 2017, as per the RERT final Rule.

Under the Guidelines, AEMO may establish a panel of entities, a RERT panel, that can 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 procurement process with other potential reserve providers. That said, AEMO is able to procure reserves from parties who are not members of the RERT panel.

The Guidelines specify that AEMO must use a full tender process when contracting for long-notice situations.

In comparison to the long-notice situations, in short and medium-notice situations AEMO may use the RERT panel. This allows AEMO to:

- assess the need for additional capacity and respond accordingly much closer to real time and when projected shortfalls are more accurate;
- address projected reserve shortfalls that arise at relatively short notice.

Some of the other key aspects of the RERT that are not directly relevant to this review are:

- AEMO must take steps to ensure that the reserves it contracts are not otherwise available to the market.<sup>5</sup>
- AEMO must consult on costs and cost-sharing arrangements with affected participating jurisdictions before entering into a reserve contract. AEMO may recover the costs of reserve contracts from market customers, such as retailers.<sup>6</sup>

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<sup>5</sup> Clause 3.20.3(h) of the Rules; section 7 of the Guidelines.

<sup>6</sup> Clauses 3.20.3(c) and 3.15.9(e) of the Rules.



- RERT panel members are not able to recover any payments from AEMO for being a member of the RERT panel.<sup>7</sup>

## 1.2 Context of the Review

The rule change request submitted by the COAG Energy Council sought to amend the expiry date of the RERT - from 30 June 2016 to 30 June 2019.<sup>8</sup> The COAG Energy Council was concerned that certain market challenges and uncertainty had the potential to cause a breach of the reliability standard, and sought to extend the RERT for another three years until these challenges were better understood.<sup>9</sup>

On 23 June 2016, the AEMC made the RERT final Rule which:

- With effect from 23 June 2016, removed the expiry date for the RERT. As a consequence, the RERT will continue until a rule is made in response to a rule change seeking to remove it from the Rules.
- With effect from 1 November 2017, reduces the timeframe within which AEMO may contract for reserves, from nine months to ten weeks ahead of a projected shortfall.
- Requires the Panel to amend the Guidelines by 28 February 2017, and AEMO to amend the RERT procedures by 1 November 2017, to reflect the final Rule.

The AEMC considered that reducing the timeframes in which AEMO may contract for reserves will minimise potential market distortions of the RERT and have the following benefits:

- Market participants will have greater time and opportunity to respond to a projected shortfall, before AEMO enters into a RERT contract.
- The likelihood that AEMO may crowd out potential market based arrangements would be reduced. For example, retailers could engage with their customers to reduce load.
- AEMO's decisions on their potential use of the RERT could be made closer to real time, using more up to date information. This would reduce the likelihood that reserve contracts are entered into, but not dispatched.

Under the final Rule, the changes to the contracting timeframe will commence on 1 November 2017. Prior to the commencement date, the RERT guidelines and AEMO's RERT procedures must be updated.

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<sup>7</sup> Section 6.1 of the Guidelines.

<sup>8</sup> COAG Energy Council, Extension of the Reliability and Emergency Reserve Trader, Rule Change Request, December 2015.

<sup>9</sup> For example, the uncertainty associated with the changing generation mix (increased penetration of renewables) and whether demand side policies would be implemented.

The terms of reference for this review sets out the review's scope in more detail. It requests the Panel to:

- amend the Guidelines in accordance with the final Rule; and
- clarify the process that AEMO must follow in contracting for reserves for medium-notice situations (seven days to ten weeks ahead of a projected shortfall).

The Guidelines must be amended no later than 28 February 2017.<sup>10</sup>

### **1.3 Process to date**

The Panel must follow the process set out in clause 8.8.3 of the Rules when making changes to the Guidelines.<sup>11</sup> However, the terms of reference amended certain timing requirements in clauses 8.8.3(d), (e) and (j) of the Rules and instead required:

- a draft report and draft Guidelines to be published for a minimum six week consultation period;
- a public meeting to be offered at least two weeks before the end of the consultation period; and
- a final report and final Guidelines to be published no later than 28 February 2017.

The Panel published a draft report and draft Guidelines on 29 September 2016 for a six week consultation period. A public meeting was offered on 19 October 2016 to discuss the proposed amendments to the RERT Guidelines. The public meeting did not proceed as no stakeholders expressed an interest in attending such a meeting.

Consultation on the draft report closed on 10 November 2016 and two submissions were received. A summary of the issues raised in these submissions, and the Panel's responses, are provided at Appendix A.

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<sup>10</sup> Clause 11.90.2 of the Rules.

<sup>11</sup> Clauses 8.8.3(a)(3) and 3.20.8(b) of the Rules.

## **2 Amendments to the RERT Guidelines**

### **2.1 Removal of 'long-notice situations'**

The AEMC's final rule determination reduced the timeframes in which AEMO may contract for reserves from nine months to ten weeks ahead of a projected shortfall. Essentially, AEMO will no longer be able to contract for reserves in long-notice situations.

The Panel notes that retaining references to long-notice situations in the Guidelines beyond 28 February 2017 would create an inconsistency between the Rules and the Guidelines. While the Rules prevail over the Guidelines, any inconsistency could create confusion about the RERT's operation. Consequently, the Panel considers it appropriate that references to long-notice situations in the Guidelines be removed, consistent with the intent of the RERT final Rule. Together with the other amendments to the Guidelines discussed in section 2.2 below, this will provide clarity of the processes that may be carried out by AEMO in contracting for reserves.

Submissions to the draft report did not raise any concerns with the removal of references to long-notice situations from the Guidelines. ENGIE noted that if the Guidelines are made on 28 February 2017 and the final Rule commences on 1 November 2017, there would be a period of time where long-notice situations are allowed in the Rules, but not supported in the Guidelines.<sup>12</sup> However, the final Rule provides that the Guidelines will commence on 1 November 2017<sup>13</sup> and the Panel has made the commencement date clear in the Guidelines.

### **2.2 Clarifying the process for 'medium-notice situations'**

The terms of reference requested the Panel to clarify the process AEMO must use when contracting for reserves in medium-notice situations. The Guidelines previously allowed AEMO to use a RERT panel to contract for reserves in medium-notice situations, but did not explicitly provide for AEMO procuring reserves from parties that are not on the RERT panel (other potential reserve providers).

The Panel considers it appropriate that the Guidelines explicitly provide that AEMO is able to secure reserve contracts with parties that are not on the RERT panel under medium-notice situations. It is desirable that AEMO continue to have flexibility when contracting reserves in an efficient, cost-effective manner.

Submissions to the draft report were generally supportive of these clarifications to medium-notice situations, but made some specific suggestions.

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<sup>12</sup> ENGIE, submission to the draft report, p. 1.

<sup>13</sup> Clause 11.90.2 of the Rules.

AEMO sought clarification around the requirement for AEMO to seek responses from other potential reserve providers.<sup>14</sup> AEMO was concerned that it would be required to carry out a full tender process in medium-notice situations. The Panel has added an explanatory note to section 8 of the Guidelines to clarify that seeking reserve offers from other potential reserve providers is at AEMO's discretion. However, AEMO should also request responses from RERT panel members to not disadvantage those who are on the RERT panel.

ENGIE raised concerns that seeking reserve offers from other potential reserve providers may disincentivise participants from joining the RERT panel.<sup>15</sup> The Panel considers that participants have an incentive to join the RERT panel. RERT panel members have already resolved some of the technical and legal issues, thereby reducing the time necessary to negotiate a reserve contract. The timing required by AEMO to assess and negotiate with other potential reserve providers can make it preferable for AEMO to use the RERT panel.<sup>16</sup> In addition, in short-notice situations reserves can only be provided by RERT panel members.

The Panel has added the following actions for AEMO in medium-notice situations related to seeking reserve offers from both the RERT panel and other potential reserve providers.<sup>17</sup> These are supplementary to the existing actions for AEMO in medium-notice situations:

- calling for reserve offers from other potential reserve providers in relation to providing reserves in the respective regions or, in some circumstances, combined regions;
- evaluating reserve offers and dispensing with any reserve offers that do not provide an undertaking that the reserves are not available to the market through any other arrangements except on terms agreed with AEMO, taking into account:
  - whether the commercial requirements are met;<sup>18</sup>
  - whether the reserve offer is credible, that is, whether it is likely that the RERT panel member or other potential reserve provider can deliver the offered reserves; and

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<sup>14</sup> AEMO, submission to the draft report, pp. 1-2.

<sup>15</sup> ENGIE, submission to the draft report, p. 2.

<sup>16</sup> AEMO previously indicated that a full tender process can be an expensive and lengthy process, of at least ten weeks' duration, based on its experience contracting for reserves in 2004/05 and 2005/06. For more details, see AEMO, Submission to the Expiry of the Reliability and Emergency Reserve Trader Draft Determination, January 2012. While it may not be possible for AEMO to carry out a full tender process within the timeframes for medium-notice situations, it is expected to develop suitable 'expedited' tender processes that can be carried out in less than 10 weeks.

<sup>17</sup> Section 8.1 of the Guidelines.

<sup>18</sup> The relevant commercial requirements that are considered by AEMO are currently set out in section 13.6.2 of AEMO's RERT procedures. Among other things, these requirements include that the reserve offered for dispatch or activation must be of sufficient size (the current minimum size is

- the optimal combination of contracts to deliver the reserves necessary to meet the shortfall.

These actions were previously located under the process for AEMO's contracting of reserves in long-notice situations. It is appropriate that these actions be listed under medium-notice situations as they will form an important part of AEMO's contracting for reserves in those situations.

## 2.3 Confidential information

Under section 6.1 of the Guidelines, AEMO is required to keep information on the RERT panel membership confidential. However, under section 8 of the Guidelines it also has the discretion to publish the details of a contract for reserves (being the name of the counterparty and the volume and timing of reserves).

The Panel considers the text in the previous Guidelines could be confusing and some additional text has been included in section 6.1 of the new Guidelines to clarify that, once AEMO has actually entered a contract for reserves, it may publish details of that contract but otherwise the identity of those on the Panel must remain confidential.

In submissions to the draft report, AEMO queried whether the RERT panel membership should continue to be treated as confidential information.<sup>19</sup> While the Panel has added text to the Guidelines to clarify the treatment of confidential information, it is not within the scope of this review to assess whether the RERT panel membership should be confidential.

This, and other issues associated with the RERT Guidelines,<sup>20</sup> could be considered by the Panel in a future review of the RERT arrangements, should it decide to carry out such a review.

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10MW), and that the offered reserve is of a nature and in a location that meets AEMO's reserve contracting requirements.

<sup>19</sup> AEMO, submission to the draft report, p. 2.

<sup>20</sup> Two such issues previously identified are: compensating RERT panel members for "prudent and demonstrable" costs incurred in establishing and proving their reserves; and relaxing double-dipping checks for short-notice reserves. These issues have been identified as creating barriers to RERT panel participation. For more details on these issues, see AEMC 2016, Extension of the Reliability and Emergency Reserve Trader, Rule Determination, 23 June 2016, Sydney.

## Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
Commission	See AEMC
Guidelines	RERT guidelines
NEL	National Electricity Law
Panel	Reliability Panel
RERT	Reliability and Emergency Reserve Trader
Rules	National Electricity Rules

## A Issues raised in submissions to the draft report

Stakeholder	Issue	Panel's response
AEMO, pp. 1-2.	The Guidelines should clarify whether AEMO must call for tenders from both RERT panel members and other potential reserve providers.	In medium-notice situations, AEMO may use the RERT panel to secure reserve contracts. AEMO also has discretion to seek responses from other potential reserve providers, but must provide RERT panel members with the opportunity to compete (i.e. with a reserve offer). This is clarified in section 8.1 of the Guidelines.
AEMO, p. 1.	The phrases "tender responses" and "reserve offers" in section 8.1 of the draft Guideline are used inconsistently.	This terminology has been clarified in section 8.1 of the Guidelines.
AEMO, p. 2.	The term "other potential reserve providers" could be interpreted broadly. This should be clarified. For example, it should only be parties AEMO has identified as potential providers, and a broader tender process is optional.	The way in which reserve offers are sought from other potential reserve providers would be at AEMO's discretion. For example, AEMO may choose to advertise an open tender process for reserve contracts, or it may directly contact parties to provide a response. This is clarified in section 8.1 of the Guidelines.
AEMO, p. 2.	Queries whether the RERT panel membership should be confidential. Publication of the RERT panel membership may support the delivery of reserves through normal market mechanisms, instead of through the RERT process.	<p>The Panel has added some text to the Guidelines to clarify the existing position that the RERT panel membership be kept confidential.</p> <p>Consideration of whether the RERT panel membership should be confidential is outside the scope of this review. The Panel may consider this issue in a future review of the RERT arrangements, should it decide to carry out such a review.</p>

Stakeholder	Issue	Panel's response
ENGIE, p. 1.	Under the draft Guidelines, the long-notice situations would be removed from 28 February 2017. However, the NER would not be amended until 1 November 2017. The Guidelines should address the transition period.	While the Guidelines must be amended by 28 February 2017, the Guidelines do not commence operation until 1 November 2017, to coincide with changes to clause 3.20 of the Rules.
ENGIE, p. 2.	Having an expedited tender process available may act as a disincentive for participants to join the RERT panel. Any terms or conditions within an expedited tender that would be favourable to the RERT panel members should be made available to those RERT panel members.	<p>The Panel does not consider participants will be disincentivised to join the RERT panel.</p> <p>Securing reserve contracts with RERT panel members will take less time than negotiating with other potential reserve providers, as RERT panel members have already been assessed by AEMO and agreed some of the technical and legal requirements. Therefore, in medium-notice situations it may be preferable for AEMO to use the RERT panel.</p> <p>In addition, in short-notice situations AEMO may only seek reserve offers from the RERT panel.</p>