Australian Energy Market Commission

RULE CHANGE

RULE DETERMINATION

National Electricity Amendment (Expiry of the Reliability and Emergency Reserve Trader) Rule 2012

Rule Proponent
Reliability Panel

Commissioners
Pierce
Spalding

15 March 2012

JOHN PIERCE
Chairman
For and on behalf of the Australian Energy Market Commission

Inquiries

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

E: aemc@aemc.gov.au
T: (02) 8296 7800
F: (02) 8296 7899

Reference: ERC0132

Citation

Australian Energy Market Commission 2012, Expiry of the Reliability and Emergency Reserve Trader, Rule Determination, AEMC, 15 March 2012, Sydney

About the AEMC

The Council of Australian Governments, through its Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005. The AEMC has two principal functions. We make and amend the national electricity and gas rules, and we conduct independent reviews of the energy markets for the MCE.

This work is copyright. The Copyright Act 1968 permits fair dealing for study, research, news reporting, criticism and review. Selected passages, tables or diagrams may be reproduced for such purposes provided acknowledgement of the source is included.

Summary of final rule determination

The Australian Energy Market Commission (AEMC or Commission) has determined to make this final rule determination, and rule as made, in response to the Reliability Panel's (the Panel) rule change request regarding the expiry of the Reliability and Emergency Reserve Trader (RERT) and the Panel's requirement to review the RERT a year prior to its expiry.

The RERT is a mechanism under the National Electricity Rules (NER) designed to allow the Australian Energy Market Operator (AEMO) to procure additional reserves to ensure reliability and security of supply. The RERT acts as a safety net and is only used in emergencies where ordinary market mechanisms are unlikely to deliver adequate electricity supply to meet the demand of the market. To date, the RERT has not been exercised.

The RERT is currently due to expire on 30 June 2012.

The Panel submitted a rule change request proposing to postpone the expiry of the RERT for a year to 30 June 2013 and that the obligation on the Panel to review the RERT a year prior to its expiry is removed. The Commission has decided to postpone the expiry of the RERT for four years to 30 June 2016 and to remove the obligation on the Panel to review the RERT a year prior to its expiry.

Reliability Panel rule change request

On 1 July 2011, the Panel submitted a rule change request to the AEMC to make a rule regarding the RERT. The rule change request consists of two components:

- postponing the expiry of the RERT for one year to 30 June 2013; and
- removing the obligation on the Panel to review the RERT a year prior to its expiry.

The Commission's final rule determination

The rule as made is the same as the draft rule contained in the draft determination and commences on 15 March 2012. The Commission carefully considered submissions received from stakeholders in response to the draft determination, and has responded to submissions in this final determination.

The rule as made postpones the expiry of the RERT to 30 June 2016, rather than 30 June 2013 as proposed by the Panel.

The Commission has also determined to remove the requirement placed on the Panel to review the RERT a year prior to its expiry. The rule as made also provides for the removal of all RERT related provisions from the rules as at 1 July 2016.

Reasons for the Commission's final determination

The Commission is satisfied that the rule as made meets the rule making test in that it will, or is likely to, contribute to the achievement of the National Electricity Objective (NEO). Moreover, the Commission is satisfied that the rule as made will, or is likely to, better contribute to the achievement of the NEO than the proposed rule.

The Commission considers that the rule as made meets the NEO by promoting the efficient use of electricity services for the long term interests of consumers with respect to reliability and security of supply.

In its assessment of the proposed rule, and the rule as made, the Commission considered a number of factors including market uncertainty, potential market distortions created by the RERT, and market development and timing issues.

Market uncertainty

The Commission considers that recent changes to external policy settings may be driving a period of market uncertainty in the National Electricity Market (NEM). These changes include the introduction and implementation of a carbon pricing regime and the Large-scale Renewable Energy Target (LRET). The Commission considers that it may take a period of time before market participants respond to these policy changes, as generation investment requires substantial lead times. Importantly, this may result in potential delays to investment decisions for generation projects in the NEM.

The Commission considers that if generation investment fails to occur in sufficient time to meet increasing maximum demand, the RERT may be a useful safety net mechanism. Maintaining the RERT until 30 June 2016 would allow AEMO to source additional reserves to reduce the risk of load shedding events. Ultimately, maintaining the RERT through the potential period of uncertainty may give consumers greater confidence that they are able to access a reliable and secure supply of electricity, consistent with the reliability standard.

Market distortion and costs

The Commission acknowledges that the RERT may potentially create minor market distortions and thus should not be maintained indefinitely. However, the Commission does not consider that these potential distortions are significant.

The RERT may distort the market by creating a secondary market for reserves. However, given the very infrequent use of the reserve trader provision in the past, it is unlikely that participants would avoid the primary market for reserves in preference to potentially contracting with AEMO. Accordingly, any distortions created by the RERT are likely to be minor.

The Commission considers that, on balance, any minimal market distortions created by maintaining the RERT until 30 June 2016, during the potential period of market uncertainty, are likely to be outweighed by the benefits of maintaining reliability and security of supply of electricity to consumers.

Market development and implementation issues

The Commission notes that there are substantial policy initiatives currently in development that may have a material impact on reducing the barriers to demand side participation. Increased demand side participation provides an additional mechanism for minimising the risk of load shedding events during periods of high demand by increasing the pool of available reserves in the market. This is likely to increase the range of policy tools available to the market to meet the reliability standard efficiently.

It will take a period of time for policy changes associated with demand side participation to be implemented and take effect in the market. This period of time is likely to be more than the one year period contemplated by the Panel in their proposed rule change.

The Commission also notes that the Panel is due to review the reliability standard and settings by April 2014. This review will provide an opportunity for the Panel to assess whether the current reliability settings are likely to deliver sufficient generation investment in light of current and expected future policy settings. Postponing the expiry of the RERT until after that date will allow any recommendations stemming from the Panel's review to be implemented.

Therefore, the Commission considers that the RERT's expiry should be postponed for a period of four years. This will allow sufficient time for:

- demand side participation rule changes, and recommendations stemming from reviews, to be implemented and take effect in the market;
- any recommendations relating to the Reliability Panel's review of reliability standards and settings, scheduled for completion by April 2014, to be implemented; and
- market uncertainty as a result of the recent changes in policy settings to lessen.

The Commission emphasises that postponing the expiry of the RERT is a temporary measure primarily directed at accommodating a period of market uncertainty resulting from new and significant changes to policy settings. Market uncertainty is expected to have abated by 2016 and the Commission considers that another review of the RERT prior to its expiry is unnecessary. Removing the requirement for the Panel to review the RERT should provide market participants with greater certainty as to the status of the RERT, and that the Commission considers that it should not be retained beyond 30 June 2016.

Contents

1 Reliability Panel's rule change request

1.1 The rule change request

On 1 July 2011, the Reliability Panel (rule proponent) submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission) to make a rule regarding the Reliability and Emergency Reserve Trader (RERT). The rule change request consists of two components:

- postponing the expiry date of the RERT for a period of one year to 30 June 2013; and
- removing the obligation on the Reliability Panel to review the RERT a year prior to its expiry.

1.2 Rationale for rule change request

The Reliability Panel (the Panel) considered that the expiry of the RERT should be postponed for a period of one year to 30 June 2013. The Panel's decision to recommend postponing the expiry of the RERT by one year recognised that while the market had performed well in meeting the reliability standard, there were a number of stakeholders that may be impacted by the removal of the RERT.

In terms of market performance, the Panel considered the market had delivered sufficient generation capacity to achieve reliable and secure supply of electricity, and the outlook for reliability showed adequate reserves in most regions for a number of years into the future. For this reason, the Panel considered the RERT was no longer required.

The Panel considered whether some participants might be impacted by the removal of the RERT, especially those who work with the demand side. It also considered that postponing the expiry of the RERT for a year would allow additional time for work regarding demand side management to be completed and implemented.

The Panel also considered that if the expiry date of the RERT were postponed, the National Electricity Rules (NER) may be interpreted to mean that the Panel is required to undertake another review of the RERT, to be completed by 30 June 2012. The Panel considered that removing the requirement for the review of the RERT would lead to increased market certainty, which is particularly important for those stakeholders whose core business will be affected by the operation, or expiry, of the RERT.

1.3 Solution proposed in the rule change request

The rule proponent sought to resolve the issues referred to above by amending the expiry date provided for in clause 3.20.1 of the NER from 30 June 2012 to 30 June 2013.

In order to avoid market uncertainty with respect to whether the Panel is required to undertake another review of the RERT a year prior to its expiry, the rule proponent also proposed that clause 3.20.9 in the NER was omitted in its entirety.

1.4 Relevant background

This section briefly describes the arrangements for the RERT, a number of progressive amendments to its scope and operation, and its interaction with other policy settings such as the reliability standard and settings.

1.4.1 Current arrangements

The RERT is a mechanism under the NER designed to allow the Australian Energy Market Operator (AEMO) to procure additional reserves to ensure reliability and security of supply. The RERT guidelines, developed by the Panel,[1] provide scope and guidance for procuring additional reserves, in addition to AEMO's procedure for exercising the RERT.[2] The NER allow AEMO to develop guidelines to enable them to contract for reserves according to a range of timeframes:

- at least ten weeks' notice of a reserve shortfall (long-notice RERT);
- between one and ten weeks' notice of a reserve shortfall (medium-notice RERT); and
- between three hours' and seven days' notice (short-notice RERT).

Under the RERT guidelines, AEMO may establish a RERT panel of entities that can tender for, and enter into, reserve contracts for the medium-notice RERT and short-notice RERT. The RERT guidelines specify that AEMO should not rely on the RERT Panel when contracting for long-notice RERTs.

AEMO procures additional reserves from a number of parties, whose reserves would not otherwise be available to the primary market, according to the following process:

- parties who have non-market generation capacity make themselves known to AEMO and declare what price those parties wish to be paid to use that capacity; and
- individuals or groups of consumers declare what remuneration they would seek to reduce their demand in excess of the saving in energy cost.

The NER require AEMO to consult on costs and cost-sharing arrangements with affected participating jurisdictions that stand to benefit from additional reserves before

1 Clause 3.20.8 of the NER requires the Panel to develop guidelines with respect to the scope and principles to be employed by AEMO when procuring reserve capacity. These are available on the AEMC website.

2 Clause 3.20.7 of the NER requires AEMO to develop procedures for exercising the RERT, including the process for selecting participants for the RERT panel. These are available on the AEMO website.

entering into a reserve contract, or prior to exercising the short-notice RERT.[3] The NER allow AEMO to recover the costs of reserve contracts from market customers, such as retailers.[4]

The Commission understands that the market operator has entered into reserve contracts twice, and in each case has not dispatched additional capacity:

- 31 January 2005 to 4 March 2005 for Victoria and South Australia NEM regions AEMO sought to contract up to 230MW, and contracted for 84MW; and
- 16 January 2006 to 10 March 2006 for Victoria and South Australia NEM regions AEMO sought to contract up to 500MW, and contracted for 375MW.

1.4.2 Previous changes to the reserve trader provisions in the NER

Since the commencement of the National Electricity Market (NEM), the market operator has had the power to contract for additional reserves. Over time, various reviews of the reserve trader provision have led to a range of amendments including postponing its expiry date, as well as changes to its scope and operation. The table below briefly outlines these amendments.

Amendments to the reserve trader provisions since the commencement of the NEM

Year	Amendment
December 2005	Reliability Panel submitted a rule change proposal to postpone the expiry of the reserve trader provisions in the NER until June 2008. The rule change was made with minor amendments and allowed the reserve trader to continue while the Reliability Panel completed its Comprehensive Reliability Review (CRR).
December 2007	The CRR recommended a number of amendments to the reserve trader provision that led to the adoption of the RERT in the NER the following year.[5]
June 2008	RERT adopted in the NER following recommendations stemming from CRR. Amendments directed at increasing flexibility in the way that AEMO can contract for reserves and minimising any potential impact of market distortions created by the continuation of the RERT. The review also recommended postponing the expiry of the RERT to 30 June 2012, and including a requirement for the Reliability Panel to review the RERT a year prior to its expiry.[6]

3 See clause 3.20.3 of the NER.

4 See clauses 3.20.3(c) and 3.15.9(e) of the NER.

5 See Australian Energy Market Commission, *Comprehensive Reliability Review*, final report, AEMC, 21 December 2007, Sydney.

6 See Australian Energy Market Commission, *National Electricity Amendment (NEM Reliability Setting: Information, Safety Net and Directions) Rule 2008*, AEMC, 26 June 2008, Sydney.

Year	Amendment
October 2009	Reliability Panel proposes rule change to allow AEMO to contract for reserves at short notice. RERT amended to allow AEMO to contract for reserves under a range of timeframes.[7]
April 2011	Reliability Panel completes review of RERT, as required by the NER and in accordance with terms of reference set by the AEMC.[8]

1.4.3 Reliability standards and settings

The reliability settings are the key mechanisms for balancing supply and demand in the wholesale market over time. The reliability settings include the Market Price Cap (MPC), the Cumulative Price Threshold (CPT), and the market floor price. The reliability settings are set at a level intended to deliver capacity to meet the reliability standard of 0.002 per cent unserved energy[9] with the aim of avoiding unmanageable risks for market participants.[10]

The level of the MPC,[11] currently set at $12,500, is crucial because it provides the key signal for supply and demand-side investment and usage. For example, if the MPC is set too high, market participants (retailers, other customers, and generators) can be exposed to very large financial risks. However, if it is set too low, there may be insufficient incentives to invest in new generation capacity and demand-side response to meet the reliability standard.

The CPT is an explicit risk management mechanism designed to limit participants' exposure to protracted stress in the wholesale spot market. If the sum of the spot prices ($/MWh) in the previous 336 trading intervals[12] exceeds the CPT, or if the sum of the ancillary services prices ($/MWh) in the previous 2,016 dispatch intervals[13] exceeds six times the CPT, then an Administered Price Period (APP) is declared. During the APP, if the spot price calculated normally exceeds the Administered Price Cap (APC), the price is set at the APC. Similarly, if, during the APP, the spot price is less than the Administered Floor Price (AFP), the price is set at the AFP.[14]

---

7 See Australian Energy Market Commission, *National Electricity Amendment (Improved RERT Flexibility and Short-notice Reserve Contracts) Rule 2009*, AEMC, 15 October 2009, Sydney.

8 See Australian Energy Market Commission, *Review of the Reliability and Emergency Reserve Trader*, final report, AEMC, 21 April 2011, Sydney.

9 The reliability standard is an output-based measure expressed in terms of 'maximum permissible unserved energy'. It effectively is an expression of the maximum allowable level of electricity at risk of not being supplied to consumers in any region.

10 Australian Energy Market Commission, *Reliability Panel Review of the Reliability and Emergency Reserve Trader*, final report, April 2011, Sydney.

11 Note that beginning on 1 July 2012, the MPC and CPT will be indexed yearly. On 1 July 2012, the MPC will increase to $12,900.

12 This is the equivalent to a consecutive seven day period.

13 This is the equivalent to a consecutive seven day period.

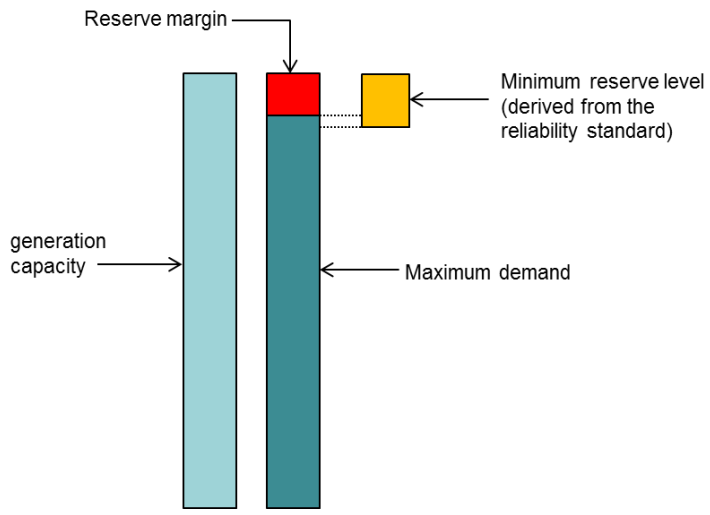
14 See clause 3.14.2 (d)(1) and 3.14.2(d)(2) of the NER.

The interaction between the reliability standard and reserve capacity is illustrated in Figure 1.1. The reserve margin is the level of generation capacity available less the maximum demand (calculated according to ten per cent probability of exceedance) for a NEM region. The minimum reserve margin is essentially a translation of the reserve margin that is required to meet the reliability standard.[15]

Reserve margins shrink when conditions of supply-demand balance tighten. Factors that may cause the supply-demand balance to tighten include insufficient investment in generation capacity, extreme weather conditions such as drought, and unplanned outages. As reserve capacity shrinks relative to the minimum reserve level, there is a risk the reliability standard may not be achieved.

Where AEMO forecasts that there may be insufficient reserve capacity to meet maximum demand, it may choose to enter into a reserve contract under the RERT provision to minimise the risk of load shedding events.

Figure 1.1 Interaction of reliability standard with reserve capacity



1.5 Commencement of rule making process

The Panel requested that the proposed rule change be 'fast-tracked' under section 96A of the National Electricity Law (NEL) on the basis that the Panel, an electricity market body, had made the rule change request and had already consulted with the public on the nature and content of the rule change request.[16]

The Commission may fast track a rule change proposal if, in its opinion, the consultation was adequate having regard to the nature and content of the rule change

15 AEMO uses time sequential monte carlo simulation of the operation of the NEM to determine the minimum reserve levels that would be expected to deliver unserved energy that is no worse than 0.002 per cent in each region over the medium to long-term. See Australian Energy Market Commission, *Review of the Operational Arrangements for the Reliability Standard*, final report, 21 December 2009, Sydney, p.10.

16 Section 96A(1)(a) of the NEL.

proposal and the kind of consultation conducted by the electricity market regulatory body.

The Commission considered that the Panel had consulted extensively with the public on the nature and content of the rule change proposal. However, the Commission also considered that there remained significantly divergent views amongst stakeholders as to whether the RERT should expire in 2012. In addition to this, the Panel's rule change proposal coincided with an announcement by the Australian Government on carbon pricing legislation. The Commission considered that carbon pricing legislation represented a substantial change in policy settings that warranted using the standard rule making process (which provides for two rounds of consultation).

Therefore the Commission considered that the rule change request should not be fast tracked under section 96A of the NEL.

On 8 September 2011, the Commission published a notice under section 95 of the NEL advising of its intention to commence the rule making process and the first round of consultation in respect of the rule change request. A consultation paper, prepared by AEMC staff identifying specific issues and questions for consultation, was also published with the rule change request. Submissions closed on 13 October 2011.

The Commission received five submissions on the rule change request as part of the first round of consultation. They are available on the AEMC website.[17] A summary of the issues raised in submissions and the Commission's response to each issue is contained in Appendix A.

1.6 Publication of draft rule determination and draft rule

On 15 December 2011, the Commission published a notice under section 99 of the NEL, and a draft determination including draft rule in relation to the rule change request (draft rule determination).

The period for submissions on the draft rule determination closed on 2 February 2012. The Commission received seven submissions on the draft rule determination. They are available on the AEMC website.[18] A summary of the issues raised in those submissions, and the Commission's response to each issue, is contained in Appendix B.

17 www.aemc.gov.au

18 www.aemc.gov.au

2 Final rule determination

2.1 Commission's determination

The Commission has determined to make a more preferable rule in accordance with sections 91A and 102 of the NEL.[19] The more preferable rule incorporates components of the Panel's rule change request including postponing the expiry date of the RERT and removing the Panel review of the RERT.

Rather than postponing the expiry of the RERT for a period of one year from 30 June 2012 to 30 June 2013, the more preferable rule postpones the expiry of the RERT for a period of four years to 30 June 2016.

The final determination also provides for the removal of all RERT related provisions from the NER as at 1 July 2016.

The Commission's reasons for making this final rule determination are set out in section 3.1.

The *National Electricity Amendment (Expiry of Reliability and Emergency Reserve Trader) Rule 2012 No 1* (rule as made) is published with this final rule determination. The rule as made commences on 15 March 2012.[20]

2.2 Commission's considerations

In assessing the rule change request the Commission considered:

- the Commission's powers under the NEL to make the rule;
- the rule change request;
- the fact that there is no relevant Ministerial Council on Energy (MCE) Statement of Policy Principles;[21]
- submissions received in response to the consultation paper and draft determination;

19 Under section 91A of the NEL the AEMC may make a Rule that is different (including materially different) from a market initiated proposed Rule (a more preferable Rule) if the AEMC is satisfied that having regard to the issue or issues that were raised by the market initiated proposed Rule (to which the more preferable Rule relates), the more preferable Rule will or is likely to better contribute to the achievement of the national electricity objective.

20 Changes to the RERT's expiry date and the removal of the review mechanism commence on 15 March 2012. The removal of RERT related provisions will commence on 1 July 2016.

21 Under section 33 of the NEL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule. Note that the MCE has now been amalgamated into the Standing Council on Energy and Resources.

- rule changes and reviews currently under consideration by the Commission in relation to demand side participation;
- the introduction of carbon pricing legislation; and
- the Commission's analysis as to the ways in which the proposed rule and the rule as made will, or are likely to, contribute to the National Electricity Objective (NEO).

2.3 Commission's power to make the rule

The Commission is satisfied that the rule as made falls within the subject matter about which the Commission may make rules.

The rule as made falls within the subject matters set out in section 34(1)(a)(ii) of the NEL as it relates to the operation of the national electricity system for the purposes of the safety, security and reliability of that system.

The rule as made also falls under the following subject matter under Schedule 1 of the NEL, namely reviews by on or behalf of the Reliability Panel (item 33(b) of Schedule 1 of the NEL).

2.4 Rule making test

Under section 88(1) of the NEL the Commission may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the NEO. The Commission must apply this decision making framework.

The NEO is set out in section 7 of the NEL as follows:

> "The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:
>
> (a) price, quality, safety, reliability and security of supply of electricity; and
>
> (b) the reliability, safety and security of the national electricity system."

The Commission considers that for this rule change request the relevant aspects of the NEO are the promotion of the efficient use of electricity services for the long term interests of consumers with respect to reliability and security of supply.[22]

The Commission is satisfied that the rule as made will, or is likely to, contribute to the achievement of the reliable and secure supply of electricity where, in light of recent

22 Under section 88(2), for the purposes of section 88(1) the AEMC may give such weight to any aspect of the NEO as it considers appropriate in all the circumstances, having regard to any relevant MCE Statement of Policy Principles.

market uncertainty, there is a risk that investment in generation capacity may not be deployed in sufficient time to meet demand requirements in some NEM regions, consistent with the reliability standard.

The rule as made will promote efficiency in the use of electricity services for the following reasons:

- The combined effect of market uncertainty, with respect to the impacts of carbon pricing and deployment of renewable energy generation on wholesale electricity prices, may potentially dampen investment signals for generation capacity in some NEM regions. Maintaining the RERT during this period of market uncertainty provides a safety net for consumers if investment in generation capacity is not sufficient to meet forecast maximum demand in some NEM regions, consistent with the reliability standard.

- It is unlikely that the continuation of the RERT will create a material market distortion. Given the very infrequent use of the reserve trader provision, it is very unlikely that participants would avoid the primary market for reserves in preference to potentially contracting with AEMO. On balance, any minimal market distortions created by maintaining the RERT until 30 June 2016 are likely to be outweighed by the benefits of maintaining reliability and security of supply of electricity to consumers and ensuring that the risk of load shedding events are minimised.

The Commission also considered that the requirement placed on the Panel to review the RERT a year prior to its expiry should be removed. The Commission considers that postponing the expiry of the RERT is a temporary measure primarily directed at accommodating a period of market uncertainty that may be a result of the transition to new and significant policy settings, including a carbon pricing regime. Market uncertainty is expected to have abated by 2016 and the Commission considers that another review of the RERT prior to its expiry is unnecessary. Removing the requirement for the Panel to review the RERT should also provide market participants with greater certainty as to the status of the RERT.

Under section 91(8) of the NEL, the Commission may only make a rule that has effect with respect to an adoptive jurisdiction if it is satisfied that the proposed rule is compatible with the proper performance of the AEMO's declared network functions. The rule as made is compatible with AEMO's declared network functions because it has no impact on rules relating to AEMO's declared network functions or transmission network services providers in general.

2.5 More preferable rule

Under section 91A of the NEL, the Commission may make a rule that is different (including materially different) from a market initiated rule (a more preferable rule) if the AEMC is satisfied that, having regard to the issues that were raised by the market initiated proposed rule (to which the more preferable rule relates), the more preferable rule will, or is likely to better contribute to the achievement of the NEO.

The proposed more preferable rule incorporates the two key elements of the proposed rule, which are that the expiry of the RERT should be postponed, and that the requirement placed on the Panel to review the RERT a year prior to its expiry should be removed from the NER.

Having regard to the issues raised by the rule proposed in the rule change request, the Commission is satisfied that the rule as made will, or is likely to, better contribute to the NEO than the proposed rule for the following reason:

- The rule as made will more effectively promote the efficient use of electricity services than the proposed rule because market participants may need a period of time to respond to new policy settings, such as carbon pricing legislation. This may result in a period of market uncertainty. If investment in generation is delayed as a result of market uncertainty there is a risk of not meeting the reliability standard in some regions. Therefore to support the achievement of the reliable and secure supply of electricity to consumers, and minimise the risk of load shedding events, it is prudent to postpone the expiry of the RERT for a period of four years instead of one year.

The Commission has also considered the matters raised by AEMO in their submission to the draft determination. AEMO suggested a number of improvements to the RERT arrangements, including:[23]

- relaxation of double-dipping checks as a condition of appointment to the RERT Panel and short-notice reserves;

- payment of establishment costs to recompense a DSP the costs associated with establishing and proving reserves; and

- abolition of the full tender process so that all reserve contracting is conducted via the pre-arranged RERT Panel.

The Commission is of the view that the matters raised by AEMO are beyond the scope of this rule change request. Accordingly, the Commission is unable to address them in this final determination. The Commission notes that some of AEMO's concerns, including double-dipping checks for appointment to the RERT Panel and use of the RERT Panel to contract for long-notice reserves, appear to be matters that are addressed in the RERT guidelines and not the NER. If AEMO wished to pursue those matters, it would need to raise them with the Panel.

23 AEMO, draft determination submission, p. 4.

3 Commission's reasons

The Commission has considered the rule change request by the Panel, and assessed the issues that it raises. For the reasons set out below and in the following chapters, the Commission has determined to make a more preferable rule, rather than the proposed rule.

3.1 Assessment of issues

In assessing the key components of the rule change request, namely the expiry date of the RERT and the requirement placed on the Panel to review the RERT a year prior to its expiry, the Commission considered the extent to which:

- recent periods of market uncertainty, resulting from significant changes to external policy settings, may impact on the deployment of generation capacity and the availability of demand side responses in some NEM regions;
- the continuation of the RERT may contribute to market distortions; and
- external policy settings, and current issues under consideration by the Commission, may require a period of time to be implemented, or for market participants to respond.

The Commission's assessment and determination on each of these matters is summarised below.

Market uncertainty

The Commission considers that external policy settings have changed significantly over recent years, and that these changes may be driving a period of market uncertainty as market participants respond to the new policy settings. The Commission further considers that market uncertainty may potentially delay investment in generation capacity in some NEM regions.

Uncertainty regarding the introduction of a carbon pricing regime may have potentially delayed investment in the NEM, and market participants may require some time to respond to new policy settings. This is because generation investment requires substantial lead times for deployment. There may also be ongoing market uncertainty in relation to the impacts of a carbon pricing regime, such as the transition from a fixed price on carbon to an emissions trading scheme where the price of carbon permits is determined by a market mechanism.

The Investment Reference Group, which reported to the Commonwealth Minister for Resources and Energy on the impact of carbon pricing uncertainty, expressed similar concerns regarding the impacts on investment in the market:[24]

> "There is a concern that policy uncertainty could lead to a reduction or delay in investment and, coupled with the time required to make investments, may see reserve level requirements breached."

The Commission notes that AEMO's 2011 Power System Adequacy (PSA) report forecasts sufficient reserve capacity and energy adequacy up to 30 June 2013, and AEMO noted that it is unlikely to enter into long-notice RERT contracts in that period. However, AEMO's 2011 Electricity Statement of Opportunities (ESOO) report has brought forward some of its forecast reserve shortfalls from the previous report, and forecasts that several regions in the NEM may experience reserve shortfalls in 2013- 14 or 2014- 15.[25]

A recent report from the Bureau of Resources and Energy Economics (BREE) indicates a decline in the number of projects moving through to the completion stage in recent years.[26] The Commission considers that if investment is delayed in some NEM regions there is an increased risk that generation capacity will not be deployed in adequate time to meet forecast reserve shortfalls.

In addition, recent modelling on the impact of the Large-scale Renewable Energy Target (LRET) shows that the LRET may be dampening average wholesale electricity prices. If there is a reduction in revenue that could be earned by a potential new entrant generator, then there may be insufficient investment in peaking generation required to meet the reliability standard.[27] If there is a lack of investment in peaking generation plants, there is a risk that unserved energy requirements may not be met.

Market distortion and costs

The Commission has considered whether the RERT may potentially create a market distortion, and agrees that the RERT may create a minor market distortion. However, the Commission considers that the impact of these potential market distortions are not likely to be significant and are outweighed by the benefits of maintaining the RERT for a period of time, especially while market uncertainty may persist.

The Commission notes that AEMO has only entered into reserve contracts twice, and in each case, chose not to dispatch additional capacity available under the contracts.

---

24 Investment Reference Group Report, *A Report to the Commonwealth Minister for Resources and Energy*, April 2011, p. 27.

25 AEMO forecasts reserve capacity deficits for Queensland in 2013-14, and for Victoria and South Australia for 2014-15. See Australian Energy Market Operator, *2011 Electricity Statement of Opportunities*, p. 18 and pp. 24- 27.

26 See Australian Bureau of Resources and Energy Economics, *Major electricity generation projects*, November 2011.

27 NERA/Oakley Greenwood, *Impact of the Large-Scale Renewable Energy Target on Wholesale Market Prices and Emissions Levels*, p.28, 1 July 2011.

Given the very infrequent use of the reserve trader provision, it is very unlikely that participants would avoid the primary market for reserves in preference to potentially contracting with AEMO.

Maintaining the RERT for a defined period during uncertain market conditions is likely to provide benefit to consumers in terms of the reliable and secure supply of electricity. The RERT provides a mechanism to ensure that the risk of load shedding events are minimised and should give a greater degree of confidence to consumers that they are able to access a reliable and secure supply of electricity, consistent with the reliability standard.

Market development and implementation issues

The Commission notes that there are substantial policy initiatives currently in development that may have a material impact on reducing the barriers to demand side participation. This should result in attracting additional capacity to the primary market for reserves. These include:

- Distribution Network Planning and Expansion Framework proposed rule change;
- Inclusion of Embedded Generation Research into the Demand Management Incentive Scheme proposed rule;
- Efficiency Benefit Sharing Scheme and Demand Management Expenditure by Transmission Businesses proposed rule; and
- Power of Choice – giving consumers options in the way they use electricity.[28]

In addition, new arrangements governing the connection of distributed generation are due to commence in the NER in July 2012 as part of the National Energy Customer Framework reform package.

The Commission considers that it will take a period of time for these policy changes to be implemented in the NER, which will be more than the one year period contemplated by the Panel in their proposed rule change.

The Commission considers that postponing the expiry of the RERT by a period of four years will provide an adequate period of time for:

- rule changes, new arrangements for distributed generation and recommendations stemming from various reviews to take effect;
- any recommendations relating to the Reliability Panel's review of reliability standards and settings, due to be completed by April 2014, to be implemented; and
- the impacts of market uncertainty on investment in generation capacity to lessen.

[28] The Power of Choice review forms the third stage of the demand side participation market review.

The Commission considers that postponing the expiry of the RERT is a temporary measure primarily directed at accommodating a period of market uncertainty that may be a result of significant changes to external policy settings, including a carbon pricing regime. This market uncertainty is expected to have abated by 2016 and the Commission considers that another review of the RERT prior to its expiry is unnecessary. Removing the requirement for the Panel to review the RERT should also provide market participants with greater certainty as to the status of the RERT.

3.2 Rule as made

The rule as made postpones the expiry of the RERT by a period of four years from 30 June 2012 to 30 June 2016. This effectively also extends the operation of all other provisions in the NER associated with the continuation of the RERT.

The rule as made omits the requirement on the Panel to review the RERT a year prior to its expiry (clause 3.20.9).

Also contained in the rule as made are a number of amendments that will have effect after the expiry of the RERT on 30 June 2016. These amendments are directed at removing references to the RERT in the NER.

Clause 3.15.9 has been omitted as most of the provisions of that clause relate to settlement of amounts payable or receivable by AEMO under reserve contracts. Those parts of clause 3.15.9 (paragraphs (b)(2)(i) and (h) of the current clause) that relate to settlement of amounts determined to be payable by AEMO by the independent expert under clause 3.12.3 have been moved to new clause 3.15.10C(b1) (with minor amendments).

A new transitional provision has been inserted into Chapter 11 of the NER to clarify that settlement of amounts payable or receivable by AEMO under reserve contracts up until 30 June 2016 will be settled in accordance with existing clause 3.15.9.

The rule as made has been published simultaneously with this final determination.

3.3 Civil penalties

The rule as made will omit a clause of the Rules (clause 3.15.9(f)) that is classified as a civil penalty provision under the National Electricity (South Australia) Regulations. The AEMC will notify the MCE[29] of the removal of this provision. The rule as made does not propose that any provisions that are not currently civil penalty provision be classified as such.

29 Note that the MCE has now been amalgamated into the Standing Council on Energy and Resources.

4 Commission's assessment approach

This section briefly outlines the Commission's approach to assessing the rule change request in accordance with the requirements set out in the NEL. The same assessment framework has been used to assess the more preferable rule that was developed by the Commission.

In assessing any rule change request, the Commission must have regard to the extent to which the rule will, or is likely to, contribute to the achievement of the NEO. In making this assessment, the Commission may give such weight to any aspect of the NEO as it considers appropriate.

In assessing this rule change request, the Commission has identified the most relevant aspects of the NEO as being the promotion of the efficient use of electricity services for the long term interests of consumers with respect to reliability and security of supply. In coming to its final determination the Commission sought to satisfy the objective of promoting the reliable and secure supply of electricity to consumers by minimising the risk of load shedding events in any NEM region, and giving greater confidence to consumers that the reliability standard will be met.

In assessing the rule change request and the rule as made, the Commission considered the following issues:

- *Market uncertainty* – the extent to which recent periods of market uncertainty, resulting from significant changes to external policy settings, may impact on the deployment of additional generation capacity in some NEM regions:
  - Where investment decisions are delayed due to changes in external policy settings there is potentially a risk that generation capacity and the availability of demand side responses may not be deployed in adequate time to meet the maximum demand in some NEM regions, consistent with the reliability standard.
- *Market distortion and costs* – the extent to which the continuation of the RERT may contribute to market distortions:
  - The RERT may create a potential secondary market for reserves, which is not subject to the MPC, by incentivising some participants to enter into reserve contracts with AEMO rather than retailers and other intermediaries in the primary market. The likelihood and materiality of this potential market distortion for a four year period should be weighed against the benefit of ensuring the reliable and secure supply of electricity and minimising the risk of load shedding events during a period of market uncertainty.

- *Market development and implementation issues* – the extent to which external policy settings, and current issues under consideration by the Commission, may require a period of time to be implemented, or for market participants to respond:

  - Market reviews and rule changes directed at providing improved opportunities for demand side participation are currently being progressed by the Commission and will require a period of time before they are implemented and acted on.

  - The Reliability Panel is due to complete its next review of reliability standards and settings by April 2014, which includes an assessment of the appropriate level for the MPC.

  - Market uncertainty as a result of changes in external policy settings, including carbon pricing legislation, is expected to lessen by 2016.

5 Market uncertainty

The Commission has considered a number of factors that may potentially contribute to market uncertainty and therefore a period of delayed investment decisions for some NEM regions. These include:

- the impacts of carbon pricing legislation, including periods of policy uncertainty leading to its implementation; and
- the impact of renewable energy generation on wholesale prices which may dampen investment signals for generation capacity in some NEM regions.

In its assessment of market uncertainty, the Commission considered the extent to which maintaining the RERT provides a safety net for consumers if investment in generation capacity is insufficient to meet the reliability standard in some NEM regions.

5.1 Rule proponent's view

In its rule change request, the Panel considered whether the RERT should expire in light of current investment uncertainty, which was due to several years of uncertainty in relation to the introduction of carbon pricing policies. In its assessment the Panel referred to AEMO's 2010 ESOO (which forecasts supply and demand scenarios in each region of the NEM), and data from the Australian Bureau of Agriculture and Resources Economics on the deployment of new generation capacity in the NEM.[30]

The Panel also noted the concerns of some stakeholders who considered that investment uncertainty is becoming an increasingly significant issue.

The Panel observed that:[31]

> "the outlook for reliability shows that the majority of the NEM regions are expected to have sufficient reserves up to 2015/16. Since 2009, there have been eight new major generation projects completed, with a combined registered capacity of approximately 2 305MW and as of the end of October 2010, there were twelve projects at an advanced stage of development with a total capacity of 1 768MW."

The Panel concluded that the market had delivered sufficient capacity, and that generally the performance of the market has been sufficient to ensure the security and reliability of electricity supply.[32]

---

30 AEMO, 2010 *Electricity Statement of Opportunities*, pp.148- 154; Australian Bureau of Agriculture and Resource Economics - Bureau of Rural Sciences, *Electricity Generation: Major development projects - October 2010.*

31 Reliability Panel rule change proposal, p.17.

32 Reliability Panel rule change proposal, p.17.

However, in its overall assessment the Panel determined that the expiry of the RERT should be postponed for a period of one year from 30 June 2012 to 30 June 2013. This was to provide adequate notice of change to stakeholders, particularly those on the demand side whose core business may be impacted by the expiry of the RERT.

5.2 Stakeholders' views

5.2.1 First round of consultation - AEMC staff paper

Submissions received in response to the consultation paper presented two clearly divergent views as to the ability of the market to deliver sufficient capacity in some or all NEM regions in order to achieve reliable and secure supply of electricity. The issues stakeholders responded to are categorised according to:

- managing the transition to a carbon pricing regime;
- investment lags in generation capacity; and
- reliability performance of the NEM.

Managing the transition to a carbon pricing regime

In the consultation paper, stakeholders were asked whether, in their view, proposed carbon pricing legislation had any impacts relevant to the existence of the RERT.

Typically, generators and retailers viewed that the Australian Government was pursuing numerous and adequate policies to support the removal of high carbon emitting, large-scale base load generation from the NEM.[33] Stakeholders noted that the removal of such generation plants from the NEM is to occur in consultation with AEMO, who is "required to make an assessment of any potential closure on system security and the compensation arrangements in the legislation have specific provisions regarding energy security".[34]

On that basis, these stakeholders argued that the RERT was not an adequate policy tool to attract enough capacity to fill the gap caused by the departure of large-scale base load plant resulting from the introduction of a carbon price.[35]

Other stakeholders considered that even if carbon pricing legislation did precipitate some minor incident, that it should not be "any different to the 'business as usual' types of occurrences that the existing framework has been designed to withstand and successfully accommodated since market start without deployment of the RERT".[36]

---

33 Private Generators Group, consultation paper submission (representing the interests of AGL Energy, Alinta Energy, Energy Brix, InterGen, International Power GDF-Suez, LYMMCo and TRUenergy), p. 3; NGF/esaa, consultation paper submission, p. 5.

34 Private Generators Group, consultation paper submission, p. 4.

35 TRUenergy, consultation paper submission, p. 3.

36 NGF/esaa, consultation paper submission, p. 5.

Investment lags in generation capacity

Jurisdictional governments that provided submissions were of the view that carbon pricing legislation, amongst other policy settings, was contributing to lags in investment in generation capacity in some NEM regions.

The Victorian Department of Primary Industries (DPI) observed that the impacts of market uncertainty on generation investment were already apparent across the NEM. According to DPI, AEMO's 2011 ESOO identified approximately 1,280MW of committed generation across the NEM, yet 1,000MW of new generation is required to meet AEMO's forecast load growth. DPI noted that of the new committed generation, approximately 588MW is wind generation, which makes a limited contribution to meeting peak demand.[37]

The South Australian Department for Transport, Energy and Infrastructure (DTEI) similarly argued that market uncertainty had created investment lags. DTEI observed that while South Australia will require an additional 46MW of new generation or demand-side investment by 2014/15, AEMO's 2011 South Australian Supply and Demand Outlook observed that generation investment in that state had slowed.[38]

Reliability performance of the NEM

In considering the impacts of market uncertainty on investment decisions, stakeholders also considered the market's performance in meeting reliability standards.

Typically, retailers and generators argued that the RERT should expire given AEMO's recent assessment in its 2011 PSA report. AEMO considered the supply and demand outlooks for all NEM regions, in conjunction its energy adequacy assessment, to determine that over the next two years all regions of the NEM will meet the reliability standard.[39]

DPI and DTEI formed a contrary view as to the NEM's ability to meet the reliability standard, and argued that the proposal by the Panel to allow the RERT to expire on 30 June 2013 was based on the NEM's historical performance and failed to take into account the challenges faced by the NEM in the future.[40]

Moreover, both DPI and DTEI were concerned that the current reliability settings, and in particular the MPC, were not sufficient to attract investment in Victoria and South Australia. DTEI argued that substantial amounts of installed wind generation in South

37 Victorian Department of Primary Industries, consultation paper submission, p. 3.

38 South Australian Department for Transport, Energy and Infrastructure, consultation paper submission, p. 3. Note that a recent portfolio change in the South Australian Government has led to a name change, and this department is now the Department for Manufacturing, Innovation, Trade, Resources and Energy.

39 NGF/esaa, consultation paper submission, p. 3.

40 Victorian Department of Primary Industries, consultation paper submission, p. 2; South Australian Department for Transport, Energy and Infrastructure, consultation paper submission, p. 1.

Australia was depressing wholesale electricity prices, and as a result the MPC needs to be set at a significantly higher level to attract peaking generation.[41]

5.2.2 Second round of consultation - draft determination

Most submissions to the draft determination again questioned whether the RERT is an appropriate mechanism for accommodating the withdrawal of large-scale base load generation from the market. The Private Generators Group reiterated their view that the RERT mechanism cannot manage large scale reliability issues, including potential plant closures, in coming years. Specifically the Private Generators Group submitted that:[42]

> "...any Contracts for Closure will phase the closure of affected plant(s) and is likely to incorporate significant obligations to ensure system security and that the provision of loans for financial impacted generators, not the RERT, is a more tangible solution to potential generator failure"

AGL expressly supported the view of the Private Generators Group and noted that a "RERT style of mechanism" could not address the uncertainties caused by the implementation of a carbon price and the LRET. In addition, the AGL contended that the amount of additional reserve available through the reserve process is small and not likely to be effective. AGL also responded to the concerns raised by the Government of South Australia's DTEI consultation paper submission, noting it would be 'unwise' to rely on the RERT to address any market deficiencies that result from the current reliability settings.[43]

The Panel also questioned the ability of the RERT to act as an effective safety net:[44]

> "...the scale of typical RERT capability has been small compared to the major increments of capacity deficiency that would trigger a reliability event. In the extreme example, the RERT is clearly incapable of dealing with the reliability issues attending potential plant closure or any lack of investment occasioned by market uncertainties, for example arising from climate change responses."

DTEI's submission supported postponing the expiry of the RERT for four years while a period of significant market uncertainty persists. DTEI was also of the view that

41 Modelling commissioned by DTEI indicates that because of South Australia's increased sensitivity to wind generation, it requires a substantially higher MPC for an extreme peaking generation plant to be economic in order to achieve the reliability standard of 0.002 per cent unserved energy. See AEMC website: www.aemc.gov.au.

42 Private Generators Group, draft determination submission, p. 2.

43 AGL, draft determination submission, pp. 2- 3.

44 AEMC Reliability Panel, draft determination submission, p. 2.

market uncertainty may result in potential investment delays, which can impact on reliability in the future.[45]

5.3 Commission's analysis

Managing the transition to a carbon pricing regime

Managing the transition to a carbon pricing regime will result in a change to the mix of generation in the NEM, and the likely eventual exit of high carbon emitting generation. Based on an assumption of medium economic growth, AEMO forecasts that changes to the generation mix, resulting from the Clean Energy Future Plan, will not take effect until at least 2015.[46] Modelling commissioned by the Commonwealth Department of the Treasury indicates that in the longer term the generation mix is likely to change towards renewable generation, with gas-fired generation increasing and traditional coal-fired generation declining. Modelling indicates that renewable energy is expected to grow from 10 per cent of the generation mix today to 40 per cent by 2050.[47]

The Commission notes that the Australian Government is currently progressing a number of policies directed at managing the transition to a carbon pricing regime. In order to facilitate the eventual exit of high carbon emitting large-scale base load generation, the Australian Government has introduced a Contract for Closure Program. The program aims to minimise the risks associated with the impact that carbon pricing may have on high emitting large-scale base load generation. The program is seeking to negotiate the potential withdrawal of up to 2,000MW of high carbon emitting generation from the NEM.[48]

The Contract for Closure Program may create a degree of uncertainty in the market until the size and location of generation under consideration for withdrawal is known. This means that until the market has clear information regarding the size and location of the withdrawal of generation from the NEM, market participants may delay investment decisions. If there is a delay to investment decisions, there is a potential risk that deployment of additional generation capacity will not happen in sufficient time to meet increasing maximum demand, which risks not meeting the reliability standard.

45 Government of South Australia Department of Mines, Industry, Trade, Resources and Energy, draft determination submission, p. 1.

46 AEMO 2011 *Electricity Statement of Opportunities*, Executive Briefing, p. 9.

47 Commonwealth Department of the Treasury, *Strong Growth, Low Pollution: Modelling a carbon price,* update, 2011.

48 See Department of Resources, Energy and Tourism website for Contract for Closure Program Administrative Guidelines: www.ret.gov.au.

This view is supported by the Investment Reference Group, which reported to the Commonwealth Minister for Resources and Energy on the impact of carbon pricing uncertainty:[49]

> "There is a concern that policy uncertainty could lead to a reduction or delay in investment and, coupled with the time required to make investments, may see reserve level requirements breached."

The Contract for Closure Program forms part of a suite of policy measures in the Energy Security Fund aimed at assisting the generation sector's transition to a carbon pricing regime. The Australian Government has also established a generator assistance program to provide assistance to generators that are strongly affected by carbon pricing legislation. An Energy Security Council has been established which will advise the Commonwealth Department of the Treasury on the generator assistance program.

The Commission agrees with stakeholders that argue the RERT is not a suitable tool to accommodate the withdrawal of substantial amounts of generation capacity from the NEM as a result of climate change policies. Policy mechanisms, such as the Contract for Closures Program and other policies included as part of the Energy Security Fund, are more suited to accommodate the transition to a carbon pricing regime. However, the Commission considers that in the near term, the Contract for Closure Program may create a degree of uncertainty in the market as the size and location of the generators is not known.

Investment in generation capacity

In assessing the rule change request and the rule as made, the Commission considered a number of reports relevant to the issue of investment in generation capacity in the NEM.

AEMO's 2011 ESOO forecasts the demand and supply outlook for each region over a ten year period and identifies opportunities for potential generation investment or demand side responses which are signalled by low reserve conditions.[50]

Based on the assumption of medium economic growth, the 2011 ESOO forecasts that:

- Queensland will require additional investment by 2013-14 (this forecast is consistent with the 2010 ESOO); and
- Victoria[51] and South Australia will both require additional generation investment by 2014-15 (this forecast brings forward required investment in

---

49 Investment Reference Group Report, *A Report to the Commonwealth Minister for Resources and Energy*, April 2011, p. 27.

50 Low reserve conditions do not necessarily indicate that load shedding will occur but that the power system adequacy is falling below long-term system reliability standards.

51 AEMO released an updated ESOO on 6 March 2012. AEMO's updated forecasts defer the low reserve conditions for Victoria by one year to 2015-16. This is primarily the result of reduced production at Alcoa Portland and Blue Scope's Western Port plant. See AEMO's website

generation capacity by a year earlier than that forecast in the 2010 ESOO, and is primarily due to increases in maximum demand projections).

AEMO's 2011 PSA report assesses the electricity supply outlook for the next two years and combines forecasts from the Medium-Term Projected Assessment of System Adequacy and its Energy Adequacy Assessment Projection. Typically, AEMO's decision to enter into a long-notice RERT contract is informed by these assessments.[52]

Based on forecasts in the 2011 PSA report, AEMO observes that the "reserve capacity and energy adequacy assessment found that the power system is expected to have sufficient supply capacity to meet the Reliability Panel's reserve requirements, and at the time of publication, AEMO does not intend to invoke the Reliability and Emergency Reserve tender process".[53] AEMO's decision not to invoke the RERT relates only to the reporting period of the 2011 PSA report, which is from 1 July 2011 to 30 June 2013. AEMO do not comment on use of the RERT in relation to the reserve shortfalls identified in the 2011 ESOO.

The Bureau of Resources and Energy Economics (BREE) provides key information in relation to investment activities in generation capacity according to NEM region, fuel types and the project development investment cycle on an annual basis.[54] The BREE report, released in November 2011, notes that in the year to October 2011, only two electricity generation projects have been completed in Australia, both of which are wind generation. The report notes that "a number of projects scheduled to be commissioned over the past year were delayed, owing to several factors including difficulties in negotiating fuel inputs and in finalising financing arrangements".[55]

This represents an overall decline from previous years in the number of completed projects:

- 11 projects were completed in the year to October 2010; and
- 17 projects were completed in the year to October 2009.

Wind generation (41 per cent) and gas generation (37 per cent) form the majority of projects in the advanced stages of development (defined as 'committed' or 'under

---

www.aemo.com.au for AEMO 2011, *Electricity Statement of Opportunities*, Update as at 6 March 2012.

52 The RERT guidelines, prepared by the Reliability Panel, require AEMO to consider the Medium-term Projected Assessment of System Adequacy, but be informed by the Energy Adequacy Assessment Projection.

53 AEMO does also note that the Clean Energy Future Plan is not expected to affect power system operation during the period to 30 June 2013 given that the majority of policy measures do not commence until 1 July 2012; AEMO 2011 *Power System Adequacy for the National Electricity Market*, pp. 2-1.

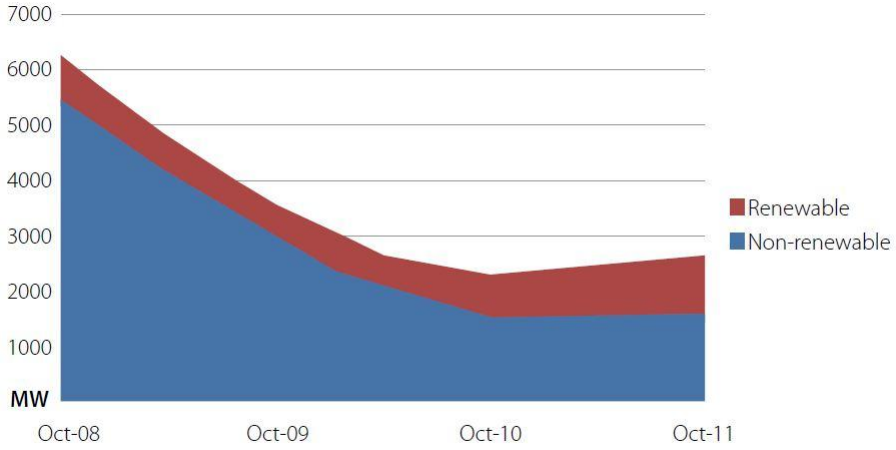
54 Bureau of Resources and Energy Economics, *Major electricity generation projects, November 2011*.

55 Bureau of Resource and Energy Economics, *Major electricity generation projects*, November 2011, p. 5.

construction'). However, around 60 per cent of non-renewable projects at the advanced stages of development are located within the NEM.[56]

The graph below illustrates the investment in generation capacity for renewable and non-renewable projects for recent years in Australia.

Figure 5.1 Capacity of advanced projects, October 2011[57]



The NEM has performed well in previous years in delivering generation capacity to the market. However, in recent years, fewer projects appear to be moving through to completion stage, and especially non-renewable generation projects within NEM regions. This is of particular concern for meeting maximum demand and achieving the reliability standard as generally non-renewable generation, typically gas-fired generation, is required to meet periods of high demand.

Conversely, the number of advanced renewable generation projects relative to advanced non-renewable generation appears to have increased. While this contributes to an overall increase in installed generation capacity for recent years, it raises some concerns on the impact that this may have for attracting non-renewable peaking generation. If renewable generation deployment is concentrated in specific NEM regions the wholesale pool price for electricity may be depressed. This dampens investment signals for non-renewable peaking generation, which is required to meet periods of high demand and contributes towards achieving the reliability standard.

More recently, the AEMC published modelling by NERA/Oakley Greenwood that tested the impact of the LRET under a number of different scenarios, including with and without a carbon pricing regime. Generally, the modelling shows that an increase

56 Two projects with a capacity of 420MW are located in Western Australia and three projects with a capacity of 166 MW are located in the Northern Territory. See Bureau of Resources and Energy Economics, *Major electricity generation projects*, November 2011, p. 7.

57 Bureau of Resources and Energy Economics, Major electricity generation projects, November 2011, p. 8.

in the deployment of renewable generation, especially wind generation, may compromise reliability of supply needed to meet unserved energy requirements.[58]

The modelling shows that under the reference case scenario[59] the LRET dampens average wholesale electricity prices. This in turn limits the revenue that can be earned by new entrant generation such as a peaking generation plant. NERA/Oakley Greenwood contends that, combined with the reliability settings that limit extremely high prices, there may be insufficient revenue earned to support new investment to meet the reliability standard.[60]

The likelihood of meeting unserved energy requirements does not necessarily improve under carbon pricing regime scenarios in NERA/Oakley Greenwood's modelling. It shows that while a carbon pricing regime increases prices for base and intermediate generation, there is no commensurate impact on peak electricity prices. This means that the profitability of a peaking gas generation plant, which is required to meet increasing peak demand, is unchanged.[61] If there is a lack of investment in peaking generation plants, there is a risk that the reliability standard may not be met.

Reliability performance of the NEM

The Commission considers that the NEM has performed well to date in achieving the reliability standard. The level of unserved energy in all regions of the NEM has been less than 0.002 per cent for each of the past ten years, with the exception of Victoria and South Australia in 2008- 2009.[62]

However, the Commission also notes that since the commencement of the NEM, AEMO has forecast lack of reserve capacity and subsequently entered into reserve contracts under the RERT provision (or previous 'reserve trader' provisions) for:

- the period from 31 January 2005 to 4 March 2005 for Victoria and South Australia NEM regions where AEMO contracted for 84MW of reserve capacity; and

---

58 In 2011 the AEMC reviewed the impact of the expanded renewable energy target on Australia's energy market. As part of the review the AEMC commissioned NERA/Oakley Greenwood to model the impacts of increased renewable energy generation under a number of scenarios including with a carbon pricing regime. See the AEMC website for this report and other modelling commissioned for the review. See AEMC website, Nera/Oakley Greenwood, *Impact of the Large-Scale renewable Energy Target on Wholesale Market Prices and Emissions Levels*, 1 July 2011.

59 The reference case assumed that the LRET was put in place, that there was no formal carbon price, and only profitable renewable investments are constructed. See Nera/Oakley Greenwood, *Impact of the Large-Scale renewable Energy Target on Wholesale Market Prices and Emissions Levels*, p. vi, 1 July 2011.

60 Nera/Oakley Greenwood, *Impact of the Large-Scale renewable Energy Target on Wholesale Market Prices and Emissions Levels*, p. 38, 1 July 2011.

61 See Australian Energy Market Commission, *Impact of the enhanced Renewable Energy Target on energy market*, Interim Report, p. 32, 25 November 2011, Sydney.

62 See Australian Energy Market Commission, *Reliability Panel Draft Report: Annual Market Performance Review*, p. 10, 10 November 2011, Sydney.

- the period from 16 January 2006 to 10 March 2006 for Victoria and South Australia NEM regions where AEMO contracted for 375MW of reserve capacity.

5.4 Commission's conclusion

In its assessment of the proposed rule and the rule as made, the Commission has carefully considered recent developments in the energy market and changes to external policy settings that may be driving a period of market uncertainty. Therefore, a key consideration for the Commission for this rule change has been to assess the extent to which market uncertainty (driven by changes to external policy settings) may affect investment decisions in generation capacity in the NEM. In particular, the Commission considers that if there is a potential risk that additional generation capacity is not deployed in sufficient time to meet increasing maximum demand, the reliability standard may not be achieved.

The recent policy changes considered by the Commission include the introduction and implementation of a carbon pricing regime and the LRET. The intention of both of these policies is to change the way in which capital is allocated in the energy sector and the economy more broadly, consistent with the promotion of low carbon-emitting technologies. For the energy market, this means that there will be changes to the location and type of generation in the NEM. As a result, there may be a period of transition in the market as participants respond to these new policy settings.

The Commission notes that uncertainty regarding the introduction of a carbon pricing regime may have previously delayed investment in the NEM, and it may be a period of time before market participants respond to the new policy settings. This is because generation investment requires substantial lead times for deployment. In addition, the Commission considers that there may be ongoing market uncertainty in relation to the impacts of the carbon pricing mechanism, which may cause further delays to generation investment decisions.

The Commission's decision to postpone the expiry of the RERT is not intended to augment existing market signals to attract additional investment in either demand side responses or generation. The Commission's decision to postpone the expiry of the RERT is based on its assessment of the risk to reliability of supply given current market conditions. The Commission is of the view that a combination of external policy factors may potentially limit the market's ability to deliver the reliability standard in some NEM regions. If that occurs, the RERT may be a useful short-term tool to reduce any impact on reliability, and for this reason, the RERT's expiry should be postponed.

The Commission notes that AEMO's 2011 PSA report forecasts sufficient reserve capacity and energy adequacy up to the period of 30 June 2013. However, the 2011 ESOO brought forward some of its forecast reserve shortfalls from the previous report and several regions of the NEM may experience reserve shortfalls in 2013-14 or 2014-15. The updated 2011 ESOO defers reserve shortfalls for Victoria, but still forecasts reserve shortfalls for Queensland and South Australia in 2013- 14 and 2014-15, respectively. The Commission considers that because the requirement for investment in generation capacity has been brought forward by a year for some NEM

regions, there is a potential risk that completion of investment in generation capacity may not be deployed in adequate time to meet forecast increases in maximum demand.

In addition, the recent report by BREE indicates that there is a decline in projects moving through to completion in recent years. Given that the two projects completed in the previous 12 months are wind generation, this gives weight to some stakeholders' concerns in relation to attracting non-renewable peaking generation that is crucial to supplying increased maximum demand and therefore achieving the reliable and secure supply of electricity.

The Commission considers that to date the NEM has delivered sufficient investment in generation capacity to ensure that the reliability standard is met. However, if investment decisions are delayed in some NEM regions due to market uncertainty there is an increased risk that generation capacity will not be deployed in adequate time to meet forecast reserve shortfalls.

The combination of insufficiently clear information on the likely state of reserve capacities in the near term and fewer projects progressing through to completion means that the Commission cannot be certain that there will be sufficient investment to ensure that the reliability standard will be met in all NEM regions over the next several years. If sufficient investment fails to occur, the RERT may be a useful mechanism to allow AEMO to source additional generation capacity or demand side participation to reduce the risk, or extent, of load shedding events and not meeting the reliability standard.

The Commission considers that the expiry of the RERT should be postponed beyond 2013 as market uncertainty and risks to reliability of supply are unlikely to lessen in this time. Given the considerations outlined above, and those addressed in Chapter 7 of this final determination, the Commission considers that the RERT should not expire until 30 June 2016. The Commission is of the view that a four year period will provide an adequate period of time for the market to respond to the new policy settings and new investment in generation capacity to be deployed in the market.

6 Market distortions and costs

In its assessment of the proposed rule and the rule as made, the Commission has considered the extent to which the continuation of the RERT may contribute to market distortions. The RERT may create a potential secondary market for reserves, which is not subject to the MPC, by incentivising some participants to enter into reserve contracts with AEMO rather than retailers and other intermediaries in the primary market.

In the absence of the RERT, or any other reserve trader provisions, a market participant wishing to offer reserves would be likely to do so by contracting with a retailer or other intermediary in the primary market for reserves or peaking capacity. The primary market for reserves also provides retailers with a mechanism for managing periods of high demand and therefore high prices.

Policies directed at increasing demand side participation seek to provide an additional mechanism for managing periods of high demand by increasing the pool of available reserves in the market.

In assessing the impacts of the potential market distortions created by the RERT, the Commission has considered the likelihood and materiality of these distortions. The Commission has also weighed this cost against the potential significant benefits of maintaining the RERT. This includes ensuring the reliable and secure supply of electricity and minimising load shedding events.

6.1 Rule proponent's view

In its rule change request, and as part of the RERT review, the Panel considered whether the RERT created a market distortion and consequently resulted in higher electricity costs for consumers. Stakeholders who viewed the RERT as a market distortion submitted to the Panel's RERT review that it created a secondary market for reserves as reserves could be contracted for above the MPC. Stakeholders in favour of maintaining the RERT recognised that it might create a market distortion, but that it was a low cost risk management strategy for limited use during times of reserve shortfalls.

In its assessment on this matter, the Panel considered that:[63]

> "The RERT may be more attractive to some demand side participants ahead of the primary market. For example, participants with whom retailers may be unwilling to contract such as those with strict restrictions on availability (i.e. the timing of the outage, or the length of the notice period) may find the RERT more attractive."

63 Reliability Panel rule change request, p. 14.

The Panel acknowledged that retailers are unable to efficiently hedge against the costs of the RERT because the amount of the costs are unknown to retailers prior to it being exercised.

6.2 Stakeholders' views

6.2.1 First round of consultation - AEMC staff paper

Most stakeholders agreed that the RERT created a market distortion, but were divided as to how the market distortion manifests and its materiality.

Generators and retailers argued that the RERT created a market distortion by:

- allowing participants to contract for reserves above the MPC;
- marginalising demand side participants into a reserve market and away from contracting with retailers;
- reducing incentives for longer term capacity provision via investment in the primary market; and
- distorting the value for the secure operating state by attributing a greater value to load shedding than the MPC.

The Victorian DPI argued that the RERT was unlikely to incentivise market participants to withhold capacity from the primary market for reserves in expectation of entering into a reserve contract with AEMO. DPI considered that this represented an unlikely business strategy given the uncertain nature of revenue streams that could be derived through the RERT, and its highly infrequent use. Rather, DPI is of the view that a greater distortion to the market that may impact on achieving the reliability standard are the current levels of the MPC and CPT which, DPI argues, do not accurately reflect the value that customers place on a reliable supply of electricity.

6.2.2 Second round of consultation - draft determination

The views of stakeholders remained largely unchanged in their submissions to the draft determination. Stakeholders' reiterated that the RERT created a market distortion but did not quantify the degree of market distortion created by the RERT.

AGL observed that, in their experience, most of the reserves delivered through the RERT tender process in 2005 and 2006 were primarily "scavenged" from existing demand side responses that would normally be available to retailers. In the view of AGL, the existence of the RERT creates a secondary market, outside the primary market for reserves, which distorts supply and demand signals.[64]

64 AGL submission, draft determination, p. 1.

The Private Generators Group reiterated their view on the RERTs effect on market signals, namely that it:

- marginalises the activities of non-active participants into a reserve market; and
- creates additional costs, is not transparent and has the potential to distort the market.

ERAA submitted that the RERT imposed a cost burden especially at a time when energy prices are rising and inefficiencies are highly scrutinised:[65]

> "Since its introduction AEMO (NEMMCO) has only ever entered into reserve contracts in 2005 & 2006 at an estimated cost of $5.4 million, exclusive of administrative costs, paid for by the industry and consumers - for little or no perceived benefit."

6.3 Commission's analysis

The Commission had previously considered in the Comprehensive Reliability Review (2007) whether an emergency trader provision in the NER creates a market distortion. Recommendations stemming from this review led to the subsequent adoption of the RERT in 2008, which was designed to minimise the impact of any apparent market distortions.[66]

Changes to the reserve trader in 2008 included amending provisions in the NER:[67]

- increase flexibility of how the market operator was able to tender and contract for reserves;
- ensure the contracted reserves cannot set the dispatch price; and
- ensure that contracted reserves are only dispatched subsequent to all other energy and ancillary services bids being dispatched.

Specifically, the Commission sought to ensure that by reducing market distortions it would preserve market signals to foster a market response to forecast reserve shortfalls. AEMO has not entered into reserve contracts since the adoption of the RERT in the rules. Therefore, it is unclear whether the market distortions created by the

---

65 ERAA, draft determination submission, p. 2.

66 See Australian Energy Market Commission, *National Electricity Amendment (NEM Reliability Settings: Information, Safety Net and Directions) Rule 2008*, final rule determination, 26 June 2008, Sydney, pp. 31- 43.

67 Effectively, these changes required that AEMO seek reserve capacity from sources that would otherwise not be available to the primary market. Subsequent changes to the RERT were introduced in 2009 including the introduction of the short-notice and medium-notice RERT. The RERT guidelines developed by the Reliability Panel allow AEMO to establish a panel of entities that may be called upon to enter into reserve contracts for medium-notice (between 10 weeks' and 7 days' notice) and short-notice (between 3 hours' and 7 days' notice).

reserve trader, if any, are have been lessened by the introduction of these new provisions.

As discussed in Chapter 5, the Commission understands that the market operator has entered into reserve contracts twice, and in each case has not exercised the dispatch of additional capacity:[68]

- 31 January 2005 to 4 March 2005 for Victoria and South Australia NEM regions AEMO sought to contract up to 230MW, and contracted for 84MW. The total availability payments to reserve providers was $1,035,000; and
- 16 January 2006 to 10 March 2006 for Victoria and South Australia NEM regions AEMO sought to contract up to 500MW, and contracted for 375MW. The total availability payments to reserve providers was $4,352,054.

The Commission understands that the successful tenders in 2005 were a combination of demand response providers and additional generation capacity.[69]

The following participants were selected in response to forecast reserve shortfalls in 2006:[70]

- VicPower Trading - 180MW (a provider of ancillary frequency services);
- Energy Response - 125MW (an open access aggregator of demand side response);
- The Australian Steel Company (Operations) - 55MW; and
- Zinifex Port Pirie - 15MW.

Given the above information, the average cost of availability payments to reserve providers was approximately $12,321 per MW in 2005 and $11,605 per MW in 2006.

It should be noted that if the reserve providers were dispatched, this would have likely incurred an additional payment and increased the overall contract price for reserves.

Given the very infrequent use of the reserve trader it is unlikely that participants with available reserves would withhold capacity for the unreasonably likely event that they will be able to enter into reserve contracts with AEMO in preference to contracting with retailers and other intermediaries in the primary market for reserves. A stronger business case would exist for market participants to directly enter into the primary market where additional revenue streams can be accessed on a more frequent and reliable basis.

---

68 See National Electricity Market Management Company Limited, Communication No. 1937, *Reserve Trading Financial Year 2004/05*, version no. 1.0, p.2; Communication No. 2203, *Reliability Safety Net Financial Year 2005/06*, version no. 1.0, p.2.

69 Australian Energy Market Commission, *Review of the role of demand side participation in the National Electricity Market*, stage 1 final report, NERA Consulting, p. 49.

70 Australian Energy Market Commission, *Review of the role of demand side participation in the National Electricity Market*, stage 1 final report, NERA Consulting, 9 May 2008, p. 49.

The Commission notes however, that residential customers, who are usually load shed first, may value customer reliability differently to industrial and commercial customers. The value that residential customers place on reliability is a factor in determining the appropriate level of the MPC that forms part of the reliability settings.[71]

6.4 Commission's conclusion

The Commission has considered the likelihood and materiality of potential market distortion created by the RERT and weighed it against the benefits of maintaining this provision in the NER for a period of time. While it is likely that the RERT may create some potential market distortion the Commission considers that the impact of those market distortions are minor and are outweighed by the benefits of maintaining the RERT for a period of time.

To date, AEMO has only entered into reserve contracts twice, and on both occasions opted not to dispatch additional capacity available under the contracts. Given the very infrequent use of the reserve trader, the argument that the RERT creates a secondary market is less persuasive. Indeed, it appears very unlikely that participants with available reserves would withhold capacity for the reasonably unlikely event that they will be able to enter into reserve contracts with AEMO in preference to contracting with retailers and other intermediaries in the primary market. The Commission is of the view that a stronger business case would exist for market participants to directly enter into the primary market where additional revenue streams can be accessed on a more frequent and reliable basis.

The Commission acknowledges that consumers may face higher electricity costs associated with AEMO's entry into reserve contracts, but notes that these costs are allocated across jurisdictions that stand to benefit from the contracts. However, it is not clear to the Commission whether retailers recover these costs more broadly from residential users of electricity (which would be limited in some jurisdictions due to regulated retail prices or the ability to readily change market contract tariffs) or whether retailers are able to pass costs through to large scale industrial users that are typically not on a standard contract.

For some consumers of electricity, load shedding can result in substantial economic costs in terms of productivity. The RERT therefore provides a mechanism to ensure that the risk of load shedding events, which may result in the reliability standard not

71 The value that customers place on reliability of supply is likely to be subjective in nature. However, it may be measured by determining the costs incurred by customers from interruption to their power supply. Currently, the only widely used estimate of customer willingness to pay for reliability is AEMO's estimate of the Victorian value of customer reliability (VCR). The Victorian VCR is used by Victorian transmission businesses to assess whether network augmentation should proceed. It calculates separate VCRs for residential, agricultural, commercial and industrial customers.

being met, is minimised and gives a greater degree of confidence to consumers that they are able to access a reliable and secure supply of electricity.

As discussed in Chapters 5 and 7, until market uncertainty lessens, the Commission considers the RERT is of some benefit to the market. On balance the Commission considers that any potential, minor market distortions created by the RERT are outweighed by the benefits of maintaining reliability and security of supply to consumers and ensuring that the risk of load shedding events are minimised.

7 Market development and implementation issues

The previous chapters assessed whether there was merit in retaining the RERT given current market uncertainty resulting from changes to external policy settings (Chapter 5), and the extent to which the RERT created a material market distortion (Chapter 6). This chapter examines the period of time for which the RERT should be retained, and whether the Panel review mechanism should be removed.

In its assessment of the RERT's expiry date the Commission has considered the interaction and timing of policies relating to demand side participation and the Panel's review of reliability standards and settings due to be completed in April 2014.

Demand side participation policies seek to minimise the total cost of balancing supply and demand and may result in additional mechanisms for managing periods of high demand. This could be achieved by:

- increasing the pool of available reserves to the market by incentivising distributed generation, for example, to offer additional capacity;
- incentivising consumers to reduce demand during periods of high demand and high prices.

7.1 Rule proponent's views

In its assessment of whether the RERT continues to be required in the NER and whether its expiry should be postponed, the Panel considered the timing of the implementation of demand side policies. Demand side participants represent a significant segment of the market that can respond with additional reserves, which would not otherwise be available to the wholesale market, in order to reduce the levels of maximum demand.

The Panel considered that there was value in postponing the expiry of the RERT for one year to allow greater time for recommendations from ongoing work on demand side participation to be implemented. The Panel also considered that there was additional value in postponing the RERT for that period of time to provide sufficient notice of the expiry of the RERT to those stakeholders whose core business will be affected, particularly those who provide demand side capacity to the market.[72]

7.2 Stakeholders' views

7.2.1 First round consultation - AEMC staff paper

No stakeholders that responded to the consultation paper supported postponing the expiry of the RERT by a period of one year. Stakeholders considered that the RERT

72 Reliability Panel proposed rule change, pp. 13- 14.

should expire according to the current provisions in 2012, or that the expiry date should be postponed for at least four years or indefinitely.

Stakeholders that did not support maintaining the RERT contended that businesses would not be impacted by its removal given its infrequent utilisation and unlikely use in the future.[73]

In terms of the implementation and timing issues, NGF/esaa noted that the RERT's expiry should not be postponed for two reasons:

- the Power of Choice review is focussed on the consumer area, as indicated by the title of the review Power of Choice- giving consumers options in the way they use electricity; and
- if the RERT was required to support the viability of some demand side participants, then a one year extension of the RERT will do little to support their long term involvement.[74]

South Australia's DTEI argued that the RERT should remain in the NER until such time that the AEMC develops an appropriate alternative reserve trader mechanism.[75] Victoria's DPI considered that the RERT should remain in the NER until 1 July 2016, by which time the Panel would have reviewed reliability settings and any changes in levels for the MPC and the CPT would have been implemented in the NER.[76]

No submissions were received from stakeholders whose core business may be affected by the removal of the RERT.

7.2.2 Second round of consultation - draft determination

Stakeholder submissions focussed on market uncertainty and the market costs and distortions created by the RERT. Very few stakeholders addressed the Commission's comments in the draft determination regarding the implementation of demand side participation policies and the Panel's review of the RERT in deciding to postpone the expiry of the RERT. Therefore this section outlines some general concerns raised by stakeholders in response to the Commission's draft determination to postpone the expiry of the RERT for a period of four years instead of the one year extension proposed by the Panel.

Some stakeholders questioned the Commission's proposed decision not to make the rule change as initially proposed by the rule proponent. In their submission to the draft determination the Private Generators Group was "dismayed by the Commission's

---

73 TRUenergy, consultation paper submission, p. 3, Private Generators Group, consultation paper submission, p. 3, NGF/esaa, consultation paper submission, p. 3.

74 NGF/esaa, consultation paper submission, pp. 3- 4.

75 South Australian Department for Transport, Energy and Infrastructure, consultation paper submission p. 3.

76 Victorian Department of Primary Industries, consultation paper submission, p. 1.

failure to adopt the recommendations of its own Reliability Panel to have the RERT role expire on 30 June 2013 and instead drawing out the RERT functions for yet a further four year period to 30 June 2016".[77]

The ERAA made a similar argument in their submission. The ERAA also pointed to the operational challenges of the RERT as highlighted by AEMO in their submission to the draft determination, and called for another round of consultation to address these matters.[78]

The NGF and esaa argue that the decision to postpone the expiry of the RERT follows a trend regarding the 'right time' to remove the reserve trader provision:

> "Since the NEM began in 1998 with a temporary reserve trading mechanism, the AEMC and its predecessor, the National Electricity Code Administrator, have considered essentially the same question five times (in reviews of the RERT and its predecessor, the Reserve Trader). On each occasion the rule maker's decision was to reaffirm reserve trading as a non-permanent power of the system operator but to extend its expiry date."

The NGF and esaa's contention is that, if the Commission postpones the RERT's expiry again, it will continue to perpetuate this trend and "set the scene" for another extension in four years' time.[79]

AGL considered that postponing the expiry of the RERT to 30 June 2016 will not accommodate market uncertainties raised by the governments of Victoria and South Australia in their submissions to the consultation paper, namely the implementation of a carbon price and the LRET. AGL contended that "retention of the RERT beyond the currently scheduled end date is unjustified".[80]

The Government of South Australia's DTEI supported the Commission's decision to postpone the expiry of the RERT until 30 June 2016. The Energy Markets and Programs Division of the department considered that the "Panel's review of the reliability standard and settings will provide an opportunity to assess whether the current settings are delivering sufficient generation in light of current and expected future policy settings. Maintaining the RERT until this time is therefore supported".[81]

The Panel submitted that its recommendation to postpone the expiry of the RERT by one year, as part of its rule change request, was erring on the conservative side and was intended to allow greater demand side development. The Panel further noted that

---

77 Private Generators draft determination submission, p. 2.

78 ERAA, draft determination submission, p. 2.

79 NGF/esaa, draft determination submission, p. 2.

80 AGL draft determination submission, p. 2.

81 Government of South Australia Department of Manufacturing, Industry, Trade, Resources and Energy, draft determination submission, p. 1.

the RERT will "represent a barrier to the establishment of more effective arrangements that meet consumers' desire to avoid wide spread unserved energy".[82]

7.3 Commission's analysis

Demand side participation

The Commission is currently progressing a number of work programs in relation to demand side participation, directed at providing improved opportunities for participation. These include:

- Distribution Network Planning and Expansion Framework rule change;
- Inclusion of Embedded Generation Research into the Demand Management Incentive Scheme rule;
- Efficiency Benefit Sharing Scheme and Demand Management Expenditure by Transmission Businesses rule; and
- Power of Choice review.

In addition, new arrangements governing the connection of distributed generation are due to commence in the NER in July 2012, as part of the National Energy Customer Framework reform package.

The Distribution Network Planning and Expansion Framework rule change seeks to implement a national framework for electricity distribution network planning and expansion. A key element of this rule change proposes requiring Distribution Network Service Providers (DNSPs) to establish and implement a "Demand Side Engagement Strategy" which would outline DNSP processes for considering non-network proposals and engaging with non-network providers. Under the proposed rule, DNSPs would review and publish a Demand Side Engagement Strategy at least once every three years.[83]

The Inclusion of Embedded Generation Research into the Demand Management Incentive Scheme rule resulted from the Demand Side Participation Stage 2 review, which found that DNSPs have a strong incentive to focus on network reliability and safety issues, and weak incentives to minimise the costs associated with connecting embedded generators to their network. This rule requires the Australian Energy Regulator (AER) to improve the incentives placed on DNSPs under the Demand Management Incentive Scheme to connect embedded generators efficiently.[84]

---

82 Reliability Panel draft determination submission, p. 2.

83 Australian Market Energy Commission, *National Electricity Amendment (Distribution Network Planning and Expansion Framework) Rule 2011*, consultation paper, 29 September 2011, Sydney.

84 Australian Energy Market Commission, *National Amendment (Inclusion of Embedded Generation Research into the Demand Management Incentive Scheme) Rule 2011*, draft determination, 29 September 2011, Sydney.

The Efficiency Benefit Sharing Scheme and Demand Management Expenditure by Transmission Businesses rule results from the Demand Side Participation Stage 2 review. The rule excludes non-network alternative expenditures from the scheme, which if otherwise included may act as a disincentive to transmission companies undertaking efficient non-network alternatives.[85]

The latter two rule changes were made on 15 December 2011. However, the impact of these rules will only fully take effect after the AER completes the next round of distribution determinations for each NEM jurisdiction, which will not be completed until 2016. The timing for full implementation of these rules highlights that sometimes a significant period of time is required for new demand side participation policies to take effect in the market.

The Power of Choice review will consider a range of market features that can contribute to facilitating and promoting an efficient demand side response that may include potential recommendations regarding demand side participation actions, market conditions and regulatory arrangements. Included within the scope of the review is the utilisation of distributed generation and the role of energy aggregators in facilitating a demand side response. Given that the final report for this review is due for completion at the end of 2012, it may take some time to see any recommendations implemented in market and regulatory arrangements.[86]

The introduction of Chapter 5A in the NER will provide a framework for the connection for non-registered micro and embedded generation to the distribution network, which is directed at supporting demand side participation in the NEM. The new arrangements include:[87]

- standing offer contracts for basic micro and distributed generation (in particular solar residential);
- the ability for DNSPs to propose additional standing offers for other types of distributed generation connections;
- establishing a negotiating framework specific to retail customers and non-registered distributed generation; and
- access to dispute resolution processes.

Demand side participation policies potentially provide a pathway to managing periods of high demand and reducing the risk of load shedding events. This increases the range of policy tools available to the market to achieve the reliability standard and potentially

85 Australian Energy Market Commission, *National Electricity Amendment (Efficiency Benefit Sharing Scheme and Demand Management Expenditure by Transmission Businesses) Rule 2011*, draft determination, 29 September 2011, Sydney.

86 Australian Energy Market Commission, *Power of Choice- giving consumers options in the way they use electricity*, issues paper, pp. i- iii, 15 July 2011, Sydney.

87 See the Ministerial Council for Energy website: www.mce.gov.au.

reduces the need for the RERT. However, it is likely to take time for these policies to be implemented, or for market participants to respond.

Reliability Panel review of reliability standard and settings

The NER requires the Panel to undertake a review of reliability standard and settings by April 2014. The reliability settings are the key mechanisms for balancing supply and demand in the wholesale market and delivering capacity to meet the reliability standard over the long term. Therefore, under this review the Panel will be required to assess the current levels of the MPC and CPT in order to determine whether they are delivering sufficient generation capacity to the NEM. This assessment will be in light of current and future market conditions.

Any recommendations stemming from this review will require a period of time to be implemented in the NER.

7.4 Commission's conclusion

The Commission considers that there are new and substantial policy initiatives currently in development that may have a material impact on reducing the barriers to demand side participation. This has the potential to result in attracting additional capacity to the primary market for reserves or peaking capacity.

The rule changes and policies currently under development seek to provide a general framework for the efficient connection of distributed generation and other demand side responses. It is likely that the combination of the new Chapter 5A arrangements and the proposed Distribution Network Planning and Expansion Framework rule change can reduce the barriers to demand side participation, especially for distributed generation. Increasing demand side participation will provide an additional mechanism for minimising the risk of load shedding events, in conjunction with investment in generation capacity by increasing the pool of available reserves in the market.

The Commission considers that implementation of these rules will need more than the one year period contemplated by the Panel in their proposed rule change.

The Commission notes the concerns raised by jurisdictional governments in relation to the ability of the current reliability settings to deliver sufficient investment generation capacity. The Commission considers that the reliability settings, in the absence of significant market uncertainty, are likely to provide sufficient investment in generation capacity to the market. However, as a result of market uncertainty discussed in Chapter 5, there is a risk that the current reliability settings may not result in sufficient investment to meet the reliability standard in all NEM regions. Therefore, until the reliability standards and settings are reviewed against current and future market conditions, there is benefit in retaining the RERT.

The Commission considers that the expiry of the RERT should be postponed for a period of four years. This will allow sufficient time for:

- demand side participation rule changes, and recommendations stemming from reviews, to be implemented;
- any recommendations relating to the Reliability Panel's review of reliability standards and settings to be implemented; and
- the market uncertainty as a result of the changes in policy settings discussed in Chapter 5 to lessen.

The Commission has carefully considered the concerns raised by stakeholders in response to the draft determination. In particular, the Commission wishes to address the concern raised by stakeholders that its decision to postpone the RERT may "set the scene" for another extension in four years' time. The Commission emphasises that postponing the RERT's expiry until 30 June 2016 is a temporary measure primarily directed at accommodating a period of market uncertainty that may be a result of the transition to new policy settings, including a carbon pricing regime. Market uncertainty is expected to have abated by 2016 and the Commission considers that another review of the RERT prior to then is unnecessary.

Therefore a key component of this rule is removing the RERT review mechanism. If the review mechanism were retained, it would provide a potential avenue for postponing the RERT's expiry again. Removing the requirement for the Panel to review the RERT should provide market participants with greater certainty as to the status of the RERT after 30 June 2016. The Commission considers that the RERT should not be retained beyond its expiry date of 30 June 2016.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AFP	Administered Floor Price
APC	Administered Price Cap
APP	Administered Price Period
BREE	Bureau of Resources and Energy Economics
Commission	See AEMC
CPT	Cumulative Price Threshold
DNSP	Distribution Network Service Providers
DPI	Department of Primary Industries
DTEI	Department for Transport, Energy and Infrastructure
ESOO	Electricity Statement of Opportunities
LRET	Large-scale Renewable Energy Target
MCE	Ministerial Council on Energy
MPC	Market Price Cap
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
PSA	Power System Adequacy
RERT	Reliability and Emergency Reserve Trader
the Panel	Reliability Panel

VCR	Value of Customer Reliability

A Summary of issues raised in submissions to AEMC staff paper

Stakeholder	Issue	AEMC Response
DPI	Investor uncertainty will continue in the NEM for a while, as evidenced by AEMO forecast which forecasts generation investment not likely to meet requirements of the NEM.	The Commission considers that recent periods of market uncertainty, and the extent to which this impacts on investment uncertainty, may potentially delay the completion of generation capacity in some NEM regions. Where market signals are dulled or investment decisions are delayed due to changes in policy settings there is potentially a risk that generation capacity may not be deployed in adequate time to meet maximum demand in all NEM regions, consistent with the reliability standard.
DPI	Investment challenge over the next decade means there is a risk that new capacity does not come on stream quickly enough to maintain supply reliability.	The Commission considers that recent periods of market uncertainty, and the extent to which this impacts on investment uncertainty, may potentially delay the completion generation capacity in some NEM regions. Where market signals are dulled or investment decisions are delayed due to changes in policy settings there is potentially a risk that generation capacity may not be deployed in adequate time to meet maximum demand in all NEM regions, consistent with the reliability standard.
DTEI	Decision to postpone expiry of RERT by 12 months only is based on historic performance and does not take into account challenges faced by market.	The Commission notes that AEMO's 2011 Power System Adequacy report forecasts sufficient reserve capacity and energy adequacy up to the period of 30 June 2013. However, the 2011 ESOO has brought forward some of its forecast reserve shortfalls from the previous report, and forecasts that several regions of the NEM may experience reserve shortfalls in 2013-14 or 2014-15.
DTEI	DTEI considers uncertainty in the market, the potential lack of investment and the impact of wind generation suggests there is a need for a last resort support mechanism.	The Commission considers that the combined effect of market uncertainty with respect to the impacts of carbon pricing and deployment of renewable energy generation on wholesale electricity prices may potentially dampen investment signals for generation capacity in some NEM regions. Maintaining the RERT for a period of time provides a safety

Stakeholder	Issue	AEMC Response
		net for consumers if investment in generation capacity is not sufficient to meet the reliability standard in some NEM regions.
NGF/esaa	The RERT creates an inconsistency to the implied value of achieving a secure operating state.	The Commission agrees that the RERT potentially creates an inconsistency in the implied value of achieving a secure operation state because reserve contracts under the RERT are not subject to the MPC. However, the Commission considers that maintaining the RERT as a safety net for a defined period is likely to provide consumers with a greater degree of confidence that they are able to access a reliable and secure supply of electricity.
NGF/esaa	Keeping the RERT continually marginalises the activities of non-active market participants into a reserve market. This includes sharper and more accurate demand side signals.	Based on the fact that the reserve trader provision has rarely been used in the past, the Commission considers that it appears very unlikely that participants with available reserves would withhold capacity for the reasonably unlikely event that they will be able to enter into reserve contracts with AEMO in preference to contracting with retailers and other intermediaries in the primary market for reserves. The Commission is of the view that a stronger business case would exist for market participants to directly enter into the primary market where additional revenue streams can be accessed on a more frequent and reliable basis.
NGF/esaa	The RERT has not increased the actual supply reliability in 10 years.	The Commission notes that the purpose of the RERT is not to increase the supply in generation capacity to the market. The reliability settings, more specifically the MPC and CPT, provide signals to generators for investment and are the appropriate policy tool to achieve and meet the reliability standard. The RERT potentially provides a safety net if the reliability settings do not result in enough investment to achieve the reliability standard, especially as market uncertainty may persist.
NGF/esaa	According to AEMO’s latest Power System Adequacy report, the reliability standard will comfortably be exceeded for the next two years.	The Commission notes that AEMO's 2011 Power System Adequacy report forecasts sufficient reserve capacity and energy adequacy up to the period of 30 June 2013. However, the 2011 ESOO has brought forward some of its forecast reserve shortfalls from the previous report, and forecasts that several regions of the NEM may experience reserve

Stakeholder	Issue	AEMC Response
		shortfalls in 2013-14 or 2014-15.
DPI	Significant distortions arise from the MPC and CPT which are set at levels that do not significantly recognise the importance that consumers place on a reliable supply of electricity.	The Commission notes that the Reliability Panel will be reviewing reliability standards and settings by April 2014.
NGF/esaa	Linking outcomes from the Demand Side Participation review to the expiry of the RERT runs the risk of re-conceptualising the RERT as a demand side management tool.	The Commission considers that demand side participation policies potentially provide a pathway to managing periods of high demand and reducing the risk of load shedding events. In particular, distributed generation is likely to provide the market with additional capacity where reserve shortfalls are forecast. However, in the absence of demand side participation policies that can enable distributed generation to respond, there may be benefit in maintaining the RERT for a period of time as a safety net for attracting additional capacity to ensure reliability and security of supply of electricity, consistent with the reliability standard.
NGF/esaa	The RERT was not a policy tool designed for either large amounts of capacity or frequent use.	The Commission agrees with the point.
Private Generators Group	By keeping the RERT the market marginalises the activities of non-active participants into a reserve market.	Based on the fact that the RERT has rarely been used in the past, the Commission considers that it appears very unlikely that participants with available reserves would withhold capacity for the reasonably unlikely event that they will be able to enter into reserve contracts with AEMO in preference to contracting with retailers and other intermediaries in the primary market for reserves. The Commission is of the view that a stronger business case would exist for market participants to directly enter into the primary market where additional revenue streams can be accessed on a more frequent and reliable basis.
Private Generators Group	The RERT creates additional costs, is not transparent and distorts the market.	Given the infrequent use of the RERT consumers are not likely to face materially higher electricity costs. The Commission considers that while the RERT may create some minor market distortions, the impact on consumers of these are outweighed by the benefit of maintaining the

Stakeholder	Issue	AEMC Response
		RERT for a period of time, especially while market uncertainty may persist.
Private Generators Group	The RERT creates an inconsistency in the implied value of achieving a secure operating state.	The Commission agrees that the RERT potentially creates an inconsistency in the implied value of achieving a secure operation state because reserve contracts under the RERT are not subject to the MPC. However, the Commission considers that maintaining the RERT as a safety net for a defined period is likely to provide consumers with a greater degree of confidence that they are able to access a reliable and secure supply of electricity.
Private Generators Group	The RERT (and previously the Reserve Trader) has not increased actual supply in reliability in 10 years.	The Commission notes that the purpose of the RERT is not to increase the supply in generation capacity to the market. The reliability settings, more specifically the MPC and CPT, provide signals to generators for investment and are the appropriate policy tool to achieve and meet the reliability standard. The RERT potentially provides a safety net if the reliability settings do not result in enough investment to achieve the reliability standard, especially as market uncertainty may persist.
Private Generators Group	Size of any possible closure of large-scale base load plant in the near term due to climate change policy would dwarf any capacity that AEMO will be able to procure under the long-, medium- and short term mechanisms.	The Commission agrees that the RERT is not a policy tool designed to deliver capacity in the event of significant withdrawals of generation capacity from the NEM, but it can provide a useful safety net to manage other risks. The Commission notes that the Australian Government is currently progressing a number of policies directed at managing the withdrawal of up to 2,000MW of high carbon emitting generation from the NEM, and other policies to manage the transition to a carbon pricing regime.
Private Generators Group	AEMO has extensive powers to direct participants when system security is at risk. These powers can address shortfalls as a last resort.	The Commission notes this point.
TRUenergy	The RERT distorts the price of energy in the NEM, and if energy reserves were to tighten, the RERT	Based on the fact that the reserve trader provision has rarely been used in the past, the Commission considers that it appears very unlikely that

Stakeholder	Issue	AEMC Response
	would act as an even greater distortion and reduce incentives for longer term capacity provision via investment in the primary market.	participants with available reserves would rather withhold capacity for the reasonably unlikely event that they will be able to enter into reserve contracts with AEMO in preference to contracting with retailers and other intermediaries in the primary market for reserves. The Commission is of the view that a stronger business case would exist for market participants to directly enter into the primary market where additional revenue streams can be accessed on a more frequent and reliable basis.
TRUenergy	Considers that capacity would be priced more efficiently if it were contracted through a market mechanism either directly with retailers or other market participants rather than through AEMO.	The Commission agrees that the RERT potentially creates a market distortion because reserves contracted under the RERT are not subject to the MPC. However, the Commission considers that maintaining the RERT as a safety net for a defined period is likely to provide consumers with a greater degree of confidence that they are able to access a reliable and secure supply of electricity.
TRUenergy	It would be impractical for an interim approach for the RERT to provide enough capacity to fill the gap caused by the departure of a large scale base load plant as a result of the introduction of a price on carbon.	The Commission agrees that the RERT is not a policy tool designed to deliver capacity in the event of significant withdrawals of generation capacity from the NEM, but can provide a useful safety net to manage other risks. The Commission notes that the Australian Government is currently progressing a number of policies directed at managing the withdrawal of up to 2,000MW of high carbon emitting generation from the NEM, and other policies to manage the transition to a carbon pricing regime.
TRUenergy	We believe that maintaining the RERT for another year to support the demand side is irrelevant and would contribute to ongoing inefficiency by subsidising uncompetitive business models.	The Commission considers that the RERT does not support or subsidise uncompetitive business models, based on the fact that the RERT has rarely been used in the past and that a stronger business case would exist for market participants to directly enter into the primary market for reserves where additional revenue streams can be accessed on a more frequent and reliable basis.

B Summary of issues raised in response to draft determination

Stakeholder	Issue	AEMC Response
Reliability Panel	The Panel believes that extending the RERT to 30 June 2016 will not improve the likelihood of "better contributing" to the NEO, because it considers on the evidence and views available to it that the RERT is unlikely to be used, and if used is unlikely to materially improve reliability.	The Commission considers the rule as made is more likely to promote the efficient use of electricity services than the proposed rule because market participants may need a period of time to respond to new policy settings such as carbon pricing legislation. This may result in a period of market uncertainty. If investment in generation is delayed as a result of market uncertainty there is a risk of not meeting the reliability standard in some regions. Therefore to support the achievement of the reliable and secure supply of electricity to consumers, and minimise the risk of load shedding events, it is prudent to postpone the expiry of the RERT for a period of four years instead of one year. This view is supported by the reports and modelling discussed in Chapter 5 of this final determination.
Reliability Panel	The draft determination considers that maintaining the RERT for a longer period is likely to provide benefit to consumers in terms of reliable and secure supply of electricity, but provides little evidence to suggest why.	The RERT process procures additional reserves for use in emergencies, such as load shedding events. The benefit to customers of procuring emergency reserves is that the risk of load shedding events is minimised, which is consistent with the reliability standard. For the reasons noted in the response above, these emergency reserves may be required during the period to 30 June 2016.
Reliability Panel	The Panel is of the view that there are not material net benefits in maintaining the RERT and notes that no benefits were claimed by representatives of commercial or residential users during the Commission's consultation on the RERT. The Panel acknowledged that the Major Energy Users did argue for an extension of the RERT during the Panel's recently concluded review.	The Commission received two submissions to the consultation paper that supported postponing the expiry of the RERT. These were from the governments of South Australia and Victoria. The Commission notes the support for postponing the RERT from the Major Energy Users and other stakeholders in response to the Reliability Panel's review of the RERT.
Reliability Panel	The RERT Panel process has delivered little interest, RERT capacity has not been deployed,	The Commission notes that additional reserves were sought and secured in 2005 and 2006, although AEMO opted not to dispatch the procured

Stakeholder	Issue	AEMC Response
	and the scale of typical RERT capability has been small compared to the major increments of capacity deficiency that would trigger a reliability event.	reserves. The Commission agrees that the purpose of the RERT is not to accommodate major reliability events that may result from the withdrawal of large-scale base load generation. Policy mechanisms, such as the Contract for Closure Program and other policies included as part of the Energy Security Fund, are more suited to accommodate the transition to a carbon pricing regime. However, the RERT can be useful for other causes of reliability events.
Reliability Panel	Existence of, and reliance on an ineffective measure such as the RERT can represent a barrier to the establishment of more effective arrangements. If market conditions warrant a safety net than an alternative to the RERT may be required.	The Commission notes this point.
Private Generators Group	Note the lack of interest in the most recent RERT tender process and question whether advocates for retention of the RERT fully comprehend the inability of the RERT to manage any large scale reliability issues including potential plant closures in coming years.	The Commission agrees that the purpose of the RERT is not to accommodate major reliability events that may result from the withdrawal of large-scale base load generation. Policy mechanisms, such as the Contract for Closure Program and other policies included as part of the Energy Security Fund, are more suited to accommodate the transition to a carbon pricing regime. However, the RERT can be useful for other causes of reliability events.
Private Generators Group	Are dismayed by the Commission's failure to adopt the recommendations of the Reliability Panel to have the RERT role expire on 30 June 2013 and instead drawing out the RERT functions for yet a further four year period to 30 June 2016.	The Commission notes this point.
DTEI	Energy Markets and Programs Division of the department supports the AEMC's decision to make an alternative rule change, which postpones the expiry of the RERT until 30 June 2016.	The Commission notes this point.

Stakeholder	Issue	AEMC Response
DTEI	The Division considers the Reliability Panel's review of the reliability standard and settings to be the next opportunity to assess whether the current settings are delivering sufficient generation investment in light of current and expected future policy settings. Maintaining the RERT until this time is therefore supported.	The Commission notes this point.
AGL	The RERT is ineffective in providing reserves to meet supply shortfalls and the AEMO tender process for the RERT has attracted little interest. Most of the reserves provided through the RERT process are scavenged from existing demand side response normally available to retailers.	The Commission notes that AEMO was successful in securing additional reserves in 2005 and 2006 through its tender process. The Commission considers that the minor market distortions potentially created by the RERT are outweighed by the benefits of maintaining reliability and security of supply to consumers and ensuring that the risk of load shedding events are minimised.
AGL	The RERT creates a secondary market, outside the primary market, which distorts supply and demand signals.	Given the very infrequent use of the reserve trader it is unlikely that participants with available reserves would withhold capacity for the reasonably unlikely event that they will be able to enter into reserve contracts with AEMO, in preference to contracting with retailers and other intermediaries in the primary market for reserves. On this basis, the Commission is of the view that market distortions created by the RERT are minimal and outweighed by the benefits of maintaining reliability and security of supply.
AGL	The RERT is an unnecessary cost burden borne by both industry and consumers at a time when energy prices are rising and inefficiencies in energy costs are being highly scrutinised.	The Commission acknowledges that consumers may face higher electricity costs associated with AEMO's entry into reserve contracts, but notes that these costs are allocated across jurisdictions that stand to benefit from the contract.
AGL	The RERT is an inappropriate remedy as the amount of additional reserve available through the reserve process is small. It would be unwise for the Commission to rely on the RERT to address any	The Commission notes that AEMO was successful in securing additional reserves in 2005 and 2006 through its reserve trader tender process. In 2005, an additional 84MW of reserve capacity was procured through the tender process, and in 2006, an additional 375MW of reserve capacity

Stakeholder	Issue	AEMC Response
	market deficiencies that result from the current reliability settings.	was procured through the tender process.
AGL	The RERT style mechanism is not an appropriate policy tool to deal with the implementation of a carbon price and the LRET.	The Commission notes that the Australian Government is currently progressing a number of policies directed at managing the transition to a carbon-pricing regime as part of the Energy Security Fund. However, the Commission considers that market uncertainty, resulting from changes to external policy settings, may result in delayed investment decisions. To support achieving a reliable and secure supply of electricity to consumers, and minimise the risk of load shedding events, it is prudent to postpone the expiry of the RERT for a period of four years.
NGF/esaa	The need for a reserve trader mechanism has been considered many times by both the AEMC and its predecessor. On each occasion the rule maker's decision is to reaffirm reserve trading as a non-permanent power of the system operator, but to extend its expiry date.	The Commission notes that a key component of this rule is removing the RERT review mechanism, which if it remained in the NER, would provide a potential avenue for postponing the RERT's expiry again. Removing the requirement for the Panel to review the RERT should provide market participants with greater certainty as to the status of the RERT, and that its retention is limited to 30 June 2016.
NGF/esaa	The reluctance to remove the RERT relates to an underlying doubt about whether the energy market will achieve one of its key design objectives, i.e. delivering reliability.	The Commission's decision to postpone the expiry of the RERT is not intended to augment existing market signals to attract investment in either demand side responses, or peaking generation plants. The Commission's decision to postpone the expiry of the RERT is based on its assessment of the risk to reliability of supply in some regions. The Commission is of the view that a combination of external policy factors may potentially limit the market's ability to deliver the reliability standard.
NGF/esaa	To remove the RERT would make a powerful statement that energy markets can deliver greater reliability and efficiency for consumers.	The Commission notes this point.
NGF/esaa	The conditions that allow the AEMC to make a more preferable rule are generous, and we are concerned that the consultation process is	The Commission's proposed more preferable rule was set out in the draft determination and stakeholders had seven weeks to make submissions and the right to request a hearing. The Commission considers that this

Stakeholder	Issue	AEMC Response
	weakened by more preferable rules that are substantially different to the original proposal to which industry reacted.	process provides suitable consultation opportunities.
ERAA	The RERT creates a secondary market, outside the primary market, which distorts supply and demand signals.	Given the very infrequent use of the reserve trader it is unlikely that participants with available reserves would withhold capacity for the reasonably unlikely event that they will be able to enter into reserve contracts with AEMO, in preference to contracting with retailers and other intermediaries in the primary market for reserves. On this basis, the Commission is of the view that market distortions created by the RERT are minimal and outweighed by the benefits of maintaining reliability and security of supply.
ERAA	The RERT is an unnecessary cost burden borne by both industry and consumers at a time when energy prices are rising and inefficiencies in energy costs are being highly scrutinised.	The Commission acknowledges that consumers may face higher electricity costs associated with AEMO's entry into reserve contracts, but notes that these costs are allocated across jurisdictions that stand to benefit from the contract.
ERAA	It is unclear why the Commission has opted to extend a mechanism that is clearly not supported by industry, has clear operational challenges, and is not a suitable tool to accommodate the withdrawal of substantial amounts of generation capacity as a result of climate change policies.	The Commission's reasons are set out in this final determination.
ERAA	The ERAA anticipates that the AEMC will conduct a further round of consultations for industry to consider AEMO's proposed operational changes should the RERT be maintained for a further four years.	As noted in section 2.5 AEMO's proposed changes are outside the scope of this rule change and have not been considered by the Commission.
AEMO	Identified three key areas for improving the process for procuring reserves under the RERT process:	The Commission is of the view that the matters raised by AEMO are beyond the scope of this rule change request. Accordingly, the Commission is unable to address them in this final determination. The

Stakeholder	Issue	AEMC Response
	• Relaxation of double-dipping checks for appointment to the RERT Panel and for short-notice reserves; • Payment of establishment costs to recompense a DSP the costs associated with establishing and proving reserves; and • Abolition of full tender process so that all reserve contracting is conducted via the pre-arranged RERT Panel.	Commission notes that some of AEMO's concerns, including double-dipping checks for appointment to the RERT Panel and use of the RERT Panel to contract for long-notice reserves, appear to be matters that are addressed in the RERT guidelines and not the NER. If AEMO wished to pursue those matters, it would need to raise them with the Panel.