

Reliability Panel AEMC

DRAFT REPORT

Review of the RERT Guidelines

29 September 2016

PANEL DETERMINATION

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About the Reliability Panel

The Panel is a specialist body within the AEMC and comprises industry and consumer representatives. It is responsible for monitoring, reviewing and reporting on reliability, security and safety of the national electricity system and advising the AEMC in respect of such matters. The Panel's responsibilities are specified in section 38 of the National Electricity Law.

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Summary

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

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

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

This draft report sets out the Panel's draft amendments to the Guidelines, which include:

- Removing references to 'long notice situations' in the Guidelines. This will provide consistency between the Rules and the Guidelines and clarify the processes that may be carried out by AEMO in contracting for reserves.
- Clarifying that AEMO is able to use a tender process, in addition to the RERT panel, when contracting for reserves under 'medium notice situations'. It is desirable that AEMO continue to have flexibility when contracting reserves in an efficient, cost-effective manner, and that AEMO is able to seek tenders from participants that are not necessarily on the RERT panel.

A draft of the Guidelines with the proposed marked-up amendments is provided with this draft report to facilitate stakeholder feedback.

The Panel invites submissions on this draft report by 10 November 2016.

Electronic submissions may be lodged online through the AEMC's website (www.aemc.gov.au) using the link entitled 'lodge a submission' and reference code: REL0061.

A public meeting will be held in Sydney on Wednesday, 19 October 2016 to discuss the proposed amendments to the RERT Guidelines. Registration details will be published by the Panel on the AEMC's website closer to the date.

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

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1 Introduction

On 23 June 2016, the Australian Energy Market Commission (AEMC or Commission) made a final rule determination on the Reliability and Emergency Reserve Trader (RERT) provisions in the National Electricity Rules (Rules). The final Rule requires the Reliability Panel (Panel) to amend the RERT guidelines (Guidelines) to reflect the changes made to the NER as a result of the RERT final Rule.²

This draft report sets out the Panel's views on the required amendments to the Guidelines and is structured as follows:

- Chapter 1 provides background and context for the review and sets out the consultation process.
- Chapter 2 outlines the draft changes to the Guidelines and provides the Panel's rationale for those changes.
- Appendix A includes a mark-up of the draft Guidelines to facilitate the consultation process.

1.1 Overview of the RERT

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

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

The current Guidelines specify that AEMO's operation of the RERT is divided into two stages:⁴

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

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

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

⁴ Clause 3 of the Guidelines and clauses 3.20.3 and 3.20.7 of the Rules.

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

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

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

Under the Guidelines, AEMO may establish a panel of entities, a RERT panel, that can tender for, and enter into, reserve contracts for medium notice and short notice situations. The RERT panel consists of entities that have resolved some of the technical and legal issues that lengthen the time necessary to negotiate a reserve contract. Once reserve providers are members of the RERT panel, reserve contracts can be finalised more quickly than through a full tender process. That said, AEMO is able to procure reserves from parties who are not members of the RERT panel.

Currently, the Guidelines specify that AEMO must use a full tender process when contracting for long notice situations. This involves requesting responses from members of the RERT panel in addition to other potential providers.

In comparison to the long notice situations, in short and medium notice situations AEMO may:

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

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

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

⁵ Clause 3.20.3(h) of the Rules; section 7 of the Guidelines.

⁶ Clauses 3.20.3(c) and 3.15.9(e) of the Rules.

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

1.2 Context of the review

The rule change request submitted by the COAG Energy Council sought to amend the expiry date of the RERT - from 30 June 2016 to 30 June 2019.⁸ The COAG Energy Council was concerned that certain market challenges and uncertainty had the potential to cause a breach of the reliability standard, and sought to extend the RERT for another three years until these challenges were better understood.⁹

On 23 June 2016, the AEMC made a more preferable final rule which:

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

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

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

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

⁷ Section 6.1 of the Guidelines.

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

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

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

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

The Guidelines must be amended no later than 28 February 2017.¹⁰

1.3 Consultation process

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

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

A timetable for completion of this guideline consultation is set out below.

Table 1.1 Project milestones

Key milestone	Date
Publish draft report and draft Guidelines	29 September 2016
Public meeting	19 October 2016
Close of consultation	10 November 2016
Publish final report and final Guidelines	28 February 2017

Submissions

The Panel invites submissions on this draft report by 10 November 2016. All submissions that do not contain confidential information will be published on the AEMC website.

¹⁰ Clause 11.90.2 of the Rules.

¹¹ Clauses 8.8.3(a)(3) and 3.20.8(b) of the Rules.

Electronic submissions must be lodged online through the AEMC's website www.aemc.gov.au using the link entitled 'lodge a submission' and reference code REL0061. The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the AEMC website will issue a confirmation email. If this confirmation email is not received within three business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

If choosing to make a submission by mail, the submission must be on letterhead (if submitted by an organisation), signed and dated. The submission may be posted to:

Reliability Panel

Australian Energy Market Commission

PO Box A2449

Sydney South NSW 1235

Public meeting

A public meeting will be held in Sydney on Wednesday, 19 October 2016 to discuss the proposed amendments to the RERT Guidelines. Further details of the meeting will be published by the Panel on the AEMC's website. Stakeholders will also be advised by an AEMC stakeholder email.

2 Amendments to the RERT Guidelines

2.1 Removal of 'long notice situations'

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

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

Draft amendments to the Guidelines are provided in Appendix A.

2.2 Clarifying the process for 'medium notice situations'

The terms of reference requested the Panel to clarify the process AEMO must use when contracting for reserves in medium notice situations. Currently, the Guidelines provide that AEMO may use a RERT panel to contract for reserves in medium notice situations, but do not explicitly provide for AEMO using a tender process in medium notice situations.

The Panel considers it would be appropriate to explicitly provide in the Guidelines that AEMO is able to use a tender process when contracting for reserves under medium notice situations. It is desirable that AEMO continue to have flexibility when contracting reserves in an efficient, cost-effective manner, and that AEMO is able to seek tenders from participants that are not necessarily on the RERT panel.

While it may not be possible for AEMO to carry out a full tender process within the timeframes for medium notice situations,¹² AEMO is able to use a suitable 'expedited' tender process where it wishes to seek reserve tenders from parties that are not on the RERT panel.

Section 8.2 of the Guidelines sets out AEMO's process for contracting reserves in medium notice situations. The draft Guidelines include the following additional

¹² AEMO previously indicated that a full tender process can be an expensive and lengthy process, of at least ten weeks' duration, based on its experience contracting for reserves in 2004/05 and 2005/06. For more details, see AEMO, Submission to the Expiry of the Reliability and Emergency Reserve Trader Draft Determination, January 2012.

actions for AEMO that are related to tendering for reserves, which are supplementary to the existing requirements in place for using the RERT panel:

- calling for tenders in relation to providing reserves in the respective regions or in some circumstances, combined regions;
- evaluating tenders and dispensing with any tenders that do not provide an undertaking that the reserves are not available to the market through any other arrangements except on terms agreed with AEMO, taking into account:
 - whether the commercial requirements are met;¹³
 - whether the tender is credible, that is, whether it is likely that the tenderer can deliver the offered reserves; and
 - the optimal combination of contracts to deliver the reserves necessary to meet the shortfall;
- selecting the tenders that AEMO considers to be the optimal portfolio of reserve contracts.

These actions were previously located under the process for AEMO's contracting for reserves in long notice situations (section 8.1 of the Guidelines). It is appropriate that these actions be listed under 'medium notice situations' as they would form an important part of AEMO's tendering for reserves under an expedited process.

In addition, section 8 of the draft Guidelines includes a new explanatory note to clarify that AEMO may use either the RERT panel or an appropriate tender process to secure reserve contracts in medium notice situations. However, if using a tender process, AEMO should request responses from both RERT panel members and other tenderers.

The requirement to request a tender response from both RERT panel members and other potential reserve providers was previously an obligation with regard to long notice situations. It is appropriate to clarify that this is required in medium notice situations, as it gives RERT panel members the opportunity to compete for a reserve tender.

Draft amendments to the Guidelines are provided at Appendix A.

¹³ The relevant commercial requirements that are considered by AEMO are currently set out in section 13.6.2 of AEMO's RERT procedures. Among other things, these requirements include that the reserve offered for dispatch or activation must be of sufficient size (the current minimum size is 10MW), and that the offered reserve is of a nature and in a location that meets AEMO's reserve contracting requirements.

2.3 Confidential information

Under section 6.1 of the Guidelines, AEMO is required to keep information on the RERT panel membership confidential. However, it also has the discretion under the existing sections 8.1 to 8.3 of the Guidelines to publish the details of a contract for reserves (being the name of the counterparty and the volume and timing of reserves).

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

Abbreviations

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

A Draft amendments to the RERT guidelines

(under clauses 3.20.8 and 11.31.3 of the National Electricity Rules)

1 Interpretation

Italicised expressions in the *RERT guidelines* have the meaning given to that expression in the glossary in Chapter 10 of the National Electricity Rules (*Rules*).

For the avoidance of doubt, if any inconsistency arises between the *Rules* and the *RERT guidelines*, the *Rules* are to prevail.

2 Scope of the RERT guidelines

The *Reliability and Emergency Reserve Trader (RERT)* is a function conferred on AEMO to take all reasonable actions to ensure reliability of *supply* and where practicable, maintain *power system security* by negotiating and entering into contracts to secure the availability of *reserves* under *reserve contracts*.¹⁴ AEMO must take the *RERT guidelines* into account (among other things) when exercising the *RERT*.¹⁵

The *Reliability Panel* must develop and *publish* the *RERT guidelines* for or with respect to:¹⁶

1. what information AEMO must take into account when deciding whether to exercise the *RERT*;
2. the relevance of the *RERT principles* to the exercise of the *RERT*;
3. the actions that AEMO may take to be satisfied that the *reserves* that are to be the subject of a *reserve contract* ~~are~~ are not available to the *market* through any other arrangement;
4. the process AEMO should undertake in contracting for *reserves* including the process for tendering for contracts for such *reserves*;
5. the process AEMO should undertake in contracting for *reserves* in relation to ~~different long, medium and short~~ notice situations, as described in the *RERT guidelines*, to ensure reliability of supply and, where practicable, maintain *power system security*;
6. any specific or additional assumptions about key parameters that AEMO must take into account in assessing the cost effectiveness of exercising the *RERT*;

¹⁴ Rule 3.20 of the *Rules*.

¹⁵ Clause 3.20.7(f) of the *Rules*.

¹⁶ Clause 3.20.8(a) of the *Rules*.

7. matters relevant to AEMO managing a portfolio of *reserve contracts*; and
8. additional forecasts that AEMO should take into account prior to exercising the RERT.

Sections 3 to 9 of this document set out the *RERT guidelines* developed by the *Reliability Panel*.¹⁷

3 Operation of the RERT

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

1. Stage 1: when AEMO is determining whether to enter into contracts for the provision of additional *reserves* under clause 3.20.3; and
2. Stage 2: when AEMO is considering whether to *dispatch scheduled reserves* under *scheduled reserve contracts* or *activate unscheduled reserves* under *unscheduled reserve contracts* under clause 3.20.7.

4 Information that AEMO must take into account when deciding whether to exercise the RERT

AEMO should inform itself of the circumstances relating to reliability of *supply* when deciding whether to exercise the RERT. AEMO should consider the information set out further below at the two key stages in addition to generally monitoring this information.

4.1 During Stage 1 of the RERT process

~~(a) Long notice situations where AEMO determines it has more than ten weeks of notice of a projected shortfall in reserves.~~

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

- ~~• the details of the outcome of the medium term PASA;~~
- ~~• the details of the drought studies prior to AEMO publishing the first energy adequacy assessment projection (EAAP) (due by 31 March 2010), and the outcome of the EAAP after the publication of the first EAAP¹⁸; and~~
- ~~• any other information that AEMO reasonably identifies to be necessary.~~

¹⁷ Developed in accordance with Clause 3.20.8 of the Rules.

¹⁸ In the AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions, Final Rule Determination* (26 June 2008, Sydney), the Commission noted that while the EAAP will not be used to trigger market intervention by AEMO, the EAAP will provide an additional source of information to assist AEMO in assessing the likelihood of energy shortfalls in the NEM.

- (ab) Medium-notice situations where AEMO has between ten weeks and seven days of notice of a projected shortfall in *reserves*.

When it is considering whether to enter into *reserve contracts* during Stage 1 of the RERT process for medium-notice situations, AEMO may take into account: ~~the information identified in (a) above.~~

- the details of the outcome of the *medium term PASA*;
- the outcome of the *energy adequacy assessment projection (EAAP)*¹⁹; and
- any other information that AEMO considers relevant.

- (be) Short-notice situations where AEMO has between three hours and seven days of notice of a projected shortfall in *reserves*.

When it is considering whether to enter into *reserve contracts* during Stage 1 of the RERT process for short-notice situations, AEMO may take into account:

- the details of the outcome of the *short term PASA* and *pre-dispatch* processes; and
- any other information that AEMO considers relevant. ~~reasonably identifies to be necessary~~

4.2 During Stage 2 of the RERT process

During Stage 2 of the RERT process, AEMO may review the information it took into account during Stage 1 and also consider for the *period* where *reserves* may be required to ensure reliability of *supply* and where practical, maintain *power system security*:

- the details of the outcome of the *short term PASA*;
- the details of the *pre-dispatch schedule* in terms of the anticipated available *reserves*; and
- any other information that AEMO reasonably identifies to be necessary.

5 Relevance of the RERT principles to the exercise of the RERT

Clause 3.20.2(b) of the *Rules* identifies two principles referred to as the *RERT principles* which AEMO must have regard to in exercising the RERT. These principles are:

1. actions taken are to be those which AEMO reasonably expects, acting reasonably to have the least distortionary effect on the operation of the *market*; and

¹⁹ In AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions, Final Rule Determination* (26 June 2008, Sydney), the Commission noted that while the EAAP will not be used to trigger market intervention by AEMO, the EAAP will provide an additional source of information to assist AEMO in assessing the likelihood of energy shortfalls in the NEM.

2. actions taken should aim to maximise the effectiveness of *reserve contracts* at the least cost to end use consumers of electricity.

5.1 Actions to have the least distortionary effect on the operation of the market

When exercising the *RERT*, actions should be taken which *AEMO* reasonably expects to have the least distortionary effect on the operation of the *market*, both in relation to the short term impact on the *spot prices* and the long term impact on investment signals. In determining the action to take, *AEMO* must consider:

- how it tenders and contracts for *reserves*; and
- in relation to *scheduled reserve contracts* and subject to clauses 3.9.3~~(c)~~ and (d) of the *Rules*, setting the *dispatch price* and *ancillary service prices* for an *AEMO* *intervention price dispatch interval* at a value which *AEMO*, in its reasonable opinion, considers would have applied had the *AEMO intervention event* not occurred.

The considerations above aim to reduce the distortionary impacts from *AEMO* intervening in the *market* to respond to a projected shortfall in *reserves*, and preserve *market* signals to foster a *market* response to those projected shortfalls. It provides an appropriate balance between allowing *market* responses to projected shortfalls to develop and providing a temporary mechanism to maintain the reliability of *supply* and where practicable, *power system security*.

5.2 Actions to maximise the effectiveness of reserve contracts at the least cost to end use consumers of electricity

Any consideration of the cost effectiveness of exercising the *RERT* must be done by *AEMO* in consultation with the relevant *participating jurisdictions* in accordance with clause 3.20.3 of the *Rules*.²⁰ The factors that would be relevant to this consideration and consultation include:

- the cost for stages 1 and 2 (as defined in section 3 of these guidelines) of the *reserve contracts* for the amount of *reserves* delivered;
- what extra payment is required to be made if the contracted *reserves* are actually *dispatched* or *activated*;
- any penalty costs that *AEMO* would need to pay if it terminates an existing contract early (this is unlikely to apply in short-notice situations);
- the nature of the *reserves* being offered including:
 - how firm the capacity is;

²⁰ Note that for short-notice situations consultation with the *participating jurisdictions* would be limited to that outlined in section 8.3.

- the minimum and maximum time the *scheduled reserves* could be *dispatched* under *scheduled reserve contracts* or *unscheduled reserves activated* under *unscheduled reserve contracts*; and
 - how much notice is required to *dispatch* a particular *scheduled reserve* under a *scheduled reserve contract* or *activate* an *unscheduled reserve* under an *unscheduled reserve contract*. For example, some *loads* require twenty four hours of notice so they can adjust the timing of processes, while others may only require a few hours;
- the duration of the projected capacity shortfall;
 - the size of the projected capacity shortfall, in megawatts (MW); and
 - the likelihood of the proposed capacity shortfall being resolved.

Where AEMO has *reserve contracts* in place to meet a projected shortfall in *reserves*, and there is ~~sufficient~~~~more than ten weeks of~~ notice of a material increase in the shortfall, it may conduct additional rounds of ~~full~~-tendering (rolling tenders) in order to achieve the optimal contract portfolio in accordance with the *RERT principles*, which may result in the execution of new *reserve contracts* or the early termination of existing *reserve contracts*.

Under some circumstances AEMO will be required to *dispatch* or *activate reserves* that are contracted under the ~~long notice or~~ medium-notice situations as well as contracting ~~for with~~ additional *reserves* under the short-notice situations. Under these circumstances, AEMO should aim to maximise the effectiveness of *reserve contracts* at the least cost to end use consumers of electricity by selecting the least cost combination of *reserves* contracted under the ~~long~~ medium and short-notice situations. However, where AEMO has only a few hours' notice of a *reserve* shortfall it may have insufficient time to determine the least cost combination of *reserves*. In which case AEMO should *dispatch* or *activate* its ~~long notice and~~ medium-notice *reserve contracts* ahead of contracting for further *reserves* using the short-notice *RERT*. Nevertheless, where AEMO has sufficient time to perform the necessary analysis it should aim to maximise the cost effectiveness of the *RERT* by selecting the combination of *reserve contracts* that has the lowest incremental cost.

6 AEMO's use of a RERT panel

Box 1 — **Explanatory note**

~~The Panel's initial set of RERT guidelines that were published in November 2008 did not support AEMO forming a panel of potential suppliers of contracted reserves. AEMO was concerned because in its final Rule determination the AEMC~~

~~indicated that it considered that the use of a panel may restrict competition and a full tender process should be used.²¹ However, the Panel considers that it is beneficial to clarify that AEMO may use a RERT panel to increase its flexibility when contracting for reserves, but AEMO is expected to use the full tender process when more than ten weeks of notice of a projected shortfall in reserves exists. The Panel understands that AEMO anticipates that it will take between eight and sixteen weeks for entities to be accredited onto the RERT panel, but may be expedited (to a minimum of four weeks) if there is a projected shortfall in reserves.~~

6.1 Constitution of the RERT panel

AEMO may form a RERT panel of entities that may be called upon to tender for, and enter into, a contract for reserves for medium-notice situations where there is between ten weeks and seven days of notice and short-notice situations of between three hours and seven days of notice of a projected shortfall in reserves. The process for submitting expressions of interest for the medium-notice and short-notice RERT differ significantly, with each process outlined in sections 6.23 and 6.34 of the RERT guidelines.

AEMO should:

- inform the market before it forms the RERT panel and when it commences negotiations for reserves contracts;
- operate the RERT panel on a continuous basis and periodically open the RERT panel for new members; and
- subject to any decision by AEMO under section 8.1 or 8.2 to publish relevant details following contracting of reserves, treat information on the RERT panel membership as confidential information.

Members of the RERT panel:

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

²¹ ~~The AEMC 2008, NEM Reliability Settings: Information, Safety Net and Directions, Final Rule Determination (26 June 2008, Sydney) is available on the AEMC website~~

When AEMO makes a decision to contract for *reserves* with between three hours and seven days of notice of a projected shortfall in *reserves*, then it would *publish* to all eligible members of the RERT panel (that is, those with *reserves* in the associated *region* that can be *dispatched* or *activated* within the period of *reserve* shortfall) a schedule of the requirements and request members to confirm by a set deadline:

- the availability of the service for the period covered by the schedule (capacity and minimum/maximum usage times etc);
- the required enablement time;
- confirmation that the service is not already contracted for the period covered by the schedule.

Based on this information AEMO would then determine, in accordance with the RERT principles, which services should be procured to meet the schedule of requirements and would then contract with these selected RERT panel members on the basis of the standard terms and conditions of the short-notice *reserve contract*.

~~6.2 — Operation of the RERT panel in long-notice situations (more than ten weeks of notice)~~

~~The Panel considers that AEMO should not rely exclusively on the RERT panel when it has more than ten weeks notice of a projected shortfall in reserves. Under these circumstances, AEMO is expected to use the full tender process, which should include requesting tender responses from both members of the RERT panel and other potential reserve providers.~~

6.23 Operation of the RERT panel for medium-notice situations (between seven days and ten weeks of notice)

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

The Panel considers that the expressions of interest from entities that wish to be members of the RERT panel for medium-notice situations should conform to the standard form of *reserve contract*.

These expressions of interest should include:

- the location of the service;
- the likely available capacity;
- the minimum and/or maximum period for which the offered service is likely to be continuously available;
- the enablement time required prior to actual usage;

- any period in the next twelve months during which the service would be unavailable due to the fact that it is already contracted to other parties;
- an estimate of the likelihood that the service would be available if the *RERT* panel member was advised of a requirement within between seven days and ten weeks of notice;
- twenty four hour contact details; and
- an undertaking to advise *AEMO* of changes of any of the above details as soon as reasonably practical after the *RERT* panel member becomes aware of the change.

6.34 Operation of the RERT panel in short-notice situations (between three hours and seven days of notice)

The Panel considers that, in addition to the requirements in sections 6.1 to 6.23, for situations with between three hours and seven days of notice of a projected shortfall in *reserves*:

- *AEMO* would need to develop a standard form of short-notice *reserve contract*; and
- members of the *RERT* panel that are interested in providing *reserves* with less than seven days of notice will be required to provide *AEMO* with confirmation of the location and availability of their *reserves*.

The Panel considers that the expressions of interest from entities that wish to be members of the *RERT* panel for short-notice situations should include:

- the location of the service;
- the likely available capacity;
- the minimum and/or maximum period for which the offered service is likely to be continuously available;
- the enablement time required prior to actual usage;
- the enablement and usage price for the service;
- any period in the next twelve months during which the services would be unavailable due to the fact that it is already contracted to other parties;
- an estimate of the likelihood that the service would be available if the *RERT* panel member was advised of a requirement with less than seven days of notice;
- twenty four hour contact details; and
- an undertaking to advise *AEMO* of changes of any of the above details as soon as reasonably practical after the *RERT* panel member becomes aware of the change.

Entities that wish to be members of the *RERT* panel for short-notice situations should submit an expression of interest that conforms to the standard form of short-notice *reserve contract*, thus indicating their willingness to participate in an expedited provision of *reserves* if called upon by *AEMO* with less than seven days of notice.

In short-notice situations of between three hours and seven days of notice of a projected shortfall in *reserves*, *AEMO* may decide to only consider *reserve* offers from *RERT* panel members that agreed to participate in an expedited process and submitted complying *reserve* offers, including short-notice enablement and usage prices.

7 Actions that AEMO may take to be satisfied that the reserve that is to be the subject of a reserve contract is not available to the market through any other arrangement

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

7.1 Medium-notice sSituations of more than seven days of notice

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

- requiring a tenderer²² at the initial tender stage for *reserve contracts* to enter into an undertaking with *AEMO* which states that the *reserve* is not available to the *market* through any other arrangement;
- making reasonable enquiries in the *market*;
- assessing any information that is available to *AEMO* and relevant to whether the *reserves* are available to the *market* through any other arrangement; and
- improving *AEMO*'s measures when it develops its *RERT procedures* to reduce the likelihood that *AEMO* will enter into a *reserve contract* with a party who had made the *reserves*, the subject of the *reserve contract*, available to the *market* through any other arrangements.²³

7.2 Short-notice situations with between three hours and seven days of notice

In short-notice situations, with between three hours and seven days of notice of a projected shortfall in *reserves*, the steps that *AEMO* may take to inform itself if the *reserves* are not the subject of other arrangements should include:

²² A tenderer means a prospective party to a reserve contract.

²³ *AEMO* is required to take into account the *RERT guidelines* when it develops its *RERT procedures* in accordance with clause 3.20.7(e).

- requesting a member of the *RERT* panel to inform *AEMO* when the *reserves* for which the expression of interest related to are no longer available to the *market* as a result of another arrangement; and
- prior to contracting of *reserves*, *AEMO* should confirm with the *RERT* panel members that the *reserves* for which their expression of interest relates are not available to the *market* as a result of another arrangement; and
- after contracting of *reserves*, *AEMO* should assess any information that is available to it and relevant to whether the *reserves* are available to the *market* through any other arrangement.

AEMO's -RERT procedures should consider what measures are necessary to reduce the likelihood that *AEMO* will enter into a *reserve contract* with a party who has made the *reserves*, the subject of the *reserve contract*, available to the *market* through any other arrangements.²⁴

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

~~Under clause 11.31.4 of the *Rules*, before *AEMO* publishes its final procedures for the exercise of the *RERT* (due by 30 November 2010), it may develop, publish, and may amend from time to time, interim procedures for the exercise of the *RERT* without the need to follow the *Rules* consultation procedures. However, amendments to the final procedures must be undertaken in accordance with clause 3.20.7(e) of the *Rules*, that states *AEMO* must develop, publish, and may amend from time to time, in accordance with the *Rules* consultation procedures, procedures for the exercise of the *RERT* that take into account the *RERT* principles and the *RERT* guidelines.~~

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

~~The relevant actions that *AEMO* may take in relation to the exercise of the *RERT* with more than ten weeks of notice of a projected shortfall in *reserves* include:~~

- ~~• establishing arrangements for contracting *reserves* in situations where there is more than ten weeks of notice of a projected shortfall in *reserves*;~~
- ~~• continually monitoring the *medium term PASA* and the *EAAP*, and any other information *AEMO* considers is relevant, to inform itself of any periods of low *reserves*;~~
- ~~• determining whether to enter into *reserve contracts*;~~

²⁴ *AEMO* is required to take into account the *RERT* guidelines when it develops its *RERT* procedures in accordance with clause 3.20.7(e).

- ~~consulting with persons nominated by the relevant participating jurisdictions which AEMO is determining whether to contract for reserves in;~~
- ~~calling for tenders in relation to providing reserves in the respective regions or in some circumstances, combined regions;~~
- ~~evaluating the tenders and dispensing with any tenders that do not provide an undertaking that the reserves are not available to the market through any other arrangements except on terms agreed with AEMO, taking into account:

 - ~~— whether the commercial requirements are met;~~
 - ~~— whether the tender is credible, that is, whether it is likely that the tenderer can deliver the offered reserves; and~~
 - ~~— the optimal combination of contracts to deliver the reserves necessary to meet the shortfall;~~~~
- ~~selecting the tenders that AEMO considers to be the optimal portfolio of reserve contracts;~~
- ~~monitoring the medium term PASA and the EAAP to determine if there have been any changes since the tenders were prepared and evaluated;~~
- ~~giving consideration to including an early termination clause in the event that the capacity is not needed; and~~
- ~~within one month after entering into a contract for reserves, publish the name of the counterparty to the contract and the volume and timing of reserves procured under the contract.~~

8.12 Process for contracting for reserves for reserve contracts with between seven days and ten weeks of notice

Explanatory note

In medium-notice situations, AEMO may use the RERT panel or an appropriate tender process to secure reserve contracts. If using a tender process, AEMO must request tender responses from both members of the RERT panel and other potential reserve providers.

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

- establishing arrangements for contracting for reserves in situations where there is between seven days and ten weeks of notice of a projected shortfall in reserves;

- continually monitoring the *medium term PASA* and the *EAAP*, and any other information AEMO considers is relevant, to inform itself of any periods of *low reserves*;
- determining whether to enter into *reserve contracts*;
- consulting with persons nominated by the relevant *participating jurisdictions* which AEMO is determining whether to contract for *reserves* in;_
- calling for *reserve offers* (from *RERT panel members*) and *tenders* (from other potential *reserve providers*) in relation to providing *reserves* in the respective *regions* or in some circumstances, combined *regions*;
- evaluating the *reserve offers* and *tenders* and dispensing with any *reserve offers* or *tenders* that do not provide an undertaking that the *reserves* are not available to the market through any other arrangements except on terms agreed with AEMO, taking into account:
 - in the case of *tenders*, whether the commercial requirements are met;
 - in the case of *tenders*, whether the tender is credible, that is, whether it is likely that the tenderer can deliver the offered *reserves*; and
 - in the case of *reserve offers* and *tenders*, the optimal combination of contracts to deliver the *reserves* necessary to meet the shortfall;
- selecting the *reserve offers* and/or *tenders* that AEMO considers to be the optimal portfolio of *reserve contracts*;
- ~~notifying *RERT panel members* in relation to providing *reserves* in the respective *regions* or in some circumstances, combined *regions*; and~~
- ~~evaluating the *reserve offers* from *RERT panel members* and dispensing with any *reserve offers* that do not provide an undertaking that the *reserves* are not available to the market through any other arrangements except on terms agreed with AEMO, taking into account the optimal combination of contracts to deliver the *reserves* necessary to meet the shortfall.~~

Following contracting of *reserves*, the actions that AEMO may take includes:

- ~~selecting the *reserve offers* that AEMO considers to be the optimal portfolio of *reserve contracts*;~~
- monitoring the *medium term PASA* and the *EAAP* to determine if there have been any changes since the *reserve offers* or *tenders* were prepared and evaluated;
- giving consideration to including an early termination clause in the event that the capacity is not needed; and

- within one month after entering into a contract for *reserves*, publish the name of the counterparty to the contract and the volume and timing of *reserves* procured under the contract.

8.23 Process for contracting for reserves for reserve contracts in short-notice situations (between three hours and seven days of notice)

Explanatory note

The execution of short-notice *reserve* contracts would need to be a simplified process but it is likely to be more involved than a simple telephone call for reasons of probity. Therefore execution of short-notice *reserve* contracts would require a minimum 3 hour response time.

The relevant actions that *AEMO* may take in relation to the exercise of the *RERT* for situations with between three hours and seven days of notice of a projected shortfall in *reserves*, as defined in clause 3.20.8(a)(6), include:

- establishing arrangements for contracting for *reserves* in situations where there is between three hours and seven days of notice of a projected shortfall in *reserves*;
- continually monitoring the *pre-dispatch schedule* and *short term PASA*, for periods of *low reserves* or *lack of reserve (LOR2)*;
- determining whether to enter into *reserves contracts*;
- consulting in advance with the *participating jurisdictions*²⁵ to determine a maximum average price threshold (in \$/MWh) that *AEMO* should pay to *dispatch* or *activate reserve contracts* in the relevant region under the short-notice *RERT* (reflecting the opportunity cost of shedding customer load in that *region*);
- excluding in advance entities from the *RERT* panel for short-notice situations that have an average cost (in \$/MWh) that is greater than the maximum average price threshold approved by the respective *participating jurisdiction*;
- agreeing in advance with the *participating jurisdiction* as to the cost sharing arrangements between *participating jurisdictions* in short-notice *reserve* shortfall situations;
- using a *RERT* panel arrangement to identify which panel members are technically able, on the basis of their expressions of interest, to provide *reserves* within the applicable notice period and in the required *regions* or in some circumstances, combined *regions*;

²⁵ Given the reduced timeframe for the short-notice *RERT*, it would not be possible to fully consult with affected *participating jurisdictions* on all matters considered when executing the *reserve contracts*.

- contacting those eligible *RERT* panel members to confirm the quantity of *reserve* available and period for which it is available;
- evaluating the *reserve* offers from the eligible list of *RERT* panel members; and
- selecting the optimal portfolio of *reserve contracts* to meet a shortfall from the available expressions of interest using reasonable endeavours and subject to practical limitations including the extent of notice available of an impending reliability or *power system security* event.

Following contracting of *reserves*, the actions that *AEMO* may take includes:

- monitoring the *pre-dispatch schedule* and *short term PASA* to determine if there have been any changes to the relevant *reserve* requirements; and
- within one month after entering into a contract for *reserves*, publish the name of the counterparty to the contract and the volume and timing of *reserves* procured under the contract.

9 Use of contracted reserves for security events

AEMO may *dispatch* or *activate reserves* under *reserve contracts* to address a *power system security* event in a *transmission network* that it has oversight for, if there are suitable reserves that *AEMO* has contracted under the *RERT* for medium or short-notice situations at an appropriate location, and there is sufficient notice of the *power system security* event to allow *AEMO* to *dispatch* or *activate* these reserves.:

- ~~there are suitable reserves that *AEMO* has contracted under the *RERT* for long or medium notice situations at an appropriate location, and there is sufficient notice of the *power system security* event to allow *AEMO* to *dispatch* or *activate* these reserves; or~~
- ~~there are suitable reserves that *AEMO* can contract under the *RERT* for short notice situations at an appropriate location, and there is sufficient notice of the *power system security* event to allow *AEMO* to *dispatch* or *activate* these reserves.~~