

Reliability Panel AEMC

DRAFT REPORT

Consultation on the Amended RERT Guidelines

1 March 2010

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: REL0039

Citation

AEMC 2010, Consultation on the Amended RERT Guidelines, Report, 1 March 2010, 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 to be the rule maker for national energy markets. The AEMC is currently responsible for rules and policy advice covering the National Electricity Market and elements of the natural gas markets. We are an independent, national body. Our key responsibilities are to consider rule change proposals, conduct energy market reviews and provide policy advice to the Ministerial Council as requested, or on AEMC initiative.

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.

Executive Summary

In March 2009, the Reliability Panel (Panel) began a Review of the Operational Arrangements for the Reliability Standards. As part of this review, the Panel considered the need and possible design of a short-notice version of the Reliability and Emergency Reserve Trader (RERT) that could be used in a critical emergency. In August 2009, the Panel submitted a rule change proposal to the Australian Energy Market Commission (AEMC or the Commission) to allow the Australian Energy Market Operator (AEMO) to:

- contract for reserve in the long, medium and short-notice timeframes;
- negotiate reserve contracts at any time (allowing AEMO to form a RERT panel); and
- use contracted reserves for system security events where practicable.

In preparing its Rule change proposal, the Panel drafted and consulted on interim amendments to the RERT Guidelines.¹

The AEMC agreed with the intent of the rule change proposal and on 15 October 2009, amended the National Electricity Rules (NER or Rules).² As a transitional measure, clause 11.31.3 of the Rules requires the Panel to:

- publish interim amendments to the RERT Guidelines; and
- consult on and publish the revised RERT Guidelines by 30 June 2010.

On 29 October 2009, the Panel published the interim RERT Guidelines. These interim amendments replaced those developed and published by the Panel on 24 November 2008.

The Panel considers that the interim RERT Guidelines adequately detail the operation of the RERT and are appropriate to consider as the draft amended RERT Guidelines. This Draft Report commences consultation with stakeholders on these draft amended RERT Guidelines, which are contained in Appendix A.

Stakeholders should note that this current consultation is particularly focussed on amendments to the RERT Guidelines. In accordance with clause 3.20.9 of the Rules requirements, the Panel will be commencing a separate review of the RERT arrangements in the second half of 2010.

¹More information can be found on the AEMC website at <http://www.aemc.gov.au/Market-Reviews/Completed/Review-of-Operationalisation-of-the-Reliability-Standards.html>.

²National Electricity Amendment (Improved RERT Flexibility and Short-notice Reserve Contracts) Rule 2009 No.19, available on the AEMC website at <http://www.aemc.gov.au/Electricity/Rule-changes/Completed/Improved-RERT-Flexibility-and-Short-notice-Reserve-Contracts.html>.

Stakeholder consultation

The Panel invites initial comments from interested parties in response to this Draft Report by close of business on Friday, 9 April 2010. Submissions may be sent electronically or by mail in accordance with the requirements in Section 2.1.

The Panel will hold a meeting at on 6 May 2010 in Sydney in accordance with clause 8.8.3(f) of the Rules. More information will be available on the AEMC website, www.aemc.gov.au, closer to this date.

Contents

1	The Panel’s powers in amending the RERT Guidelines	1
2	Consultation process	2
2.1	Submissions on the Draft Report	2
2.2	Meeting.....	3
3	Context and background	4
3.1	Original Reserve Trader Provisions	4
3.2	Development of the RERT in the Comprehensive Reliability Review	4
3.3	What is the RERT?	5
3.4	Addition of the Short-notice RERT in the Review of the Operational Arrangements for the Reliability Standards	5
3.5	Amending the RERT through the Improved RERT Flexibility and Short-notice Reserve Contracts Rule change	6
4	Amendments to the RERT Guidelines	7
4.1	Long-notice RERT – AEMO has at least ten weeks notice of a reserve shortfall.....	7
4.2	Medium-notice RERT – AEMO has between ten and one weeks notice of a reserve shortfall.....	7
4.3	Short-notice RERT – AEMO has between seven days and three hours notice	7
	Abbreviations.....	9
A	Draft Amendments to the Reliability and Emergency Reserve Trader (RERT) Guidelines	10
1	Interpretation.....	10
2	Scope of the RERT guidelines.....	10
3	Operation of the RERT	11
4	Information that AEMO must take into account when deciding whether to exercise the RERT.....	11
5	Relevance of the RERT principles to the exercise of the RERT	12
6	AEMO's use of a RERT panel	14
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.....	18

8	Process for contracting for reserve including the tender and RERT panel processes for reserve contracts.....	19
9	Use of contracted reserves for security events.....	22

1 The Panel's powers in amending the RERT Guidelines

In its Rule determination on the Improved RERT Flexibility and Short-notice Reserve Contracts Rule, the AEMC agreed with the Panel proposal for:

- the Panel to publish:
 - interim amendments to the RERT guidelines giving effect to the Panel's proposed amendments without being required to follow the process for amending the guidelines contained in the Rules³; and
 - amendments to the RERT guidelines giving effect to the proposed amendments by 30 June 2010 in accordance with the processes provided for in the Rules; and
- AEMO to publish:
 - interim amendments to the RERT procedures giving effect to the proposed amendments without being required to follow the Rules consultation procedures provided for in the Rules to amend the RERT procedures;⁴ and
 - amendments to the RERT procedures giving effect to the proposed amendments by 30 November 2010 in accordance with the Rules consultation procedures.

The AEMC developed transitional arrangements that require the Panel to develop and publish amendments to the RERT Guidelines by 30 June 2010 under clause 11.31.3 of the Rules.

³The process for amending the RERT Guidelines is contained in clause 3.20.8(b) of the NER.

⁴The process for amending the RERT procedures is contained in clause 3.20.7(e) of the NER. The Rules consultation procedures are set out in rule 8.9 of the NER.

2 Consultation process

The Panel is required to follow the processes set out in clause 8.8.3 of the Rules in making its determination. The following key dates outline the process for completing the final amended RERT Guidelines.

Milestone	Date
Publication of Draft Report	1 March 2010
Close of submissions on Draft Report	9 April 2010
Meeting	6 May 2010
Publication of Final Report	16 June 2010

2.1 Submissions on the Draft Report

The Panel invites initial comments from interested parties in response to this Draft Report by close of business on Friday, 9 April 2010. Submissions may be sent electronically or by mail in accordance with the following requirements.

2.1.1 Lodging a submission electronically

Submissions must be lodged online through the AEMC's homepage using the link entitled "online lodgement". The submission must cite the project reference code "REL0039". The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission must be in PDF format, and must also be forwarded to the Panel via ordinary mail.

Upon receipt of the electronic version of the submission either via email or online lodgement, the Panel will issue a confirmation email. If this confirmation email is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

2.1.2 Lodging a submission by mail

The submission must be on letterhead (if an organisation), signed and dated by the respondent. The submission should be sent by mail to:

The Reliability Panel

Australian Energy Market Commission

PO Box A2449

Sydney South NSW 1235

or by fax: (02) 8296 7899.

The envelope must be clearly marked with the project reference code: "REL0039".

Except in circumstances where the submission has been submitted electronically, upon receipt of the hardcopy submission the Panel will issue a confirmation letter. If this confirmation letter is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

2.2 Meeting

The Panel intends to hold a public meeting in Sydney, on Thursday 6 May 2010, to discuss the draft RERT Guidelines presented in this draft report. 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.

3 Context and background

3.1 Original Reserve Trader Provisions

The market operator (which is now AEMO) has had the power to contract for reserves (termed reserve trading) since the start of the National Electricity Market (NEM). Reserve trading enabled the market operator to procure additional reserves if a shortfall of reserves was forecast. This acted as a safety net in the event that the NEM energy only market did not deliver sufficient reserves to ensure that the Reliability Standard of 0.002% unserved energy (USE) was met.

At the start of the NEM, the market operator's power to operate the Reserve Trader was reviewed and the associated sunset clause extended. The Panel submitted a Rule change in December 2005, which was accepted with minor amendments by the AEMC, to extend the Reserve Trader provisions until 30 June 2008. This allowed the Reserve Trader to continue to operate while the Panel completed its Comprehensive Reliability Review (CRR).⁵

3.2 Development of the RERT in the Comprehensive Reliability Review

On 21 December 2007 the Panel completed its CRR. The CRR was a comprehensive review of a number of high level NEM standards and parameters, including the reliability standard and settings⁶. The RERT was originally developed by the Panel as part of the CRR and was incorporated into the Rules in June 2008.⁷ The RERT redesigned the original Reserve Trader provisions. The main operational changes included:

- allowing the market operator to contract for reserves up to nine months ahead of a projected shortfall, instead of six months; and
- allowing the market operator to perform multiple tendering rounds, instead of being limited to one, so that the level of reserve contracting can be adjusted as more information becomes available.

⁵ National Electricity Amendment (Reliability Safety Net Extension) Rule 2006 No. 7, available on the AEMC website at <http://www.aemc.gov.au/Electricity/Rule-changes/Completed/Reliability-Safety-Net-Extension.html>.

⁶ The reliability settings consist of the market price cap (previously known as the value of lost load (VoLL), the market floor price and the cumulative price threshold.

⁷ National Electricity Amendment (NEM Reliability Settings: Information, Safety Net and Directions) Rule 2008 No. 6, available on the AEMC website at <http://www.aemc.gov.au/Electricity/Rule-changes/Completed/NEM-Reliability-Settings-Information-Safety-Net-and-Directions.html>.

3.3 What is the RERT?

The RERT is a mechanism in the Rules that allows AEMO to contract for capacity reserves when a shortfall of reserve is projected, up to nine months in advance. The RERT is implemented by AEMO and allows:

- AEMO to obtain capacity that is not otherwise available to the market;
- parties who have non-market generation capacity to make themselves known to AEMO and to declare what price those parties would need to be paid to use that capacity; and
- individual or groups of consumers to declare what remuneration they would need to be paid to have their load shed.

The RERT has a sunset in the NER of 30 June 2012, with a requirement for the Panel to review the need for the RERT by 30 June 2011.

In order to implement the RERT, the Rules require the Panel to publish guidelines which outline the detailed operation of the RERT (clause 3.20.8 of the Rules). AEMO must have regard to these guidelines, where relevant, when exercising the RERT. In addition, AEMO is required to publish RERT procedures which detail the operation of the RERT (clause 3.20.7 of the Rules).

3.4 Addition of the Short-notice RERT in the Review of the Operational Arrangements for the Reliability Standards

On 3 March 2009 the AEMC approved terms of reference requesting the Panel to undertake a review relating to Operational Arrangements for the Reliability Standards.

As part of the terms of reference, the Panel was required to review “the need and possible design of a short-notice version of the RERT that could be used in a critical emergency”. To this end, the Panel investigated the operation of the current RERT with the objective of developing improvements that could be implemented for the summer of 2009/10.

On 1 May 2009 the Panel published an exposure draft package of changes to the RERT that would allow it to operate at short notice. The package included:

- an exposure draft Rule change proposal;
- an exposure draft Rule; and
- an exposure draft of interim amendments to the RERT Guidelines.

Following review of stakeholder submissions, the Panel submitted its Rule change proposal and proposed Rule to the AEMC for assessment as an urgent Rule. The Rule change proposal sought to:

- provide a framework to implement changes to the operation of the RERT to facilitate long-notice, medium-notice and short-notice reserve contracting;
- clarify that AEMO can form a RERT panel; and
- clarify that AEMO may use reserve contracts during system security events.

These proposed changes involved (amongst other things):

- requiring the Panel to publish interim amendments to its RERT guidelines; and
- requiring AEMO to publish interim amendments to its RERT procedures.

3.5 Amending the RERT through the Improved RERT Flexibility and Short-notice Reserve Contracts Rule change

On 11 August 2009, the AEMC received a Rule change proposal from the Panel proposing to amend the RERT arrangements.

The Commission determined to make the Rule and on 15 October 2009, published its final Rule determination and Rule.⁸ In accordance with the Rule as made, the Panel was required to publish its interim amendments to the RERT guidelines by 29 October 2009. The Panel is also required to undertake a full consultation process on the RERT Guidelines that must be completed by 30 June 2010.

In its submission on the Rule change proposal, Macquarie Generation considered that the RERT Guidelines should define the circumstances under which the RERT can be used during system security events. In its determination, the Commission suggested that this should be considered by the Reliability Panel when amending the RERT Guidelines.⁹ The Panel's initial view is that the RERT Guidelines should only contain principles for the use of the RERT and that the addition of greater prescription may be difficult in practice and potentially adds complexity to AEMOs decision making. The Panel is seeking stakeholder views on this issue.

⁸ National Electricity Amendment (Improved RERT Flexibility and Short-notice Reserve Contracts) Rule 2009 No. 19, available on the AEMC website at <http://www.aemc.gov.au/Electricity/Rule-changes/Completed/Improved-RERT-Flexibility-and-Short-notice-Reserve-Contracts.html>.

⁹ AEMC, 2009 *Improved RERT Flexibility and Short-notice Reserve Contracts*, Rule Determination, 15 October 2009, p.24.

4 Amendments to the RERT Guidelines

The Panel consulted on and submitted proposed interim amendments to the RERT Guidelines as part of its Review of the Operational Arrangements for the Reliability Standards Rule change proposal package. On 29 October 2009, the Panel published the interim amendments to the RERT Guidelines in accordance with clause 11.31.3 of the Rules. These interim amendments replaced those developed and published by the Panel on 24 November 2008.

In making the Rule amendment, the AEMC adopted the Panel's rule change proposal. The Panel therefore considers that the interim RERT Guidelines adequately detail the operation of the RERT and that these are appropriate to consider as the draft amended RERT Guidelines. The Panel is seeking stakeholder feedback on these draft amended RERT Guidelines, which are contained in Appendix A.

The interim amendments to the RERT Guidelines included the amended RERT processes for the proposed long-notice, medium-notice and short-notice RERT. These arrangements are summarised below.

4.1 Long-notice RERT – AEMO has at least ten weeks notice of a reserve shortfall

The interim amendments to the RERT Guidelines state that AEMO is expected to conduct a full tender process to procure reserve contracts if it has more than ten weeks notice of an anticipated reserve shortfall. The full tender process includes requesting responses from members of the RERT Panel and other potential reserve providers. This process also involves consultation between AEMO and representatives of affected jurisdictions prior to procuring reserve contracts.

4.2 Medium-notice RERT – AEMO has between ten and one weeks notice of a reserve shortfall

The interim amendments to the RERT Guidelines state that AEMO is expected to conduct a shortened tender process with only members of the RERT panel. The RERT Panel consists of entities that have resolved in advance with AEMO some of the technical and legal issues that lengthen the time taken to negotiate reserve contracts under the current full tender process. Once reserve providers are members of the RERT panel, reserve contracts can be finalised more quickly than through the full tender process.

4.3 Short-notice RERT – AEMO has between seven days and three hours notice

The interim amendments to the RERT Guidelines state that AEMO may procure reserve contracts from the members of the short-notice RERT Panel where AEMO has between seven days and three hours notice of a projected reserve shortfall. This panel

operates differently to that described above for the medium-notice RERT, as it is necessary for AEMO to have already been negotiating with potential reserve providers and to have provisionally agreed to terms and conditions, technical requirements and offer processes before entering short-notice reserve contracts.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
Commission	See AEMC
CRR	Comprehensive Reliability Review
EAAP	energy adequacy assessment projection
MW	megawatts
NEM	National Electricity Market
NER	National Electricity Rules
Panel	Reliability Panel
RERT	Reliability and Emergency Reserve Trader
Rules	See NER
USE	unserved energy
VoLL	value of lost load

A Draft Amendments to the Reliability and Emergency Reserve Trader (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*.¹ AEMO must take the *RERT guidelines* into account (among other things) when exercising the *RERT*.²

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

1. what information 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* is 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 long, medium and short-notice situations as described in the *RERT guidelines* to ensure reliability of supply and where practicable, maintain *power system security*;

¹Rule 3.20 of the *Rules*.

²Clause 3.20.7(f) of the *Rules*.

³Clause 3.20.8(a) of the *Rules*.

6. any specific or additional assumptions about key parameters that *AEMO* must take into account in assessing the cost effectiveness of exercising the *RERT*;
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*.⁴

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 *EAAP*⁵; and

⁴Developed in accordance with Clause 3.20.8 of the *Rules*.

- any other information that *AEMO* reasonably identifies to be necessary.
- (b) 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.

- (c) 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* 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 to be those which *AEMO* reasonably expects, acting reasonably to have the least distortionary effect on the operation of the *market*; and
2. actions taken should aim to maximise the effectiveness of *reserve contracts* at the least cost to end use consumers of electricity.

⁵In 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*.

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©) and (d) of the *Rules*, setting the *dispatch price* and *ancillary service prices* for an *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*.⁶ 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;

⁶Note 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 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 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

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.⁷ 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 6.3 and 6.4 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
- 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.

⁷The 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.

6.3 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 *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.

6.4 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 6.3, 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 *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 Situations 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 tenderer⁸ 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.⁹

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

⁹ *AEMO* is required to take into account the *REST guidelines* when it develops its *REST procedures* in accordance with clause 3.20.7(e).

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:

- 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.¹⁰

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*;

¹⁰ AEMO is required to take into account the *REST guidelines* when it develops its *REST procedures* in accordance with clause 3.20.7(e).

- 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 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.

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

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;
- 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 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.

8.3 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*¹¹ 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*;
- 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:

¹¹ 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*.

- 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*.