

**Reliability Panel
AEMC**

**Australian Energy Market Commission
Reliability Panel**

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10 August 2009

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Dr Tamblyn,

**National Electricity Rules – Request for Rule
NEM Reliability Settings: Improved RERT Flexibility and Short-notice Reserve Contracts**

The Reliability Panel (Panel) requests the Australian Energy Market Commission (AEMC) to consider making the enclosed proposed Rule under section 91 of the National Electricity Law (NEL). Further, the Panel requests that the AEMC expedite this process as an urgent Rule under section 96 of the NEL in order for the proposed changes to be implemented for the summer of 2009/10.

This Rule change proposal was developed by the Panel in response to the AEMC's request contained in its Terms of Reference of 3 March 2009. The AEMC requested the Panel to consider the need and possible design of a short-notice version of the reliability and emergency reserve trader (RERT) that could be used in an emergency. The AEMC also noted the desirability of implementing any appropriate changes in a timely manner for the summer of 2009/10.

On 1 May 2009 the Panel published an Exposure Draft of a Rule change package, including a proposed Rule and interim amendments to the RERT Guidelines, that was designed to increase the flexibility of the existing RERT to include a short-notice form of the RERT. The Panel chose this approach as it considered that it could be implemented in time for the summer of 2009/10.

The Panel received six submissions on its Exposure Draft package. The Panel amended the Rule change package following consideration of the issues raised in the submissions. In particular, the Panel amended the proposed short-notice RERT to better integrate with AEMO's direction and instruction powers under critical emergencies, and included amending the proposed Rule and interim amendments to the RERT Guidelines.

The Panel also requests that the AEMC reviews this Rule change proposal as an urgent under section 96 of the NEL. Under this section the AEMC has the power to expedite the publication of its Final Rule determination and Final Rule, under sections 102 and 103 of the NEL respectively, without being required to publish a Draft Rule determination under section 99 of the NEL. The Panel is requesting that the AEMC expedite the review of this Rule change proposal so that the

amendments to the RERT can be in place for the summer of 2009/10. Any delay to the making of this Rule would be likely to leave insufficient time for AEMO to develop the necessary processes and system to implement the amendments to the RERT for the 2009/10 summer.

The enclosed Rule making request contains:

- a statement of the issues being addressed by this proposed Rule and a description of how the proposed Rule would address these issues, including the issues raised by stakeholders in response to the Panel's Exposure Draft;
- a description of Panel's consultation process on the Exposure Draft;
- a description of the proposed Rule;
- an explanation why the Panel considers that the AEMC should expedite the proposed Rule under section 96 of the NEL;
- a description of how the Panel considers that the proposed Rule is likely to advance the national electricity objective;
- the Panel's explanation of the benefits and costs of the proposed change and the potential impacts of the change on those likely to be affected;
- a draft of the proposed Rule; and
- a draft of the interim amendments to the RERT Guidelines.

Please do not hesitate to contact Rory Campbell should there be any questions pertaining to this matter.

Yours sincerely



Ian C Woodward
Chairman, Reliability Panel
Commissioner, AEMC

Reliability Panel AEMC

RULE CHANGE PROPOSAL

NEM Reliability Settings: Improved RERT Flexibility and Short-notice Reserve Contracts

10 August 2009

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AEMC Reliability Panel, NEM Reliability Settings: Improved RERT Flexibility and Short-notice Reserves Contracts, Rule Change Proposal, 10 August 2009, Sydney

About the AEMC

The Council of Australian Governments, through its Ministerial Council on Energy, 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. It is a statutory authority. Our key responsibilities are to consider Rule change proposals, conduct energy market reviews and provide policy advice to the Ministerial Council on Energy as requested, or on AEMC initiative.

About the AEMC 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 the safety, security and reliability 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.

Disclaimer

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Reliability Panel Members

Chairman

Ian C Woodward, Commissioner, Australian Energy Market Commission

Other AEMC Reliability Panel Members

Gavin Dufty, Manager Policy and Research, St Vincent de Paul Society, Victoria

Hugh Gleeson, Chief Executive Officer, United Energy

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Abbreviations and Glossary

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
CPT	Cumulative price threshold
CRR	Comprehensive Reliability Review
DSR	Demand Side Response
Long-notice RERT	The RERT process for long-notice situations
LOR2	Lack of Reserve level 2 (see clause 4.8.4(c) of the Rules)
LRC	Low Reserve Condition (see clause 4.8.4(a) of the Rules)
MCE	Ministerial Council on Energy
Medium-notice RERT	The RERT process for long-notice situations
MPC	Market price cap (previously know as VoLL)
MT PASA	Medium-term PASA
MW	Megawatt
NEL	National Electricity Law
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company The functions of NEMMCO were taken over by AEMO on 1 July 2009
NEO	National Electricity Objective
Panel	AEMC Reliability Panel
PASA	Projected Assessment of System Adequacy
Regulations	National Electricity Regulations
RERT	Reliability and Emergency Reserve Trader (defined in Rule 3.20)
RERT Guidelines	Guidelines for the operation of the RERT that are developed by the Panel in accordance with clause 3.20.8
RERT Procedures	Procedures for the operation of the RERT that are developed by AEMO in accordance with clause 3.20.7(e)
Rules	National Electricity Rules
Short-notice RERT	The RERT process for long-notice situations
SOO	Statement Of Opportunities
ST PASA	Short-term PASA
USE	Unserviced energy
VoLL	Value of Lost Load (renamed MPC)

Executive Summary

This Rule change proposal is being submitted by the AEMC Reliability Panel (Panel). The Panel finalised this Rule change proposal following consultation with stakeholders on an Exposure Draft of the proposed changes. The Panel is requesting the AEMC expedite the Rule change proposal as an urgent Rule in accordance with Section 96 of the National Electricity Law (NEL).

Context of the Rule change Proposal

On 29 and 30 January 2009 there were reliability incidents in Victoria and South Australia that resulted in involuntarily load shedding.¹ Following these events the Ministerial Council on Energy (MCE) indicated that the AEMC would “review energy market frameworks in light of the impact on electricity supplies of the extreme heat wave of 29-31 January 2009”.²

On 3 March 2009 the AEMC issued the Panel with terms of reference³ that included a requirement for the Panel to consider “the need and possible design of a short-term version of the RERT [reliability and emergency reserve trader] that could be used in a critical emergency”. The AEMC’s terms of reference noted the desirability of implementing any appropriate changes in a timely manner for the summer of 2009/10.

The Panel developed the RERT as part of its Comprehensive Reliability Review (CRR)⁴ and was a redesign of the previous Reserve Trader that had existed since the start of the NEM. The RERT was incorporated into the Rules by the AEMC in June 2008.⁵

The Panel has investigated the operation of the current RERT with the objective of developing improvements that would facilitate AEMO contracting for reserves at short notice and that could be implemented for the summer of 2009/10. The Panel is proposing to increase the flexibility of the existing RERT arrangements by clarifying that AEMO may operate a RERT panel such that:

- AEMO would assess expressions of interest from entities offering reserves to resolve any technical and legal issues;

¹ On the evening of 30 January there was also a system security incident that resulted in involuntarily load shedding. In addition there were also a number of distribution system failures interrupting customers.

² MCE 18th Communiqué on 6 February 2009.

³ The terms of reference for the “Review of the operational arrangements of the reliability settings and Reliability standard and settings review” is available at <http://www.aemc.gov.au/electricity.php?r=20090306.155159>.

⁴ The Panel’s Comprehensive Reliability Review was completed in December 2007 and is available on the AEMC website at <http://www.aemc.gov.au/electricity.php?r=20051215.142656>.

⁵ A description of the Panel’s Rule change proposal and the AEMC’s Rule change process “NEM Reliability Settings: Information, Safety Net and Directions” is available at <http://www.aemc.gov.au/electricity.php?r=20080307.151409>.

- AEMO would not make payments to entities for being on the RERT panel but the entities would be free to offer their capacity to the market, but would be requested to advise AEMO if they do so; and
- AEMO would use a full tendering process when contracting for reserves if time permits or, when there is insufficient time for such a tender process, select members of the RERT panel and then enter into reserve contracts.

The Panel is also proposing a short-notice RERT process for when AEMO needs to enter into reserve contracts at short notice, that is, when there is insufficient notice of a reserve shortfall for AEMO to undertake a detailed assessment of the expressions of interest. Under this short-notice RERT process AEMO would:

- develop processes whereby it could enter into reserve contracts with between three hours and seven days notice;
- operate a short-notice RERT panel and solicit expressions of interest from entities wishing to offer reserves to AEMO at short-notice;
- monitor the results of the short-term PASA and pre-dispatch processes to assess whether to contract for reserves at short notice;
- develop methodologies to select the optimal portfolio of reserve contracts based on a reasonable endeavours basis;
- consult with the Jurisdictions to determine the maximum price that AEMO should be prepared to pay for reserves in their region under the short-notice RERT, and how to share the associated costs between affected regions; and
- develop processes to ensure that reserves that are the subject of a reserve contract are not otherwise available to the market.

In addition, the Panel is proposing that AEMO may use contracted reserves during system security events. The Panel notes that generally security events are characterised by little or no notice and usually have a localised effect, but believes that AEMO should be able to utilise contracted reserves in the cases where this is practical.

The Panel considers that these proposed amendments to the RERT arrangements provide further enhancements to the designed reserve trading arrangements currently contained in the NEM. The Panel also notes that these arrangements are, to some degree, a distortion to the operation of the market and will be subject to a sunset clause in the Rules which will allow a further review of the RERT arrangements to take place.

Consultation on an Exposure Draft Rule and RERT Guidelines

The Panel developed an Exposure Draft of a Rule change and interim amendments to the RERT Guidelines that it considered would improve the flexibility of the RERT. The Panel published its Exposure Draft for consultation on 1 May 2009 and submissions closed on Friday 29 May 2009. The Panel received submissions from

Ergon Energy, Energy Response, AEMO⁶, the National Generators Forum (NGF), Origin Energy and the South Australian Government.

The key issues raised in submissions included:

- AEMO's concern whether the short-notice RERT would be used to target the reliability standard of 0.002% USE or target no USE;
- the NGF's suggestion that the existing directions mechanism be modified to allow AEMO to compensate unscheduled loads that are directed off to meet a reserve shortfall, rather than the proposed short-notice RERT that would need to be activated further away from real-time and hence subject to more uncertainty;
- the South Australian Jurisdiction's comment that the Exposure Draft contained a twenty-four hours minimum notice period for the short-notice RERT and that it would be unfortunate if reserves that were otherwise available to the RERT were not used due to this arbitrary timeframe.

The Panel considered the issues raised in submissions, include the key issues above, and made the following amendments to its proposed arrangements:

- amending the proposed short-notice RERT to operate with predefined reserve offers that would allow AEMO to procure reserves in a similar timeframe to that for issuing directions and instructions, thus reducing the minimum notice perform for the short-notice RERT from the 24 hours notice proposed in the Exposure Draft to approximately 3 to 4 hours; and
- clarifying that the short-notice RERT should be triggered by lack of reserve (LOR2) conditions, in order to minimise the use of directions and instructions by providing sufficient reserves to manage a single credible contingency.

The Panel also considers that its amended version of the short-notice RERT is equivalent to the NGF's alternative proposal of modifying AEMO's direction power. The direction power is only able to be used for registered market participants while the proposed changes enable a contractual equivalent for non-registered participants. Under the amended proposal the short-notice RERT would be able to operate with equivalent limitations on the notice requirements as the alternative modified directions proposal, thus integrating the operation of the RERT into the arrangements for issuing directions and instructions.

Interim amendments to the RERT Guidelines and RERT Procedures

The Panel included provisions in the proposed Rule that require the Panel to develop and publish interim amendments to the RERT Guidelines and to require AEMO to develop and publish interim amendments to its RERT Procedures following the making of the Rule.

⁶ The functions of NEMMCO were taken over by AEMO on 1 July 2009.

The Panel considers that this Rule needs to be expedited and include provisions for interim amendments to the RERT Guidelines and Procedures so that the short-notice RERT can be in place by October 2009. This would allow AEMO several months before the 2009/10 summer to form a RERT panel. The Panel and AEMO would then consult on the RERT Guidelines and Procedures, including to incorporate experience from the 2009/10 summer, by 30 June 2010 and 30 November 2010, respectively.

Impact on the operation of the wholesale market

When the Panel proposed the RERT in its CRR, it expressed concern that any form of Reserve Trader was a distortion to operation of the energy-only wholesale market. However, the Panel also noted that there appeared to be risks on the horizon that may impact the NEM achieving the reliability standard in the future. Therefore, the Panel proposed that, on balance, a revised form of the Reserve Trader (the RERT) should be developed and that it should operate in such a way as to minimise distortions to the market.

The Panel still believes that the RERT is a market distortion but considers that prudent incremental improvements to the RERT are warranted to further increase the flexibility, including clarifying that AEMO may reserve contract with similar timeframes to those for directions. In coming to this view the Panel notes that the changes aim to minimise market distortion and that in any case the RERT is subject to a sunset of 30 June 2012 and will be subject to further review twelve months prior to this date.⁷

Future Revision of the RERT

The Panel notes that the AEMC is currently reviewing the Energy Market Frameworks in light of Climate Change Policies.⁸ In this review the AEMC discusses a possible load shedding management (LSM) arrangement that would operate in a similar manner to the proposed short-notice RERT, with one of the main differences being that the LSM provides a capacity payment in exchange for a firm capability.

The proposed short-notice RERT is a mechanism that is being implemented for the 2009/10 summer and for the existing life of the RERT (subject of a sunset of 30 June 2012). In contrast, the LSM is not a mechanism that would be available for the 2009/10 summer and is unlikely to be implemented within the next few years. The Panel believes that the LSM option, together with an integrated review of those mechanisms operating with the AEMO 'direction' and 'instruction' powers, should be examined in the review of the RERT before its sunset.

⁷ The expiry date for the RERT and the requirement for the review are clauses 3.20.1 and 3.20.9 respectively.

⁸ Further information on the "Review of Energy Market Frameworks in light of Climate Change Policies" is available on the AEMC website at <http://www.aemc.gov.au/Market-Reviews/Open/Review-of-Energy-Market-Frameworks-in-light-of-Climate-Change-Policies.html>

Advancement of the National Electricity Objective

The Panel considers that enhancements to the RERT to clarify that AEMO may contract for reserves at short notice for reliability of supply is likely to lead to more efficient utilisation of potential electricity services during critical emergencies. This would be achieved by providing an emergency mechanism that is available at short notice that allows additional capacity reserves to be made available over and above those already in the NEM, thus reducing the need for involuntary load shedding during potential power system reliability incidents.

The Panel also considers that allowing AEMO to use the RERT, where this is practical, to reduce the need for involuntary load shedding following power system security incidents is likely to lead to more efficient utilisation of potential electricity services in these instances. This would be achieved by providing an emergency mechanism that would, under some circumstances, be able to avoid the involuntary disconnection of affected customers.

In both the cases of reliability of supply and the managements of power system security, the Panel considers that these incremental benefits are likely to outweigh the costs of procuring and dispatching or activating these contracted reserves and marginally exceed the distortionary consequences. This is because, during times of supply scarcity, those entities that are able to offer reserves will do so, thus increasing the reliability seen by customers.

The Panel anticipates that these efficiency improvements are likely to promote the long term interest of consumers of electricity through improved reliability of supply and possible improvements to the management of security events.

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1 Introduction

1.1 Context of the Rule Change Proposal

1.1.1 Load shedding events in January 2009

On 29 and 30 January 2009 there were reliability incidents in Victoria and South Australia that resulted in involuntarily load shedding.⁹ Following these events the MCE indicated that the AEMC would “review energy market frameworks in light of the impact on electricity supplies of the extreme heat wave of 29-31 January 2009”.¹⁰

1.1.2 AEMC terms of reference

On 3 March 2009 the AEMC issued the Panel with terms of reference for the “Review of the operational arrangements of the reliability settings and Reliability standard and settings review”.¹¹ One of the issues included in the terms of reference to be considered by the Panel is to consider “the need and possible design of a short-term version of the RERT that could be used in a critical emergency”. The AEMC’s terms of reference noted the desirability of implementing any appropriate changes in a timely manner for the summer of 2009/10.

1.1.3 Panel’s objectives

The Panel investigated the current reliability and emergency reserve trader (RERT) and its operation to determine whether it was possible to improve its operation during critical emergencies. The Panel is seeking to implement any such improvements before the 2009/10 summer. To this end, the Panel developed this proposed package of the amended Rules and RERT Guidelines that would be necessary to implement the proposed improvements to the RERT, including consulting on an Exposure Draft of the package.

1.2 Existing RERT

The RERT was developed by the Panel as part of its Comprehensive Reliability Review (CRR).¹² The Panel completed its CRR in December 2007 and made a number

⁹ On the evening of 30 January there was also a system security incident that resulted in involuntarily load shedding. In addition there were also a number of distribution system failures interrupting customers. Further information on these incidents is available on the AEMO website.

¹⁰ MCE 18th Communiqué on 6 February 2009.

¹¹ The AEMC’s terms of reference for the Panel are available at <http://www.aemc.gov.au/electricity.php?r=20090306.155159>

¹² The Panel’s Comprehensive Reliability Review was completed in December 2007 and is available on the AEMC website at <http://www.aemc.gov.au/electricity.php?r=20051215.142656>

of recommendations including to redesign the Reserve Trader arrangements in the Rules to become the RERT.

In February 2008 the Panel submitted a package of Rule change proposals that included these recommendations. On 26 June 2008 the AEMC amended the Rules to include both the RERT and to remove the sunset on AEMO's power to issue Reliability Directions.¹³

The Panel prepared RERT Guidelines in accordance with clause 3.20.8(a) of the Rules on, amongst other things, matters that AEMO must take into account when contracting for reserves under the RERT. On 24 November 2008 the Panel published the first RERT Guidelines.¹⁴

1.3 Process to develop and implement the amendments to the RERT

1.3.1 Exposure draft

On 1 May 2009 the Panel published an Exposure Draft of a proposed Rule to amend the operation of the existing RERT. Under the Exposure Draft the Panel proposed to increase the flexibility of the existing RERT arrangements by clarifying that AEMO may operate a RERT panel where there is between four weeks and ten weeks notice.

The Panel also proposed a short-notice RERT process that would allow AEMO to enter into reserve contracts at short notice, that is, with between 24 hours and four weeks notice of a reserve shortfall.

In addition, the Panel considered that there was value in clarifying that AEMO can use contracted reserves during system security events. The Panel noted that generally security events are characterised by little or no notice and usually have a localised effect, but believes that AEMO should be able to utilise contracted reserves in the cases where this is possible.

1.3.2 Submissions to the exposure draft

The Panel published its Exposure Draft for consultation on 1 May 2009 and submissions closed on Friday 29 May 2009. The Panel received submissions from Ergon Energy, Energy Response, AEMO, the National Generators Forum (NGF), Origin Energy and the South Australian Government. The submissions were published on the AEMC website.

¹³ A description of the Rule change process "NEM Reliability Settings: Information, Safety Net and Directions" is available at <http://www.aemc.gov.au/electricity.php?r=20080307.151409>.

¹⁴ The RERT Guidelines prepared by the Panel are available on the AEMC website at <http://www.aemc.gov.au/electricity.php?r=20080815.172600>

1.3.3 Rule change package

The Panel amended the Rule change proposal described in the Exposure Draft to address the issues raised in the stakeholder submissions. Under the amended proposal AEMO may operate a RERT panel where there is between one week and ten weeks notice.

The Panel also amended the short-notice RERT to allow AEMO to enter into reserve contracts with less than one weeks notice in a similar manner to directions or instructions. The proposed short-notice RERT contracts would be procured from a RERT panel of pre-approved contracts with terms and conditions that include a pre-negotiated price. The Panel anticipates that AEMO would require approximately three to four hours to enter into reserve contracts under the short-notice RERT.

In addition, the Panel remains of the view that there is value in clarifying that AEMO may use contracted reserves during system security events.

Appendix A contains the Panel's proposed Rule.

1.3.4 Urgent Rule

The Panel indicated in its Exposure Draft and Proposed Rule that, when it submitted its Rule change proposal that resulted from its Exposure Draft, it intended to request the AEMC to expedite this Rule change as an "urgent Rule" in accordance with section 96 of the NEL.

The Panel confirms that it is requesting that the AEMC expedite this Rule change proposal as an "urgent Rule" in accordance with section 96 of the NEL. The Panel's reasoning for making this request is provided in section 3.4 of this proposal.

1.3.5 RERT Guidelines

Rule 3.20 defines the legal framework for the RERT and provides AEMO with the ability to procure reserve contracts and dispatch or activate these reserves when needed.

Clause 3.20.8 of the Rules requires the Panel to prepare RERT Guidelines that AEMO must take into account when deciding whether to exercise the RERT, as well as other matters. The RERT Guidelines provide more detailed information on how the RERT is to operate. The existing RERT Guidelines were developed by the Panel and published on 24 November 2008.¹⁵

The RERT Guidelines will need to be significantly amended if the proposed changes to the RERT are to be implemented. Therefore the Panel:

¹⁵ The current RERT Guidelines are available on the AEMC website at <http://www.aemc.gov.au/Market-Reviews/Completed/Reliability-and-Emergency-Reserve-Trader-RERT-Guidelines.html>

- provided a replacement set of proposed RERT Guidelines to implement the more detailed policy aspects of the amended RERT as an accompanying document with this Rules change proposal; and
- included a provision in its proposed Rule to allow the Panel to issue interim amendments to the RERT Guidelines.¹⁶

Appendix B contains the interim amendments to the RERT Guidelines that the Panel proposes if its proposed Rule is made.

¹⁶ In addition, the Panel's proposed Rule includes a provision for AEMO to revise its RERT procedures, which are defined in clause 3.20.7.

2 Statement of Issues

2.1 Operation of the existing RERT

The RERT is defined in rule 3.20 of the Rules. In addition, the Rules required the Panel to develop and publish RERT Guidelines that AEMO must take into account when deciding whether to exercise the RERT.

Currently the RERT is a two stage process whereby AEMO can:

1. contract for reserves up to nine months in advance of a projected shortfall in reserves; and
2. dispatch or activate any reserve contracts at the time of an actual shortfall of reserves in order to maintain one or more regions in a reliable operating state,

where a shortfall in reserves is defined as insufficient reserves to meet the reliability standard.¹⁷ In addition, the Rules required the Panel to develop and publish the RERT Guidelines which AEMO must take into account when exercising the RERT.

2.1.1 Contracting for reserves using the existing RERT

The first stage of operating the RERT is for AEMO to contract for reserves. This occurs when AEMO, in consultation with the affected Jurisdictions, determines that a low reserve condition is forecast to occur.

Taking into account the RERT Guidelines, AEMO would perform a full tender process when contracting for reserves. That is, the current RERT Guidelines do not explicitly support AEMO operating a panel of potential providers of reserves from which it can contract with, when reserves are required. The Panel noted that the AEMC considered that the use of such a panel would limit the potential sources of reserves, and thus increase the cost of contracting for reserves under the RERT.¹⁸

The Panel understands that, as AEMO would be required to undertake a full tendering process, AEMO expects that it would take at least ten weeks to tender for reserves under the RERT based on its previous experience of contracting for reserves for the summers of 2004/05 and 2005/06.¹⁹ That is, AEMO would not have sufficient

¹⁷ Under the Rules the reliability standard is defined in the Power System Security and Reliability Standards and determined by the Panel in accordance with clauses 8.8.1(a)(2) and 8.8.3. The current reliability standard is 0.002% USE per annum and is specified in detail in the Panel's CRR.

¹⁸ Section 3.2.4.4 of the AEMC Final Determination on the National Electricity Amendment (NEM Reliability Settings: Information, Safety Net and Directions) Rule 2008 No. 6 on 26 June 2008. Further information on the AEMC's determination is available at <http://www.aemc.gov.au/electricity.php?r=20080307.151409>

¹⁹ AEMO has used its reserve trader powers twice since the start of the NEM:

- it contracted for 84 MW of additional reserves for the South Australian and Victorian regions for February 2005 based on forecasts in mid-late 2004 of a shortfall of 195 MW. The cost of acquiring those services was \$1.035m; and

time to enter into contracts for reserves under the existing RERT arrangements if it did not have at least ten weeks notice of the reserve shortfall.

The Panel understands that the three main steps required when contracting for reserves under the RERT are:

1. technical analysis – resolving the technical aspects of the offers for capacity including notice requirements and metering arrangements;
2. legal issues – resolving legal aspects of the contracts, especially in relation to double dipping²⁰, as many of the parties offering reserves may not have entered into similar contracts before; and
3. analysis of offers – AEMO must determine which offers of contracted reserves to accept based not only on the contract price, but also the incremental enabling or usage price if the reserves are dispatched or activated reflecting any restrictions on how those reserves can be dispatched or activated.

2.1.2 Dispatching contracted reserves using the existing RERT

If AEMO has been able to anticipate a shortfall of reserves, based on the information available to it ten weeks or more earlier, then these reserves are available to be dispatched (for scheduled reserve contracts) or activated (for unscheduled reserve contracts). However, where a shortfall in reserves occurs that could not have reasonably been foreseen by AEMO it will not have reserve contracts to cover the shortfall. Similarly, where a shortfall in reserves occurs that is larger than could have reasonably been foreseen by AEMO it will not have sufficient reserve contracts.

When dispatching or activating contracted reserves AEMO will need to consider any restrictions in the reserve contracts. Such restrictions are likely to include:

- the notice required prior to the reserves actually being needed – ranging from a few minutes to a number of days, depending on the nature of the source of reserves;
- a minimum period that the reserves are available – for example where a load is interrupted for a working shift (usually eight to twelve hours);
- a maximum period that the reserves are available – for example where a load such as a smelter can only be safely interrupted for a limited period;

-
- it acquired an additional 375 MW of reserve at a cost of approximately \$4.4m for those regions for the summer of 2005/06 based on delays in the commissioning of Basslink and a Laverton North power station.

In each case the reserves were contracted under the arrangements that applied prior to the commencement of the RERT on 26 June 2008.

²⁰ In this context double dipping is where an entity already receives payment for providing its *reserves* to the market, for example through a contract with a *Market Participant*, and also contracts with AEMO to provide the *reserves* through the *RERT*. This would be ineffective as the entity would be selling the *reserves* to twice while only providing the *reserves* once.

- the time between consecutive activations of a service; and
- the total number of activations of a service in a given period of time.

2.1.3 Potential amendments to the existing RERT arrangements

The Panel is proposing the following two sets of amendments to increase the flexibility of the existing RERT arrangements:

- clarifying that AEMO may use a RERT panel which is expected to reduce the time required for AEMO to negotiate reserve contracts to one week (discussed in section 2.2); and
- implementing a short-notice form of the RERT that would provide for AEMO to negotiate reserve contracts using its reasonable endeavours with as little as approximately three to four hours notice of a reserve shortfall.

2.2 Increasing the flexibility of the existing RERT

2.2.1 Using a RERT panel to reduce the time to negotiate reserve contracts

The time taken for AEMO to enter into reserve contracts could be reduced if it operated a RERT panel of potential pre-accredited providers. That is, entities that could potentially provide contracted reserves under the RERT could pre-qualify for the RERT panel by resolving in advance with AEMO some of the technical and legal issues referred to in section 2.1.1. When AEMO subsequently determines that reserves are needed, it would:

- confirm which of the entities on the RERT panel have capacity that is available at the time of the projected shortfall;
- request from those entities their offer price for the available reserves (both the price to contract and to dispatch or activate the reserves); and
- analyse offers and, in consultation with the affected Jurisdictions, determine which entities to contract with for reserves under the RERT.

Resolving some of the legal and technical issues well in advance of a need to contract for reserves would mean that AEMO would be able to complete its full tender process with RERT panel members in significantly less time (estimated at approximately one week²¹), compared to the current ten weeks.

Therefore, the Panel is proposing that AEMO use a RERT panel when it tenders for reserve contracts, which would be necessary where AEMO has less than ten weeks of notice of a reserve shortfall. Entities that wish to participate in the RERT panel

²¹ In its Exposure Draft the Panel indicated that AEMO would require four weeks notice. This is discussed in section 2.2.4.

should submit an expression of interest that describes the reserves they are interested in offering. AEMO and the entity could then resolve any technical and legal issues in advance of the need to enter into reserve contracts.

To differentiate this process from the existing RERT process, the Panel has labelled the existing process the long-notice RERT (between ten weeks and nine months notice) and the RERT panel process the medium-notice RERT (between one week and ten weeks notice).

2.2.2 Entry to the RERT panel and competition

As discussed above, the current RERT Guidelines currently do not explicitly clarify AEMO may use a RERT panel as it noted the AEMC considered, in its determination on the RERT Rule change proposal, that the use of such a panel could lead to reduced competition compared to a full tender process. However, the Panel considers that the use of a RERT panel would not necessarily limit the sources of reserves for the RERT if AEMO:

- uses the full tender process whenever there is sufficient time, that is more than ten weeks; and
- operates a process that periodically solicits entities to join the RERT panel.

2.2.3 Operation of the RERT panel

The precise arrangements for operating a RERT panel need to be determined by AEMO in its RERT Procedures and are likely to evolve following operational experience. However, the Panel considers that the following operational arrangements should be defined.

Continuous operation

AEMO could operate the RERT panel on a continuous basis. That is, once an entity is participating in the RERT panel, it should be able to continue to participate until it chooses to withdraw from the RERT panel.

The operation of the RERT panel is likely to be continuous because:

- AEMO will not always be able to anticipate the possible need for reserve contracts and hence would need a RERT panel with pre-existing members; and
- re-negotiation of membership of the RERT panel on a fixed-term or single-use would be an unnecessary administrative cost burden that would not serve any purpose unless circumstances materially change.

No payments for RERT panel participation

Participating in the RERT panel would relate to entities that are potentially ready to enter into a reserve contract with AEMO because they have:

- reserves that they are interested in contracting to AEMO; and
- resolved any associated technical and legal issues with AEMO.

However, simply being a member of the RERT panel does not mean a commitment to make their reserves available to the market for any specific period. Therefore, the Panel considers that entities should not receive a payment for participating in the RERT panel. Such a payment would be a form of capacity payment in the absence of a demonstrated market failure and would, therefore, be a significant change to the arrangements for the NEM's energy-only market.

Payment of auditable expenses associated with RERT panel participation

While the Panel considers that there should be no payments for RERT panel participation, a possible exception could be one-off auditable out of pocket expenses associated with resolving any associated technical and legal issues with AEMO. The advantage of paying such auditable expenses would be that it may encourage greater participation in the RERT panel.

In its Exposure Draft the Panel stated that it “considers that such one-off auditable expenses should not be paid as this still represents a form of capacity payment and it may be difficult to define which specific costs should be included”.

The Panel also sought the stakeholders' views of on whether it is likely that increased participation in the RERT panel is likely to offset the associated increase in participant fees. Ergon Energy, the NGF and Origin Energy supported the Panel's view that auditable expenses should not be paid as it represents a departure from the energy only market. Energy Response consider that a larger payment should be made to RERT panel members to cover their costs.

The Panel remains of the view that RERT panel members should not receive any payment, including auditable expenses, as it considers that payments outside of the energy only framework should only be made where there is a demonstrated market failure to deliver the required reserves.

Advising AEMO of availability on an ongoing basis

While participating in the RERT panel would not oblige an entity to be automatically available to enter into a reserve contract, the Panel considers that these entities should advise AEMO when their capacity is unavailable. The Panel considers this would greatly assist AEMO if it needed to quickly acquire contracted reserves in an emergency situation.

The requirement to keep AEMO informed has been included in the Panel's RERT Guidelines and should be included in AEMO's Procedures.

RERT panel participation should be confidential to AEMO

In its Exposure Draft, the Panel indicated that it considered that AEMO should not be required to publish a list of the RERT panel members as it may deter potential RERT panel participants.

Ergon Energy argued that AEMO should publish a list of reserves that may be the subject of a reserve contract as it considered that this would provide a mechanism to better identify double dipping.

The Panel considers that, while publishing a list of the entities on the RERT panel may act to reduce the possibility of double dipping, this benefit would be outweighed by the likely deterrent to RERT panel membership.

The Panel also considers that AEMO should, however, continue to publish the information that it currently would publish if it enters into reserve contracts and when it dispatches or activates the reserves.

Optimisation of the portfolio of RERT contracts

Under the current RERT arrangements AEMO is able to perform multiple rounds of tendering if the need for reserves changes from when a shortfall is first detected and the minimum ten weeks required to run a full tender process. Under the proposed RERT panel process AEMO will have further opportunities to enter into reserve contracts right down to one week of notice of a reserve shortfall.

Given that AEMO is currently able to perform multiple rounds of tendering and include an early termination clause in a reserve contract,²² it raises the possibility that AEMO can perform regular optimisations of its reserve contract portfolio.

The Panel considers that AEMO should only optimise its reserve contract portfolio whenever it identifies a need to increase the quantity of reserves under contract. Under these circumstances, it will have received new offers and it is possible that it may be cost effective to replace an existing reserve contract by terminating it early. The Panel considers that AEMO should not perform a regular, or continuous, process of optimising its reserve contract portfolio as:

- it would be unlikely that there will be many opportunities for such a saving as the termination payment is expected to be a significant portion of the contract costs and cheapest sources of reserves would have already been considered; and
- AEMO's administrative costs would be expected to outweigh any likely cost saving.

²² Section 6 of the Reliability Panel's RERT Guidelines, available at <http://www.aemc.gov.au/Market-Reviews/Completed/Reliability-and-Emergency-Reserve-Trader-RERT-Guidelines.html>

2.2.4 Minimum time for entering into medium-notice RERT contracts

In its Exposure Draft the Panel indicated that it would propose that AEMO would use a RERT panel when it had between four and ten weeks notice of a reserve shortfall.

Following consideration of submissions on the Exposure Draft, the Panel has made further amendments to the proposed RERT arrangements, particularly those relating to contracting for reserves at short notice (discussed in section 2.3). A consequential change to these arrangements is that the medium-notice RERT would operate for situations where AEMO has between one week and ten weeks of notice of a reserve shortfall.

The Panel consulted with AEMO, confirming that it can enter into reserve contracts using a RERT panel with one weeks notice.

The operation of the medium-notice RERT panel is specified in the proposed amended RERT Guidelines.

2.2.5 Proposed changes to the Rules and RERT Guidelines

The current Rules do not allow AEMO to contract for reserves more than nine months in advance of a projected reserve shortfall and are silent on whether it can negotiate at an earlier date. The Panel is proposing to clarify that AEMO can negotiate reserve contracts at anytime, which would support operating a RERT panel on a continuous basis.

In addition, the Panel is proposing to amend its RERT Guidelines to:

- clarify that AEMO may form and use a RERT panel of prospective reserve providers when it manages the tendering process for reserve contracts; and
- expect AEMO to undertake a full tender process for reserve contracting if it has more than ten weeks of notice.

The Panel considers that the choice of whether to use a RERT panel to enter into reserves contracts should be left to AEMO's discretion.

2.3 Proposed short-notice RERT arrangements

2.3.1 Allowing AEMO to enter into reserve contracts at short notice

As discussed above, AEMO currently requires ten weeks or more to tender for reserves and allowing AEMO to use a RERT panel is likely to reduce this period to approximately one week. However, even under a RERT panel arrangement AEMO considers that it cannot contract for reserves if it has less than about a weeks notice of a projected shortfall. Consequently, when a shortfall occurs with less than a weeks notice AEMO's only option is to issue Directions under clause 4.8.9 to scheduled plant prior to issuing instructions for mandatory load shedding.

In accordance with its terms of reference, the Panel investigated options that would clarify that AEMO may contract for reserves in critical emergencies where it has much less notice. The Panel considered that the most appropriate approach was to amend the existing RERT, in the Rules and Guidelines, to clarify that AEMO may enter reserve contracts using an alternative short-notice RERT process.

The Panel, in consultation with AEMO, considers that it may be possible to enter into reserve contracts with as little as three or four hours notice, if appropriate conditions exist, using a short-notice RERT panel. In many instances the entities offering reserves to AEMO would require several hours notice making it impractical to arrange for reserve contracts with less than a few hours notice of a perceived requirement.

2.3.2 Short-notice RERT panel

To enter reserve contracts at short notice it would be necessary for AEMO to have already been negotiating with potential reserve providers and to have provisionally agreed terms and conditions, technical requirements and offer prices.

AEMO would:

- develop standard short-notice RERT contracts;
- solicit RERT panel members that are willing to offer contracted reserves at short notice;
- accept “expressions of interest” from entities that may in the future wish to offer AEMO reserves at short notice;
- resolve any technical issues with individual entities; and
- develop methodologies for selecting, using reasonable endeavours, an efficient portfolio of reserve contracts at short notice (to a minimum of three to four hours).

The Panel anticipates that there will be very little room for variation between the reserve contracts that AEMO could use with less than one or two weeks notice. This is because it would be impractical to optimise a portfolio of diverse reserve contracts in the context of a short-notice situation.

2.3.3 AEMO monitoring of system reliability

AEMO continually monitors medium-term PASA and the EAAP²³ when it is considering whether to contract for reserves under the existing RERT process. Similarly, when AEMO would need to monitor medium-term PASA and the EAAP when it is considering whether to contract for reserves under the proposed medium-notice RERT process.

²³ The Energy Adequacy Assessment Projection (EAAP) is defined in rule 3.7C.

When AEMO is assessing whether to contract for reserves using the proposed short-notice RERT process it will need to monitor the results of the short-term PASA and pre-dispatch processes.

2.3.4 Trigger for contracting for reserves under the short-notice RERT

In its submission, AEMO indicated that it was not clear whether the short-notice RERT proposed in the Panel's Exposure Draft would target 0.002% USE or zero USE.

Under the timeframes of the long-notice and medium-notice RERT, the forecasts of the actual system conditions at the time of the projected shortfall are not accurate. Rather, the RERT would be used to ensure that there are sufficient reserves to meet seasonal peak demand conditions. That is, AEMO would procure reserve contracts in order to target the Reliability Standard of 0.002% USE using lack of reserve conditions (LRC) in medium-term PASA, informed by the results of the EAAP.

In contrast, when there is less than a weeks notice of a projected reserve shortfall the forecasts of the actual system conditions become more accurate as the actual time of the projected shortfall approaches. Currently under these conditions AEMO would consider using directions and instructions (under clause 4.8.9) in order to minimise USE and to keep the power system in a secure operating state. AEMO's decision to issue directions or instructions is triggered by a forecast or actual lack of reserve level 2 (LOR2) notice.

The Panel considers that AEMO should also use LOR2 conditions to trigger the use of the short-notice RERT. That is, AEMO would be using the short-notice RERT to provide sufficient reserves to manage single credible contingencies.

2.3.5 AEMO consultation with the affected Jurisdictions

Under the existing RERT process AEMO is required under the Rules to consult with the affected Jurisdictions when it determines whether to enter into reserve contracts and to assess how the associated costs will be shared between these Jurisdictions.²⁴

Under the reduced timeframes for the proposed short-notice RERT there may only be a few hours notice of a projected reserve shortfall. Therefore, it would not be possible to fully consult with affected Jurisdictions. To overcome this difficulty, the Panel proposes that AEMO:

- consult with the Jurisdictions to determine a maximum price that AEMO should pay for reserves contracted under the short-notice RERT in their region; and
- only admit entities onto the short-notice RERT panel if their offer is less than the maximum limit approved by the respective Jurisdiction.

²⁴ Clauses 3.20.3(c) and (f).

The Panel also recommends that AEMO and the Jurisdictions keep the maximum prices for reserves contracted under the short-notice RERT confidential. If these prices were generally known then they may become a target price for reserve offers under the short-notice RERT.

This arrangement would mean that AEMO would only exercise the short-notice RERT to the extent that it remains cost effective to a level pre-determined by the affected Jurisdiction.

The Panel notes that AEMO and the Jurisdictions would need to agree cost sharing arrangements to be applied in the event that two or more regions experience a joint shortfall of reserves, as was the case in Victoria and South Australia in January 2009.

2.3.6 “Double dipping”

It is important that the capacity that is the subject of a reserve contract is not otherwise able to be dispatched or activated through an existing market mechanism as this would:

- be a distortion to the operation of the market; and
- give AEMO and the market a false indication of the amount of reserves actually available.

Under clause 3.20.3(j) AEMO’s reserve contracts require the entity providing the reserves to give an undertaking that the reserves are not available to the market through another arrangement. In addition AEMO performs due diligence checks, including reasonable market inquiries, to confirm this.

The Panel considers that it is equally important for the short-notice RERT process that the contracted reserves are not available to the market through another mechanism, including contracting with a Market Participant, such as a retailer, or a pool price pass through tariff. Therefore, the Panel considers that short-notice RERT contracts should also include an undertaking that the reserves are not available to the market through another arrangement.

The Panel notes that when there is very little notice there may be insufficient time for AEMO to perform sufficient due diligence checks. Therefore, the Panel is proposing that AEMO may perform additional the checks after it contracts for reserves when using the short-notice RERT process.

2.3.7 Minimum notice period for operating the short-notice RERT

In the Exposure Draft the Panel indicated that the short-notice RERT would not be able to operate with less than twenty-four hours notice. In a submission, the South Australian Jurisdiction considered that it would be unfortunate if a shortfall of

reserves occurred with less than twenty-four hours notice and reserves that were otherwise available to the RERT were not used.²⁵

Following the receipt of submissions the Panel consulted with AEMO to review the proposed RERT amendments, including its operation with less than twenty-four hours notice. The Panel and AEMO consider that the minimum response time could be reduced to 3 to 4 hours if:

- At the time of accepting potential providers into the short-notice RERT panel AEMO would confirm:
 - the technical capability of the provider is acceptable;
 - that the provider agrees to a standard form of contract including a simplified provision for execution of the contract if and when required;
 - the price that would apply if the contract were to be executed at short-notice;
 - the maximum capacity that would be available and the maximum period for which it would be available and the location(s) of the service;
 - the notice time required to enable the service; and
 - the communication protocols between AEMO and the potential provider.
- AEMO then confirm whether or not the cost of the potential service would meet the criteria agreed with the Jurisdiction
- AEMO then developed a "dispatch stack" of potential short notice RERT services for each region
- At the time of a short-notice event AEMO would:
 - determine which of these services would be available within the notice time applicable;
 - determine which of these services would be effective in addressing the event (e.g. when there are binding network constraints or similar issues);
 - contact providers of technically viable services, in terms of notice period and location, to confirm quantities available and the period for which it is available;
 - determine the cheapest combination of available and technically viable services that would meet the reserve requirement;
 - execute the contracts with the selected services; and

²⁵ The submission from the South Australian Jurisdiction is available on the AEMC website at <http://www.aemc.gov.au/Market-Reviews/Open/Review-of-Operationalisation-of-the-Reliability-Standards.html>

- dispatch the contracted services at the appropriate time to meet the half hourly profile of the reserve requirement.

The execution of short-notice RERT contracts would need to be a simplified process with a 3 to 4 hour response time, but is likely to be more involved than a simple telephone call for reasons of prudence.

2.3.8 Dispatching/activating the short-notice RERT with existing long-notice and medium-notice RERT contracts

It is possible that a reserve shortfall is projected with more than one weeks notice and then additional reserves are then required with less than a weeks notice. Under these circumstances AEMO would have procured reserves under the long-notice or medium-notice RERT, if suitable reserves were available, then AEMO would look to contract with further reserves under the short-notice RERT.

Under the second RERT principle²⁶ AEMO should aim to maximise the cost effectiveness of its use of the RERT by dispatching or activating the combination of the reserves available under all forms of the RERT that has the lowest incremental cost.

However, the cost structure for the short-notice RERT contracts is likely to differ from the pricing structure for the long or medium-notice RERT contracts. Therefore, if there was only a few hours notice, AEMO may have insufficient time to perform the analysis necessary to select the lowest costs combination of RERT contracts.

In addition, the Panel expects that the cost of dispatching or activating a long-notice or medium notice RERT contract would generally be lower than the cost of reserves offered through the short-notice RERT. The Panel has this expectation because the entities with long-notice and medium-notice RERT contracts would receive an availability payment while the entities with short-notice RERT contracts would receive all their payments when the reserves are dispatched or activated.

Consequently, where it has insufficient time to perform this analysis, AEMO should dispatch or activate its long-notice and medium-notice RERT contracts ahead of contracting for further reserves using the short-notice RERT. Nevertheless, where AEMO considers that it has sufficient time to perform the necessary analysis it should aim to maximise the cost effectiveness of the RERT by selecting the combination of RERT contracts that has the lowest incremental cost.

2.3.9 Improving directions power as an alternative to the short-notice RERT

In its Exposure Draft the Panel proposed a short-notice form of the RERT that could be used in a critical emergency.

²⁶ Under clause 3.20.2(b)(2) AEMO must, when exercising the RERT, have regard to the principle that its “actions taken should aim to maximise the effectiveness of *reserve contracts* at the least cost to end use consumers of electricity.

In its submission on the Panel's Exposure Draft, the NGF indicated that it advocates that:

- the primary mechanism for delivering reliability should be the market settings of the MPC and the CPT; and
- the existing directions mechanism be modified to allow AEMO to compensate non-scheduled loads that are directed off to meet a reserve shortfall, as "the RERT is activated further away from real-time and hence subject to more uncertainty (forecasting uncertainty)".²⁷

The Panel strongly agrees that the primary market mechanism for delivering reliability should be the market settings of the MPC and the CPT, and the Panel is currently reviewing these reliability settings as part of its Reliability Standard and Settings Review.²⁸

The Panel also considers that its amended version of the short-notice RERT is equivalent to the NGF's alternative proposal of modifying AEMO's direction power to compensate non-scheduled loads that are directed off. The direction power is only able to be used for registered market participants while the proposed changes enable a contractual equivalent for non-registered participants. Under the amended proposal, the short-notice RERT would be able to operate with equivalent limitations on the notice requirements as the alternative modified directions proposal, thus integrating the operation of the RERT into the arrangements for issuing directions and instructions.

2.3.10 Proposed changes to the Rules and RERT Guidelines

To allow AEMO to enter into reserve contracts at short notice the Panel has included a provision in the proposed Rule to allow the RERT Guidelines to include guidance on the process AEMO should undertake when contracting for these situations.

In addition, the Panel is proposing the following interim amendments to its RERT Guidelines that define the process for AEMO to procure contracted reserves with less than one weeks notice, and the actions that that AEMO may take including:

- continually monitoring pre-dispatch and ST PASA to inform itself of the need to enter into reserve contracts when there is a projected short-notice reserve shortfall situation;
- consulting with the affected Jurisdictions to determine the maximum price for a short-notice RERT contract for their regions, and to agree sharing arrangements in short-notice reserve shortfall situations;

²⁷ Page of the NGF's submission on the Panel's Exposure Draft, available at <http://www.aemc.gov.au/Market-Reviews/Open/Review-of-Operationalisation-of-the-Reliability-Standards.html>

²⁸ Further information on the Panel's Reliability Standard and Settings Review is available at <http://www.aemc.gov.au/Market-Reviews/Open/Review-of-the-Reliability-Standard-and-Settings.html>

- using reasonable endeavours to maximise the cost effectiveness of the RERT when it selects which short-notice RERT contracts to enter into; and
- ensuring that entities that offer capacity under reserve contracts are not double dipping, including allowing AEMO to perform due diligence after the reserves have been contracted or even after being dispatched or activated where insufficient time exists prior to entering into reserve contracts.

2.4 Using the RERT for system security events

Generally system security events are characterised by very little notice with any load shedding being localised. Therefore, it is unlikely that any reserves contracted under the RERT would be able to be used to manage a system security event. However, the Panel considers that AEMO may use reserves contracted under the RERT if:

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

Therefore, the Panel is proposing to amend its RERT Guidelines to clarify AEMO may dispatch or activate contracted reserves for a system security event under the conditions above. The Panel is also proposing that this discretion be limited to security events in the transmission network where AEMO has oversight.

The Panel proposed allowing AEMO to use the RERT for security events in its Exposure Draft. The submissions from Origin Energy, Energy Response, Ergon Energy and AEMO supported the use of the RERT to address system security issues to the extent that this is practical.

2.5 Transitional arrangements

As discussed above, the aim of the Panel is to have a short-notice RERT in operation for the 2009/10 summer. Before this can happen:

- the Rules would need to be amended;
- the Panel would need to publish interim amendments to its RERT Guidelines; and
- AEMO would need to publish interim amendments to its RERT Procedures.

The Panel is submitting this Rule change proposal, which is based on its Exposure Draft, amended to address issues raised in stakeholder submissions. The Rule change proposal makes the necessary amendments to implement the Panel's improvements to the operation of the RERT, including the short-notice RERT.

The Panel submits this Rule change proposal to the AEMC for its consideration as an urgent Rule change request in accordance with section 96 of the NEL.

Amended interim RERT Guidelines and RERT Procedures

As foreshadowed in its Exposure Draft, the Panel's proposed Rule includes transitional arrangements to:

- allow the Panel and AEMO to publish interim amendments to the RERT Guidelines and RERT Procedures respectively;
- put into force the interim amendments to the RERT Guidelines and RERT Procedures recognising all relevant actions taken by the Panel and AEMO respectively by the commencement date of the Rule; and
- require the Panel to publish amended RERT Guidelines by 30 June 2010 and AEMO to publish the amended RERT Procedures by 30 November 2010, including to incorporate experience from the 2009/10 summer, in accordance with the Rules, using the consultation process prescribed in the Rules.

Under the proposed Rule, as it is described in this Rule change proposal, the Panel will be required to publish interim amendments to its RERT Guidelines within two weeks of the Rule being made and AEMO would be required to publish interim amendments to its RERT Procedures within four weeks of the Rule being made. The Panel would base these interim amendments to its RERT Guidelines on its Exposure Draft, taking into account relevant issues raised in submissions, but the Panel would not need to follow the consultation requirements in clause 8.8.3(d) - (l).

NEMMCO (now AEMO) published the first RERT Procedures on 22 May 2009 in accordance with the requirements of clause 3.20.7(g) of the Rules.²⁹ The Panel envisages that AEMO will be able to publish interim amendments to its RERT Procedures that are consistent with the interim amendments of the RERT Guidelines and the proposed Rule. Further, the proposed Rule will recognise all actions taken by AEMO for the publication of its first procedures will satisfy the equivalent actions for the procedures under clause 3.20.7.

However, the Panel notes that its ability to publish interim amendments to its RERT Guidelines within two weeks, and the ability for AEMO to publish interim amendments to its RERT Procedures within four weeks, depends on the AEMC making a Rule that does not differ significantly from the Panel's proposed Rule. Therefore the Panel requests that, if the AEMC considers material changes to its proposal, that it consider the amount of time required to reflect these changes in the interim amendments to RERT Guidelines and RERT Procedures.

Appendix B contains the interim amendments to the RERT Guidelines that the Panel proposes if its proposed Rule is made.

²⁹ On 1 July 2009 the functions of NEMMCO were taken over by AEMO and the RERT Procedure is now available on the AEMO website at <http://www.aemo.com.au/electricityops/248-0001.html>

Consultation on the RERT Guidelines and RERT Procedures

While it is necessary for the Panel to publish interim amendments to the RERT Guidelines and for AEMO to publish interim amendments to the RERT Procedures to allow the short-notice RERT to commence operation before the 2009/10 summer, under the proposed Rule the Panel would be required to consult on these documents.

With respect to the amendments to the RERT Guidelines the Panel is proposing that it be required to consult on relevant amendments to the RERT Guidelines by 30 June 2010 using the consultation process in clause 8.8.3(d) - (l) . In addition, the Panel is proposing that AEMO be required to consult on relevant amendments to the RERT Procedures by 30 November 2010 using the Rule consultations procedures in Rule 8.9.

2.6 Recovering the costs of operating the short-notice RERT

The proposed amendments to the Rules and the Panel's RERT Guidelines provide an additional process for AEMO to enter into reserve contracts at short notice and do not change the existing cost recovery aspects of the RERT. That is, the costs of procuring reserve contracts and the costs of dispatching or activating contracted reserves will be passed onto Market Customers in the affected regions following consultation with the associated Jurisdictions.

2.7 Sunset for the short-notice RERT

Under clause 3.20.1 of the Rules the RERT has an expiry date of 30 June 2012. In addition, under clause 3.20.9(a) the Panel is required to complete a review of the RERT by 30 June 2011 to determine whether the RERT should expire on or prior to this date. Therefore, as it is proposed that the short-notice RERT be implemented by amending the existing RERT in the Rules, the short-notice RERT will also be subject to the same expiry date and review.

The Panel notes that the AEMC is currently reviewing the Energy Market Frameworks in light of Climate Change Policies.³⁰ In this review the AEMC discusses a possible load shedding management (LSM) arrangement that would operate in a similar manner to the proposed short-notice RERT, with one of the main differences being that the LSM provides a capacity payment in exchange for a firm capability.

The proposed short-notice RERT is a mechanism that is being implemented for the 2009/10 summer and for the existing life of the RERT (subject of a sunset of 30 June 2012). In contrast, the LSM is not a mechanism that would be available for the 2009/10 summer and is unlikely to be implemented within the next few years. The

³⁰ Further information on the "Review of Energy Market Frameworks in light of Climate Change Policies" is available on the AEMC website at <http://www.aemc.gov.au/Market-Reviews/Open/Review-of-Energy-Market-Frameworks-in-light-of-Climate-Change-Policies.html>

Panel believes that the LSM option, together with an integrated review of those mechanisms operating with the AEMO 'direction' and 'instruction' powers, should be examined in the review of the RERT before its sunset.

2.8 Market distortion caused by the RERT

Existing RERT

In its CRR the Panel expressed its concern that there are risks that the NEM reliability standard may not be met and the Panel proposed a series of incremental improvements to the NEM reliability mechanisms.

"The Panel's view is that there appear to be risks on the horizon that may impact the NEM achieving the reliability standard in the future if the amount of investment in new generation required to meet expected demand is either delayed in timing or did not occur. The risks which emerged from stakeholder submissions principally relate to external policy factors which create perceptions of uncertainty or potential distortions to the market and the investment environment. The Panel also notes that other risk areas put forward in submissions include the operation of the contract market over the longer term and the relationship of the level of values of the reliability settings (such as VoLL) to underlying costs – such as construction costs. The analysis also shows that in the absence of further market signals, even under ideal conditions, there are risks to achieving the sufficient level of generation investment and demand responses with the reliability settings at their current levels. The Panel therefore believes it prudent and responsible to consider adjustments and incremental improvements to the reliability settings and mechanisms to provide continuing confidence in the NEM's ability to deliver reliability in the long term interests of electricity consumers."³¹

One of the potential changes to the reliability settings considered by the Panel was to the Reserve Trader.³² The Panel was concerned that the Reserve Trader represented a market distortion due to the prevailing risks to reliability. Therefore, the Panel concluded that:

"On balance, the Panel has reached the conclusion that, although the Reserve Trader provisions are a market distortion which would not be necessary under ideal conditions, the prevailing market conditions are such that a revised form of the provisions needs to be maintained for a defined period of time. Ideally, in the longer-term, the market should be able to operate without the need for a distortionary intervention mechanism."³³

³¹ Page xii of the Panel's Comprehensive Reliability Review, December 2007.

³² The Reserve Trader existed in the Rules prior to the RERT coming into effect on 1 July 2008.

³³ Page 76 of the Panel's Comprehensive Reliability Review, December 2007.

That is, while the Panel accepted the need for such an intervention mechanism, it proposed the RERT that provided incremental improvements to the existing Reserve Trader and aimed to minimise distortion to the operation of the NEM's energy only market. The Panel stated that:

“The proposed RERT incorporates incremental improvements in the design of the existing Reserve Trader and has been designed to impose minimal distortion on the operation of the NEM while increasing AEMO's flexibility when contracting for reserves.”³⁴

To this end, the Panel proposed some improvements to the flexibility of the Reserve Trader, plus the following RERT Principles that aim to:

- have the least distortionary effect on the operation of the market; and
- maximise the effectiveness of reserve contracts at the least cost to end use consumers of electricity.

Proposed amendments to the RERT for short-notice situations

The Panel still believes that the RERT is a market distortion and has not changed the RERT principles of minimising distortion to the market and maximising cost effectiveness of any reserve contracting. However, on balance the Panel is of the view that prudent improvements to RERT to further increase the flexibility, including allowing AEMO to reserve contract with only a few hours notice, are warranted. In making this recommendation, the Panel notes that:

- any changes to the Rules would require justification under the national electricity objective;
- any changes would be enhancements to the existing RERT rather than a fundamental change to the operation of the wholesale market;
- the changes preserve the principle of minimising any market distortion;
- AEMO is required to use its reasonable endeavours to maximise the cost effectiveness of any actions it takes under the RERT;
- a reserve shortfall could become apparent at less than ten weeks of notice and the reliability of the NEM could be improved by allowing AEMO to enter into reserve contracts with increased flexibility, including at short notice; and
- the proposed amendments to the RERT would be available to utilise demand side reserves if these participated in the mechanism.

The Panel also notes that the RERT is subject to a sunset of 30 June 2012 and will be the subject of further review before that date.

³⁴ Page 77 of the Panel's Comprehensive Reliability Review, December 2007.

Need for a detailed cost-benefit analysis

The Panel notes that the NGF stated in its submission that:

“Detailed cost / benefit analysis is required to justify the proposed RERT flexibility arrangements. What are the potential short term gains from these arrangements versus long term efficiency losses through reduced investment certainty due to the on - going threat of increased interventions and regulatory creep”³⁵

The Panel does not agree that a detailed cost-benefit analysis is required to justify the proposed amendments to the RERT arrangements. The RERT is an existing mechanism in the Rules and the Panel considers that the proposed amendments are predominantly administrative in nature. The Panel also notes that the RERT is subject to a sunset of 30 June 2012 and will be the subject of further review before that date.

The Panel also considers that the RERT already contains a number of safe guards to ensure that it is operated in a costs-effective manner with minimal distortion to the operation of the market. In particular, clause 3.20.2(b) requires AEMO to consider the following RERT principles when operating the RERT:

- “(1) actions taken should 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.”

The proposed amendments to RERT Guidelines expand on these RERT principles and provide AEMO with further guidance.

The Panel’s justification of the proposed changes to the Rule in relation to the amendments to the RERT arrangements is provided in Chapter 4 of this proposal.

³⁵ Page 1 of the NGF’s submission on the Panel’s Exposure Draft, available on the AEMC website at <http://www.aemc.gov.au/Market-Reviews/Open/Review-of-Operationalisation-of-the-Reliability-Standards.html>

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3 Proposed Rule

This chapter provides a description of the Proposed Rule developed by the Panel, the power for the Panel to submit the Rule change proposal, the power that the Panel considers that the AEMC has to consider the Rule change proposal, and the Panel's request that the AEMC expedite the Rule change proposal as an urgent Rule.

The Panel has attached a copy of the Proposed Rule.

3.1 Description of the Proposed Rule

The Panel's Proposed Rule relates to improving the power system reliability through:

- inserting clause 3.20.8(a)(5) to clarify that the Panel is to include, in the RERT Guidelines, the process AEMO should undertake in contracting for reserves including the process for reserve contracts for long-notice, medium-notice and short-notice situations;
- inserting clause 3.20.3(d1) to clarify that AEMO can negotiate reserve contracts at anytime, thus allowing AEMO to form a RERT panel;
- amending clause 3.20.7(a) to clarify that AEMO may dispatch contracted reserves during both reliability and security events ; and
- amending the savings and transitional Rule 11.xx to allow the Panel to publish interim amendments to the RERT Guidelines and to allow AEMO to publish interim amendments to the RERT Procedures.

3.2 Power of the Panel to Submit this Proposal

The Panel is a specialist body within the AEMC and comprises both industry and consumer representatives. It is responsible for monitoring, reviewing and reporting on the safety, security and reliability 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 NEL and rule 8.8 of the Rules.

The Panel requests that the AEMC:

- make this Proposed Rule in accordance with the NEL; and
- expedites this Proposed Rule as an urgent Rule in accordance with section 96 of the NEL.

Under section 91(4) of the NEL the Panel may only request the AEMC to make a Rule that relates to the Panel's functions. Section 38(2)(c) of the NEL states that the functions of the Panel include any functions and powers conferred on it under the NEL and the Rules.

Clause 8.8.1(a) of the Rules lists the functions of the Panel under the Rules and subparagraph (5) states that one of these functions is to:

“report to the AEMC and participating jurisdictions on overall power system reliability matters concerning the power system and on the matters referred to in clauses 8.8.1(a)(2) and (3), and make recommendations on market changes or changes to the Rules and any other matters which the Reliability Panel considers necessary”.

In addition, clause 8.8.1(a)(4) states that another functions of the Panel is to:

“while AEMO has power to enter into contracts for the provision of reserves, determine policies and guidelines governing AEMO’s exercise of that power”.

The Panel considers that each aspect of this proposal relates to the overall reliability of the power system and, therefore, within the power of the Panel to recommend changes to the Rules.

3.3 Power of the AEMC to make the Proposed Rule

The subject matters about which the AEMC may make Rules are set out in section 34 of the NEL and, more specifically, in Schedule 1 to the NEL.

The Panel considers that this proposed Rule change falls within the subject matters that the AEMC may make Rules about, as it relates to:

- the operation of the national electricity market (as it involves reserve contracts); and
- the operation of the national electricity system for the purposes of the safety, security, and reliability of that system (as it involves AEMO’s ability to contract for and dispatch or activate contracted reserves).

The Panel also considers that this proposed Rule change is also within the matters set out in Schedule 1 to the NEL as it relates to:

- the operation of generating systems, transmission systems, distribution systems or other facilities, in that the proposed Rule relates to AEMO’s power to procure and dispatch contracted reserves and non-scheduled reserves (item 11 of Schedule 1 to the NEL); and
- reviews by or on behalf of the Reliability Panel (item 33(b) of Schedule 1 of the NEL).

3.4 Urgent Rule

The Panel also requests that the AEMC treat the Rule change proposal as an urgent Rule, in accordance with section 96 of the NEL.

Section 87 of the NEL states that:

“urgent Rule means a Rule relating to any matter or thing that, if not made as a matter of urgency, will result in that matter or thing imminently prejudicing or threatening—

- (a) the effective operation or administration of the wholesale exchange operated and administered by AEMO; or
- (b) the safety, security or reliability of the national electricity system.”

The Panel considers that the subject matter of this Rule change proposal meets these requirements and is therefore urgent because:

- providing for AEMO’s procurement of reserves at short notice could be critical in managing a projected shortfall of reserves when there is only short notice; and
- it will be necessary to have the amended Rule, interim amendments to the RERT Guidelines and AEMO Procedures in place by about October 2009 to ensure that AEMO has sufficient time to form a RERT panel to manage the short-notice RERT process.

Failure to expedite the proposed Rule under section 96 of the NEL could create the risk of insufficient time for AEMO to form a RERT panel and have expressions of interest for reserve contracts that are available at short notice. This in turn could exacerbate the risk of AEMO not being prepared if a shortfall occurs at short notice in the summer of 2009/10.

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4 Requirements in terms of the National Electricity Objective and the economic impact

4.1 How the Proposed Rule will or is likely to contribute to the achievement of the National Electricity Objective

In accordance with regulation 8(d) of the Regulations³⁶, this chapter presents the Panel's explanation of how the Proposed Rule will or is likely to contribute to the achievement of the NEO.

4.1.1 The National Electricity Objective

The NEO is the basis of assessment under the Rule making test and is set out in section 7 of the NEL³⁷:

"The objective of this Law is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—

(a) price, quality, safety, reliability and security of supply of electricity;
and

(b) the reliability, safety and security of the national electricity system."

4.1.2 Advancement of the National Electricity Objective

The Panel considers that enhancements to the RERT to clarify that AEMO may contract for reserves at short notice for reliability of supply is likely to lead to more efficient utilisation of potential electricity services during critical emergencies. This would be achieved by providing an emergency mechanism that is available at short notice that allows additional capacity reserves to be made available over and above those already in the NEM, thus reducing the need for involuntary load shedding during a potential power system reliability incident.

The Panel also considers that allowing AEMO to use the RERT, where this is practical, to reduce the need for involuntary load shedding following power system security incidents is likely to lead to more efficient utilisation of potential electricity services in these instances. This would be achieved by providing an emergency mechanism that would, under some circumstances, be able to avoid the involuntary disconnection of affected customers.

In both the cases of reliability of supply and the managements of power system security, the Panel considers that these benefits for are likely to outweigh the costs of procuring and dispatching or activating these contracted reserves as, during times of

³⁶ National Electricity (South Australia) Regulations, version 1.7.2009.

³⁷ National Electricity (South Australia) Act 1996.

supply scarcity, those entities that are able to offer reserves will do so, thus increasing the reliability seen by customers.

The Panel anticipates that these efficiency improvements are likely to promote the long term interest of consumers of electricity through improved reliability of supply and possible improvements to the management of security events.

4.2 The expected benefits and costs of the proposed change and the potential impacts of the change on those likely to be affected

4.2.1 Requirement

This section presents, in accordance with regulation 8(e) of the Regulations³⁸, the Panel's explanation of the expected benefits and costs of the Proposed Rule and the potential impacts of the Proposed Rule on those likely to be affected.

4.2.2 Expected benefits, costs and expected impacts

The Panel expects that the enhancing RERT arrangements for situations with short notice will have a number of impacts, including:

- increasing reliability of the supply to consumers, thus reducing involuntary load shedding, by supporting a mechanism for AEMO to procure additional reserve capacity at times of projected shortfall with short notice;
- providing another mechanism for allowing consumers to offer demand side responses, other than directly contracting with a retailer, although some participants consider that the effect may be to detract from the market;
- imposing the costs of procuring the contracted reserves on Market Customers, including retailers, with regulatory uncertainty as to whether they can pass on these costs to consumers in the long term;
- imposing the costs of procuring the contracted reserves on consumers to the extent that retailers can pass on these costs;
- imposing additional administrative burden on AEMO through the need to administer the RERT; and
- reducing the need for AEMO to issue directions and instructions to restore the power system to a reliable or secure operating state.

³⁸ National Electricity (South Australia) Regulations, version 1.7.2009.

Appendix A Proposed Rule

Proposed Rule: Improved RERT Flexibility and Short-notice Reserve Contracts
(10 August 2009)

3.20 Reliability and Emergency Reserve Trader

3.20.1 Expiry of reserve and emergency reliability trader

This rule 3.20 expires on the earlier of:

- (a) 30 June 2012; or
- (b) a date determined by the *AEMC* on the advice of the *Reliability Panel* in accordance with clause 3.20.9.

3.20.2 Reliability and emergency reserve trader

- (a) *AEMO* must 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* ('reliability and emergency reserve trader' or 'RERT') in accordance with:
 - (1) this rule 3.20;
 - (2) where relevant:
 - (i) clauses 1.11, 3.8.1, 3.8.14, 3.9.3, 3.12, 3.12A.5, 3.15.6, 3.15.9, 4.8.5A and 4.8.5B; and
 - (ii) any other provision of the *Rules* necessary to exercise the *RERT*;
 - (3) the *RERT principles*; and
 - (4) the *RERT guidelines*.
- (b) *AEMO* must have regard to the following principles ('RERT principles') in exercising the RERT under paragraph (a):
 - (1) actions taken should 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.
- (c) In having regard to the *RERT principles*, *AEMO* must have regard where relevant to the *RERT guidelines*.

3.20.3 Reserve contracts

- (a) *AEMO* may enter into one or more contracts with any person in relation to the capacity of:
 - (1) *scheduled generating units, scheduled network services or scheduled loads* (being *scheduled reserve contracts*); and
 - (2) *unscheduled reserves* (being *unscheduled reserve contracts*).
- (b) *AEMO* may determine to enter into *reserve contracts* to ensure that the reliability of *supply* in a *region* or *regions* meets the relevant *power system security and reliability standards* established by the *Reliability Panel* for the *region* and where practicable, to maintain power system security.
- (c) *AEMO* must consult with persons nominated by the relevant *participating jurisdictions* in relation to any determination to enter into contracts under paragraph (b).
- (d) *AEMO* must not enter into, or renegotiate, a *reserve contract* more than nine months prior to the date that *AEMO* reasonably expects that the *reserve* under that contract may be required to ensure reliability of *supply*.
- (d1) For the avoidance of doubt, *AEMO* may negotiate with potential tenderers in relation to *reserve contracts* at any time.
- (e) Subject to paragraph (d), *AEMO* may :
 - (1) enter into *reserve contracts*; or
 - (2) renegotiate existing *reserve contracts*,in addition to the contracts already entered into by *AEMO* under this rule 3.20.
- (f) In entering into *reserve contracts* under paragraph (b) *AEMO* must agree with the relevant nominated persons referred to in paragraph (c) cost-sharing arrangements between the *regions* for the purpose of clause 3.15.9.
- (g) If, at any time *AEMO* determines that it is necessary to commence contract negotiations for the provision of additional *reserves*, *AEMO* must *publish* a notice of its intention to do so.
- (h) When contracting for the provision of *scheduled reserves* under *scheduled reserve contracts*, *AEMO* must not enter contracts in relation to capacity of *generating units, scheduled network services or scheduled loads* for which *dispatch offers* or *dispatch bids* have been submitted or are considered by *AEMO* to be likely to be submitted or be otherwise available for *dispatch* in the *trading intervals* to which the contract relates.

Terms and conditions of a contract

- (i) If *AEMO* seeks to enter into a *reserve contract* with a *Registered Participant* then the *Registered Participant* must *negotiate* with *AEMO* in good faith as to the terms and conditions of the contract.

- (j) *AEMO* may only enter into a *reserve contract* if the contract contains a provision that the other party to the contract has not and will not otherwise offer the *reserve* the subject of the contract in the *market* for the *trading intervals* to which the contract with *AEMO* relates except in accordance with the contract.

3.20.4 Dispatch pricing methodology for unscheduled reserve contracts

- (a) Subject to paragraph (c), *AEMO* must develop in accordance with the *Rules consultation procedures* and *publish* details of the methodology it will use to request that *generating units* or *loads* under *unscheduled reserve contracts* be *activated*.
- (b) *AEMO* may develop and *publish* the methodology developed in accordance with this clause 3.20.4 as part of the methodology *AEMO* is required to develop under clause 3.9.3(e).
- (c) *AEMO* may make minor and administrative amendments to the methodology developed in accordance with this clause 3.20.4 without complying with the *Rules consultation procedures*.

3.20.5 AEMO's risk management and accounts relating to the reliability safety net

- (a) *AEMO* may enter into insurance arrangements with an insurance provider with a view to minimising potential financial losses in respect of *AEMO's RERT* activities described in this rule 3.20.
- (b) *AEMO* must ensure that it maintains in its books separate accounts relating to the *RERT* functions and powers granted to *AEMO* under this rule 3.20.

3.20.6 Reporting on RERT by AEMO

- (a) If a *scheduled generating unit*, *scheduled network service* or *scheduled load* under a *scheduled reserve contract* with *AEMO* is *dispatched* or *generating units* or *loads* are activated under an *unscheduled reserve contract*, then *AEMO* must, as soon as practicable thereafter, *publish* a report detailing:
 - (1) the circumstances giving rise to the need for the *dispatch* of *scheduled reserves* or *activation* of *unscheduled reserves*;
 - (2) the basis on which it determined the latest time for that *dispatch* of *scheduled reserves* or *activation* of *unscheduled reserves* and on what basis it determined that a market response would not have avoided the need for the *dispatch* of *scheduled reserves* or the *activation* of *unscheduled reserves*;
 - (3) the changes in *dispatch* outcomes due to the *dispatch* of *scheduled reserves* or *activation* of *unscheduled reserves*; and
 - (4) the processes implemented by *AEMO* to *dispatch* the *scheduled reserves* or *activate* the *unscheduled reserves*,

and if applicable:

- (5) reasons why *AEMO* did not follow any or all of the processes set out in rule 4.8 either in whole or in part prior to the *dispatch* of *scheduled reserves* or the *activation* of *unscheduled reserves*; and
 - (6) the basis upon which *AEMO* considered it impractical to set *spot prices* and *ancillary service prices* in accordance with clause 3.9.3(b).
- (b) As soon as reasonably practicable after *AEMO* has, in accordance with clause 3.15.9, included the amounts arising under a *reserve contract* in a *final statement* provided under clause 3.15.15, *AEMO* must *publish* details of:
- (1) the payments under the *reserve contract* for the relevant *billing periods*; and
 - (2) a breakdown of the recovery of those costs by each category of *Market Customer*, as determined by *AEMO*, in each *region*.
- (c) Within 30 *days* of the end of each *financial year* in which *AEMO* has exercised the *RERT*, *AEMO* must *publish* a report detailing:
- (1) each occasion during the *financial year* on which it intervened to secure the availability of *reserves*;
 - (2) each occasion during the *financial year* when a *scheduled generating unit*, *scheduled network service* or *scheduled load* under a *scheduled reserve contract* was *dispatched* or *generating units* or *loads* under an *unscheduled reserve contract* were *activated*; and
 - (3) its costs and finances in connection with its *RERT* activities during the *financial year* according to appropriate accounting standards including profit and loss, balance sheet, sources and applications of funds.

3.20.7 **AEMO's exercise of the RERT**

- (a) Notwithstanding clauses 4.8.5A and 4.8.5B, if *AEMO* considers the latest time for exercising the *RERT* by:
- (1) the *dispatch* of *scheduled reserves* it has available under *scheduled reserve contracts*; or
 - (2) the *activation* of *unscheduled reserves* it has available under *unscheduled reserve contracts*,

has arrived, *AEMO* may *dispatch* such *scheduled reserves* or *activate* such *unscheduled reserves* to ensure that the reliability of supply in a region or regions meets the relevant power system security and reliability standards, and where practicable, to maintain power system security.

- (b) *AEMO* must follow the relevant procedures in this rule 3.20 prior to *dispatching* a *scheduled generating unit*, *scheduled network service* or *scheduled load* the subject of a *scheduled reserve contract* or *activating* *generating units* or *loads* the subject of an *unscheduled reserve contract* unless it is not reasonably practicable to do so.

- (c) Subject to paragraph (b), *AEMO* must only *dispatch* a *scheduled generating unit*, a *scheduled network service* or a *scheduled load* the subject of a *scheduled reserve contract* or activate *generating units* or *loads* the subject of an *unscheduled reserve contract* in accordance with the procedures developed pursuant to paragraph (e).
- (d) In order to effect the *dispatch* of a *scheduled generating unit*, *scheduled network service* or *scheduled load* the subject of a *scheduled reserve contract* or the *activation* of *generating units* or *loads* the subject of an *unscheduled reserve contract* *AEMO* may:
 - (1) submit, update or vary *dispatch bids* or *dispatch offers* in relation to all or part of such a *scheduled generating unit*, *scheduled network service* or *scheduled load* which is the subject of a *scheduled reserve contract*; or
 - (2) change other inputs to the *dispatch process* to give effect to the *dispatch* of *scheduled generating units*, *scheduled network services* or *scheduled loads* the subject of a *scheduled revenue contract* or the *activation* of *generating units* or *loads* the subject of an *unscheduled reserve contract*.
- (e) *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* under this rule 3.20 that take into account the *RERT principles* and *RERT guidelines*. These procedures must include measures to be adopted in order to reduce the possibility that *generating units* or *loads* likely to be *activated* under *unscheduled reserve contracts* are otherwise engaged at the time the *unscheduled reserve contracts* are entered into by *AEMO*.
- (f) When exercising the *RERT* under this rule 3.20, *AEMO* must take into account the *RERT guidelines*.
- (g) *NEMMCO* must *publish* the first procedures referred to in paragraph (e) by 30 June 2009.
- (h) *AEMO* must, in respect of its procedures referred to in paragraph (e), develop and publish amendments by 30 November 2010, with respect to measures 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.

3.20.8 RERT Guidelines

- (a) For the purposes of this rule 3.20, the *Reliability Panel* must develop and *publish* guidelines (the '*RERT guidelines*') for or with respect to:
 - (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 *reserve* that is 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*;
 - (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*.
- (b) The *Reliability Panel* must develop, *publish* and amend from time to time, the *RERT guidelines* in accordance with clauses 8.8.3(d) – (l).
 - (c) The *Reliability Panel* must *publish* the first *RERT guidelines* by 30 November 2008 and there must be such guidelines in place at all times after that date.
 - (d) The *Reliability Panel* must, in respect of the *RERT guidelines* referred to in paragraph (b), develop and *publish* amendments by 30 June 2010 with respect to matters relevant to *AEMO* 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, to maintain *power system security*.

3.20.9 Review of reserve and emergency reliability trader

- (a) The *Reliability Panel* must, no later than one year prior to the date the *RERT* is due to expire under clause 3.20.1, complete a review of the *RERT* ('*RERT* review') to determine:
 - (1) whether the *RERT* should expire on the date specified in clause 3.20.1(a); or
 - (2) whether the *RERT* should expire prior to the date referred to in subparagraph (1) and, if so, that date;
- (b) The *Reliability Panel* must conduct the *RERT* review in accordance with clauses 8.8.3(d) – (l).
- (c) The *Reliability Panel* may conduct the review referred to in paragraph (a) as part of the review conducted by the *Reliability Panel* under clause 8.8.3(b).
- (d) On receipt of the written report from the *RERT* review in accordance with clause 8.8.3(j), the *AEMC* may, taking into account the report, make a determination that the *RERT* is to expire and specify the date of expiry.
- (e) The *AEMC* must *publish* the determination referred to in paragraph (d).

Chapter 11 Savings and Transitional Rules

11.21.3 NEMMCO procedures for exercising RERT

(a) [Deleted]

(b) [Deleted]

(1) [Deleted]

(2) [Deleted]

(3) [Deleted]

(4) [Deleted]

(5) [Deleted]

11.21.4 RERT guidelines

(a) [Deleted]

(b) [Deleted]

Part XX Reliability and Emergency Reserve Trader

11.xx Rules consequential on the making of the National Electricity Amendment (name of the Rule change) Rule 2009 No.X

11.xx.1 Definitions

In this Rule 11.xx:

Amending Rule means the National Electricity Amendment (name of the Rule change) Rule 2009 No.X.

Commencement date means the date the Amending Rule commences operation.

11.xx.2 AEMO procedures for exercising RERT

(a) Within four weeks of the commencement date, *AEMO* must, in respect of its procedures referred to in clause 3.20.7(e) develop and *publish interim* amendments with respect to measures to contract for *reserves* in relation to long, medium and short-notice situations as described in the *RERT guidelines* to ensure reliability of *supply* and where practicable, to maintain *power system security*, and may further amend the procedures from time to time prior to 30 November 2010.

(b) For the purposes of clause 11.xx.2(a):

- (1) AEMO is not required to develop, publish or amend the interim amendments to its relevant procedures in accordance with the Rules consultation procedures;
- (2) the interim amendments to its relevant procedures must take into account the RERT principles and interim amendments to the RERT guidelines referred to in clause 11.xx.3(a);
- (3) the interim amendments to the relevant procedures will cease to apply when AEMO publishes amendments to its procedures for the exercise of the RERT as required by clause 3.20.7(h); and
- (4) for so long as those interim amendments to the relevant procedures apply, references in rule 3.20 to the procedures referred to in clause 3.20.7(e) are taken to include references to those interim amendments.

11.xx.3 RERT guidelines

- (a) Within two weeks of the commencement date, the Reliability Panel must, in respect of its RERT guidelines referred to in clause 3.20.8(c), develop and publish interim amendments with respect to matters relevant to AEMO contracting for reserves in relation to long, medium and short-notice situations to ensure reliability of supply and where practicable, maintain power system security.
- (b) All relevant actions taken by the Reliability Panel up to two weeks after the commencement date for the purposes of developing and publishing the interim amendments to the RERT guidelines as required by clause 11.xx.3(a) are taken to satisfy the equivalent actions required for the RERT guidelines under clause 3.20.8(b). For the avoidance of doubt, the Reliability Panel is not required to develop and publish the interim amendments to the RERT guidelines as required by clause 11.xx.3(a) in accordance with clause 8.8.3(d) - (l).

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Appendix B Proposed Interim Amendments to the RERT Guidelines

Proposed Reliability and Emergency Reserve Trader (RERT) Guidelines including interim amendments

(under clauses 3.20.8 and 11.xx.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*;
- (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*.

¹ Rule 3.20 of the *Rules*.

² Clause 3.20.7(f) of the *Rules*.

³ Clause 3.20.8(a) of the *Rules*.

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
 - 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*.

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

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

When it is considering whether to enter into *reserve contracts* during Stage 1 of the *RERT* process for and 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 should 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.

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*;
- not setting the *dispatch price* from contracted *reserves*; and
- in relation to *scheduled reserve contracts* and subject to clauses 3.9.3(c) and (d) of the *Rules*, setting the *dispatch price* and *ancillary service prices* for an *intervention price dispatch interval* at a value which *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;
 - 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 Note that for short-notice situations consultation with the *participating jurisdictions* would be limited to that outlined in section 8.3.

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 should 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:

- 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 receive 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*, to the extent possible, 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.

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;

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

- 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 continuous available;
- the enablement time required prior to actual usage;
- the enablement and usage prices for the service;
- 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 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*;

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

- 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 has made the *reserves*, the subject of the *reserve contract*, available to the *market* through any other arrangements.⁹

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 relates 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.xx.2 of the *Rules*, before *AEMO publishes* its final procedures for the exercise of the *RERT* (due by 30 September 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:

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

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

- 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*;
- 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 *reserve 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 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

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*.

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 and if:

- 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*.