



## Expiry of the Reliability and Emergency Reserve Trader

### Final rule determination 15 March 2012

The Australian Energy Market Commission has made a rule that will retain the Reliability and Emergency Reserve Trader (RERT) for four years until 30 June 2016. The new rule also removes the need for the Reliability Panel to review the RERT a year prior to its expiry.

The RERT is a safety net mechanism that allows the market operator to procure additional reserves to help achieve a reliable and secure supply of electricity to customers. It is only used in emergencies where ordinary market mechanisms are unlikely to deliver an adequate supply of electricity to meet customer demand.

#### Background

A key objective in the provision of electricity services in the National Electricity Market (NEM) is the reliable and secure supply of electricity to customers. A reliable supply of electricity minimises the interruptions to supply experienced by electricity customers. The RERT is as a 'safety net' designed to allow the Australian Energy Market Operator (AEMO) to procure reserves to ensure reliability and security of supply.

AEMO's decision to use the RERT is informed by forecasts of reserve capacity and energy adequacy for each NEM region. If AEMO forecasts inadequate generation capacity to meet periods of high demand then it may choose to enter into a tendering process for reserves. If a load shedding event is likely, AEMO is then able to dispatch the additional reserves secured under the reserve contracts.

Suppliers of these reserves include embedded generators and large-scale industrial users of electricity. Typically, these types of entities do not participate in the primary market for reserves and can make their capacity available for AEMO to use in emergency situations.

To date, AEMO has entered into reserve contracts over the summer periods of 2005 and 2006. In both instances AEMO decided to not dispatch the additional reserves available under the reserve contracts.

The RERT was due to expire on 30 June 2012.

#### Reliability Panel's rule change request

On 1 July 2011, the Reliability Panel submitted a rule change request proposing to defer the RERT's expiry for one year to 30 June 2013, and removing the obligation on the Reliability Panel to review the RERT a year prior to its expiry.

#### The Commission has made a more preferable rule

The Commission has decided to defer the RERT's expiry for four years to 30 June 2016, and to remove the obligation on the Reliability Panel to review the RERT a year prior to its expiry.

In reaching its decision the Commission considered the following factors:

*Market uncertainty* – Maintaining a reliable supply of electricity in the NEM requires ongoing investment in new generation capacity. Changes to external policy settings, including climate change policies may have led to some market uncertainty and caused delays to investment. If investment in generation capacity does not happen in adequate time, there is an increased risk of customers not receiving a reliable and secure supply of electricity, consistent with key NEM objectives.

**The Commission has made a rule to retain the RERT until 30 June 2016, and remove the need for the Reliability Panel to review the RERT a year prior to its expiry.**

*Market distortion and costs* – Providing an alternative means for some entities to secure reserve contracts, outside of the competitive market for reserves, can potentially lead to a market distortion. However, because the reserve trader is used so infrequently it is unlikely that entities would avoid the primary market for reserves in preference to potentially contracting with AEMO. On balance, the benefits provided by the RERT, such as reducing the risk of load shedding, is likely to outweigh any minimal market distortion that it creates.

*Market development and implementation issues* – Substantial policy initiatives are currently in development that may have an impact on managing periods of high demand. Specifically, improving opportunities to demand side participation will help to balance supply and demand in the market, which is important for minimising the risk of load shedding events.

The Commission considers that deferring the RERT's expiry is a temporary measure primarily directed at accommodating a period of market uncertainty that may be a result of the transition to new policy settings. Market uncertainty is expected to have abated by 2016, and the Commission considers that another review of the RERT prior to its expiry is unnecessary. Removing the requirement for the Panel to review the RERT should also give market participants greater certainty as to the status of the RERT. The Commission considers that the RERT should not be retained beyond its new expiry date of 30 June 2016.

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