

AEMC Reliability Panel

RERT Guidelines

Draft Report

15 August 2008

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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. 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 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 NEL.

Disclaimer

The views and recommendations set out in this document are those of the Reliability Panel and are not necessarily those of the Australian Energy Market Commission.

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Contents

Abbreviations.....	v
Summary	vi
1 Introduction.....	1
1.1 Context and background.....	1
1.2 The Panel’s powers in making the RERT Guidelines.....	3
1.3 Transitional issues for the RERT	4
1.4 Consultation process	4
2 Development of the Draft RERT Guidelines.....	7
2.1 Background.....	7
2.2 Differences between the AEMC’s draft Rule determination, and the Panel’s Proposed Rule and exposure draft of the RERT Guidelines	7
2.3 Differences between the AEMC’s final Rule determination, and the Panel’s Proposed Rule and exposure draft of the RERT Guidelines	8
2.4 General consequential changes to the RERT Guidelines	8
2.5 RERT Principles.....	9
2.6 Jurisdictional consultation.....	10
2.7 Contractual provision to prevent “double dipping” in accordance with clause 3.20.3 of the Rules	11
2.8 NEMMCO management of reserve contracts to provide for a rolling tender process	12
2.9 NEMMCO’s power to enter into reserve contracts up to nine months prior to the projected capacity shortfall arising	13
2.10 Regional basis for the operation of the RERT	13
2.11 Recovering the costs for operating the RERT	14
Appendix A Draft RERT Guidelines	17
Appendix B Exposure Draft RERt Guidelines	23

Abbreviations

AEMC	Australian Energy Market Commission
CRR	Comprehensive Reliability Review
MCE	Ministerial Council on Energy
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
Panel	Reliability Panel
PASA	Projected Assessment of System Adequacy
RERM	Reliability and Emergency Reserve Mechanism
RERT	Reliability and Emergency Reserve Trader
Rules	National Electricity Rules

Summary

Following the making of the National Electricity Amendment (NEM Reliability Settings: Information, Safety Net and Directions) Rule 2008 No. 6, clause 8.8.1(a)(4) of the National Electricity Rules (Rules) requires the AEMC Reliability Panel (Panel) to develop guidelines for National Electricity Market Management Company's (NEMMCO's) exercise of its power to enter into contracts for the provision of reserves.

In accordance with clause 3.20.8 of the Rules, the RERT Guidelines cover the following:

- requiring the Panel to publish its first RERT Guidelines by 30 November 2008;
- requiring NEMMCO to have regard to the exposure draft of the RERT Guidelines published by the Panel as part of its Exposure Draft (this has been included in Appendix B of this Paper for ease of reference) if the RERT is required to operate prior to the finalisation of the RERT Guidelines by the Panel; and
- requiring NEMMCO to publish procedures on the exercise of the RERT by 30 June 2009.

The Panel is publishing the draft RERT Guidelines in Appendix A for consultation in accordance with clause 8.8.3 of the National Electricity Rules (Rules). The Panel is seeking submissions on these guidelines.

The Panel will also hold a meeting open to all Registered Participants on its draft RERT Guidelines. This meeting will be held at the office of the AEMC on 17 October 2008 from 10.00 am to 12.00 pm.

Once submissions close the Panel will finalise and publish the RERT Guidelines.

Interested stakeholders are invited to provide comments on the draft RERT Guidelines outlined in this Paper. Submissions should be received by 5 pm on 3 October 2008. Submissions may be sent electronically to submissions@aemc.gov.au or by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

or by Fax: (02) 8296 7899.

1 Introduction

1.1 Context and background

1.1.1 Comprehensive Reliability Review

In December 2005, the AEMC directed the Reliability Panel (Panel) to undertake a comprehensive and integrated review of the reliability settings for achieving reliability of supply in the national electricity market (NEM). An Issues Paper¹ on the Comprehensive Reliability Review (CRR) was published in May 2006 and, following stakeholder consultation, the First Interim Report² on the CRR was published in April 2007.

In June 2007, the Ministerial Council on Energy (MCE) wrote to the AEMC requesting that the Panel's terms of reference for the CRR be expanded to "consider what, if any, improvements can be made to arrangements, including Reserve Trader, to strengthen the market's ability to manage [generator] input constraints".³ This request from the MCE was made in the context of energy shortfalls being projected by NEMMCO if the prevailing drought conditions in south eastern Australia continued.

In August 2007, the Panel published its Second Interim Report⁴ on the CRR after undertaking consultation on the First Interim Report and in accordance with the amendments to its terms of reference initiated by the MCE. Appendix C of the Second Interim Report contained an exposure draft of Rule changes relating to the introduction of new information mechanisms for energy adequacy, changes to the current Reserve Trader arrangements, and a clarification of NEMMCO's reliability directions powers.

In December 2007, the Reliability Panel published its Final Report⁵ for the CRR. The Final Report presented the recommendations, observations, conclusions and proposals developed by the Panel after extensive commentary from stakeholders and analytical work. In particular, the Final report reached a number of conclusions about the NEM's reliability mechanisms, and outlined a range of activities in 2008 to implement those recommendations.

¹ AEMC Reliability Panel, Comprehensive Reliability Review, Issues Paper (May 2006, Sydney).

² AEMC Reliability Panel 2007, Comprehensive Reliability Review, Interim Report (March 2007, Sydney).

³ MCE, 2007, Letter requesting an expansion of the CRR's terms of reference, 13 June, p.1. This document is available at:
<http://www.aemc.gov.au/pdfs/reviews/Comprehensive%20Reliability%20Review/reliability%20panel%20docs/000Letter%20from%20the%20SCO.pdf>

⁴ AEMC Reliability Panel 2007, Comprehensive Reliability Review, Second Interim Report (August 2007, Sydney).

⁵ AEMC Reliability Panel 2007, Comprehensive Reliability Review, Final Report (December 2007, Sydney).

1.1.2 Rule change package

The Exposure Draft Rule (Appendix C of the Second Interim Report on the CRR) was amended following consultation with stakeholders. The amended Exposure Draft formed the basis of the Panel's "NEM Reliability Settings: Information, Safety Net and Directions" Rule change proposal.

On 15 February 2008, the Panel submitted this Rule change proposal to the AEMC. With respect to the Reserve Trader arrangements, the Panel proposed that the existing arrangements be replaced with the Reliability and Emergency Reserve Trader (RERT), which is an enhanced Reserve Trader with a four year sunset period.

On 26 June 2008, the AEMC made the National Electricity Amendment (NEM Reliability Settings: Information, Safety Net and Directions) Rule 2008 No. 6.⁶ The AEMC noted in its final Rule determination⁷ on this Rule change that the current Reserve Trader arrangements have the potential to distort market based responses to reserve shortfalls. The AEMC considered that it would not be prudent to remove NEMMCO's powers to contract for reserves in current and prospective market conditions, when a tightening of the supply-demand balance is forecast.⁸

The AEMC adopted the Panel's proposals to:⁹

- increase the flexibility that NEMMCO has to contract for reserves;
- ensure that the reserves contracted by NEMMCO do not set the spot price and are only dispatched after all other bids and offers are dispatched;¹⁰ and
- to impose a review process and four year sunset on the RERT.

The AEMC agreed in its final Rule determination that the Panel's proposals to enhance the current Reserve Trader arrangements will minimise the distortionary impacts of NEMMCO's intervention, while also ensuring that NEMMCO's power to intervene to maintain supply reliability is maintained over time. Under the Rule as made, the effectiveness and continuing need for the RERT will be reviewed in three years time by the Panel.¹¹

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

⁷ AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions*, Final Rule Determination (26 June 2008, Sydney).

⁸ *Ibid.*, p.vii.

⁹ *Ibid.*

¹⁰ This is subject to plant operating restrictions in accordance with clause 3.8.14 of the Rules.

¹¹ AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions*, Final Rule Determination (26 June 2008, Sydney), p.vii.

1.2 The Panel's powers in making the RERT Guidelines

In its final Rule determination, the AEMC agreed with the Panel's proposal for:¹²

- the Panel to develop the RERT Guidelines to assist NEMMCO to operate the RERT; and
- NEMMCO to develop procedures for NEMMCO's exercise of the RERT.

Under clause 8.8.1(a)(4) of the Rules, the Panel is responsible for the development of guidelines for NEMMCO's exercise of its power to enter into contracts for the provision of reserves. The AEMC determined that the Panel's responsibility to develop the RERT Guidelines will be a continuation of this role. The AEMC agreed with the Panel that:¹³

- the Panel should continue to be responsible for developing NEMMCO's guidelines for contracting reserves, due to the distortionary impact that these interventions can have on the market, and to provide long term consistency in the settings of the reliability safety net; and
- NEMMCO will be required to develop and publish information on how it will exercise the RERT.

To improve the implementation of the RERT, the AEMC made the following amendments to the Panel's proposal with respect to the RERT Guidelines in accordance with clause 3.20.8 of the Rules:¹⁴

- requiring the Panel to publish its first RERT Guidelines by 30 November 2008;
- requiring NEMMCO to have regard to the exposure draft of the RERT Guidelines¹⁵ published by the Panel as part of its Exposure Draft if the RERT is required to operate prior to the finalisation of the RERT Guidelines by the Panel; and
- requiring NEMMCO to publish procedures on the exercise of the RERT by 30 June 2009.¹⁶

¹² Ibid., p.34.

¹³ Ibid.

¹⁴ Ibid., Pp.34-35.

¹⁵ This has been included in Appendix B of this Paper for ease of reference.

¹⁶ In accordance with transitional clause 11.21.3 of the Rules, before NEMMCO publishes the first procedures for the exercise of the RERT as required by clause 3.20.7(e) of the Rules (due by 30 June 2009), it may develop, publish, and may amend from time to time, interim procedures.

1.3 Transitional issues for the RERT

Under clause 3.12.1 of the Rules, NEMMCO's power to tender and contract for reserves in response to a projected shortfall ("Reserve Trader powers") expired on 1 July 2008.¹⁷

In its submission to the AEMC, NEMMCO indicated that transitional arrangements were required to allow the RERT to be operational from 1 July 2008, as scheduled.¹⁸ NEMMCO suggested that if these amendments were not made it may be necessary for the current Reserve Trader arrangements to remain in place until 30 June 2009, when NEMMCO's RERT procedures would be finalised.¹⁹

To address this, the AEMC reached the following conclusions in its final Rule determination:²⁰

- the current Reserve Trader arrangements expired on 1 July 2008, in accordance with clause 3.12.1 of the Rules;
- the RERT will be operational from 1 July 2008;
- the RERT will be reviewed by the Panel by 1 July 2011; and
- the RERT will expire on 30 June 2012 or an earlier date determined by the AEMC on the advice of the Panel following the Panel's review of the RERT.

1.4 Consultation process

The Panel is required to follow the process set out in clause 8.8.3 of the Rules when making its determination. Completion of the final guidelines will follow the timetable below:

- Panel issues a consultation notice, publishes the draft report and draft RERT Guidelines, and invites written submissions Friday
15 August 2008
- Close of submissions on draft report and draft RERT Guidelines Friday
3 October 2008
- Meeting open to Registered Participants Friday
17 October 2008
- Panel submits final report and final RERT Guidelines to the AEMC (which the AEMC must publish within 10 days) Friday
21 November 2008

¹⁷ AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions*, Final Rule Determination (26 June 2008, Sydney), p.31.

¹⁸ NEMMCO, 2008, Submission to draft Rule determination, p.6.

¹⁹ AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions*, Final Rule Determination (26 June 2008, Sydney), p.55.

²⁰ Ibid.

of receiving this from the Panel)

Interested stakeholders are invited to provide comments on the draft RERT Guidelines outlined in this Paper. Submissions should be received by 5 pm on 3 October 2008. Submissions may be sent electronically to submissions@aemc.gov.au or by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

or by Fax: (02) 8296 7899.

The meeting will be open to all Registered Participants and held at the office of the AEMC on 17 October 2008 from 10.00 am to 12.00 pm. Anyone wishing to attend should contact the Panel at registration@aemc.gov.au by 3 October 2008.

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2 Development of the Draft RERT Guidelines

2.1 Background

The development of the draft RERT Guidelines in Appendix A involved stakeholder consultation on:

- the Panel's Second Interim Report on the CRR which included the exposure draft of its Rule change proposal and the exposure draft of the RERT Guidelines²¹ (submissions closed on 28 September 2007); and
- the AEMC's draft Rule determination on the Panel's Rule change proposal (submissions closed on 6 June 2008).

The AEMC then made its final Rule determination on this Rule change proposal. The Panel's draft RERT Guidelines in Appendix A implements the AEMC's policy as outlined in the AEMC's final Rule determination.

This section covers the issues raised by the Panel and its proposed solution to address these issues, the AEMC's decision on the Panel's proposal and subsequent stakeholder submissions, and the consequential changes from the guidelines published in the exposure draft included in Appendix B to the draft RERT Guidelines in Appendix A.

2.2 Differences between the AEMC's draft Rule determination, and the Panel's Proposed Rule and exposure draft of the RERT Guidelines

In its draft Rule determination, the AEMC adopted the Panel's proposal to:²²

- replace the existing "Reserve Trader" arrangements (at the time of the draft Rule determination) under clause 3.12.1 of the Rules with the RERT from 1 July 2008;
- place a four year sunset on the RERT and require the Panel to undertake a review of the RERT by 1 July 2011;
- allow NEMMCO to undertake multiple rounds of tendering and contracting when selecting reserves under the RERT;
- allow NEMMCO to contract for reserves for up to nine months in advance of a projected shortfall of reserves;
- require the Panel to develop and publish RERT Guidelines to assist NEMMCO to operate the RERT; and

²¹ This has been included in Appendix B of this Paper for ease of reference.

²² AEMC 2008, *Draft Rule Determination*, National Electricity Amendment (NEM Reliability Settings: Information, Safety Net and Directions) Rule 2008 (Sydney, AEMC, 24 April 2008), Pp.29-30.

- following the publication of these RERT Guidelines, require NEMMCO to develop procedures for NEMMCO's exercise of the RERT.

The AEMC amended the Panel's proposed Rule in the draft Rule determination to:²³

- require the Panel to publish its first RERT Guidelines by 30 November 2008 (clause 3.20.9(c) of the draft Rule);
- require NEMMCO to have regard to the exposure draft of the RERT Guidelines²⁴ published by the Panel as part of its exposure draft on the Panel's Rule change proposal, if required to operate the RERT prior to the finalisation of the RERT Guidelines by the Panel (clause 11.X.4(b) in Schedule 4 of the draft Rule); and
- require NEMMCO to publish procedures on the exercise of the RERT by 30 June 2009 (clause 3.20.8(g) of the draft Rule).

2.3 Differences between the AEMC's final Rule determination, and the Panel's Proposed Rule and exposure draft of the RERT Guidelines

After assessing submissions on its draft Rule determination, the AEMC determined to make a number of amendments to its draft Rule in relation to the RERT. The AEMC's main amendments to the RERT in its Rule as made involve:²⁵

- strengthening the savings and transitional arrangements for the RERT to allow it to become operational on 1 July 2008; and
- clarifying NEMMCO's reporting arrangements on the RERT.

2.4 General consequential changes to the RERT Guidelines

The general consequential changes from the guidelines published in the exposure draft in Appendix B to the draft RERT Guidelines in Appendix A include:

- updating clause references to the Rules where applicable;
- renaming the term "RERM" to "RERT";
- in relation to NEMMCO determining whether to commence contract negotiations on reserves, these have been clarified to apply to the provision of additional reserves;
- unless specified, the term "reserve" has been altered to mean both "scheduled" and "unscheduled" reserve;

²³ Ibid., p.30.

²⁴ This has been included in Appendix B of this Paper for ease of reference.

²⁵ AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions*, Final Rule Determination (26 June 2008, Sydney), p.vi.

- renaming the term “non-scheduled reserves” to “unscheduled reserves”;
- clarifying that the dispatch of reserves are scheduled reserves;
- clarifying that NEMMCO may also amend from time to time, in addition to publishing and developing, the RERT procedures.
- clarifying that NEMMCO issues a notice in accordance with clause 3.20.3 when it commences contract negotiations for the provision of additional reserves whether through amending an existing contract or entering into a new contract;
- adding a new action for NEMMCO to publish a report at the end of each financial year detailing NEMMCO’s use of the RERT if it has exercised the RERT over the previous financial year; and
- deleting the last section from the exposure draft of the RERT Guidelines²⁶ relating to additional matters that the Reliability Panel may make the RERT Guidelines. These additional matters are covered in section 2 of the draft RERT Guidelines in Appendix A.

2.5 RERT Principles

2.5.1 The Panel’s exposure draft of its Rule change proposal and RERT Guidelines

The Panel proposed that NEMMCO requires principles when operating the RERT. It considered that these principles would provide more certainty to stakeholders.²⁷

The two RERT principles proposed by the Panel were:²⁸

- actions taken by NEMMCO should be those that are expected to have the least distortionary effect on the operation of the market; and
- actions taken should aim to maximise the effectiveness of reserve and unscheduled reserve contracts at the least cost to end use consumers of electricity.

2.5.2 The AEMC’s finding in relation to the issue

The AEMC confirmed the two RERT principles in its final Rule in clause 3.20.2(b) of the Rules.²⁹

²⁶ This has been included in Appendix B of this Paper for ease of reference.

²⁷ AEMC Reliability Panel 2007, Comprehensive Reliability Review, Second Interim Report (August 2007, Sydney), p.78.

²⁸ Ibid.

²⁹ National Electricity Amendment (NEM Reliability Settings: Information Safety Net and Directions) Rule 2008 No. 6.

2.5.3 Consequential changes to the RERT Guidelines

Section 4 of the draft RERT Guidelines in Appendix A implements the AEMC's final Rule determination on this issue.

Particular changes to the draft RERT Guidelines in Appendix A relate to matters that NEMMCO should consider when determining the action it will take to create the least distortion to the operation of the market when NEMMCO exercises the RERT.

2.6 Jurisdictional consultation

2.6.1 The Panel's exposure draft of its Rule change proposal and RERT Guidelines

The Panel considered that entering into reserve contracts requires NEMMCO to make a number of economic tradeoffs. As these tradeoffs impact Market Customers (and indirectly end use customers), the Panel proposed that NEMMCO should enter into these contracts in consultation with the Participating Jurisdictions of the affected regions.³⁰

The Panel proposed that NEMMCO should consult with the Jurisdictions when:³¹

- it evaluates reserve contracts for the affected regions; and
- the costs allocated to each region when more than one region is affected by the RERT are determined.

2.6.2 The AEMC's finding in relation to the issue

The AEMC endorsed the Panel's proposal in having NEMMCO consult with Jurisdictions, which benefit from the procurement of reserves, on how these Jurisdictions would like to share the costs of reserve contracts.³²

2.6.3 Consequential changes to the RERT Guidelines

Sections 6 and 7 of the draft RERT Guidelines in Appendix A include this aspect of the AEMC's final Rule determination on this issue.

³⁰ AEMC Reliability Panel 2007, *Comprehensive Reliability Review, Second Interim Report* (August 2007, Sydney), p.81.

³¹ Ibid.

³² AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions, Final Rule Determination* (26 June 2008, Sydney), p.33.

2.7 Contractual provision to prevent “double dipping” in accordance with clause 3.20.3 of the Rules

2.7.1 The Panel’s exposure draft of its Rule change proposal and RERT Guidelines

The Panel considered that the RERT should place a requirement on NEMMCO to ensure the reserve contract includes a provision that ensures the contracting party has not and will not offer the same reserve in the market except in accordance with the contract.³³ This is designed to prevent “double dipping” where a contracting party enters into a contract with NEMMCO but also makes the capacity available to the market through another arrangement.³⁴

2.7.2 The AEMC’s finding in relation to the issue

The AEMC noted that it was current practice for NEMMCO to only enter into an unscheduled reserve contract if it contains a provision that the reserve has not and will not be offered in the market. In addition, the AEMC decided that for consistency in the treatment of different classes of participants, the contracts that NEMMCO has for all scheduled and unscheduled reserve contracts should contain a “double dipping” provision.³⁵

The AEMC also noted that NEMMCO is required to take into account the RERT Guidelines when it develops its RERT procedures. The draft RERT Guidelines in Appendix A includes the actions that NEMMCO should take to ensure that the reserves it has contracted are not available to the market through any other arrangement.³⁶

The AEMC considered that the RERT procedures are an appropriate location for NEMMCO’s measures to reduce “double dipping” for reserves it contracts.³⁷

2.7.3 Consequential changes to the RERT Guidelines

Sections 2 and 5 of the draft RERT Guidelines in Appendix A implements the AEMC’s final Rule determination on this issue. These changes include:

- clarifying the “double dipping” provision;
- adding a new obligation on all Registered Participants to act in good faith when negotiating reserve contracts; and

³³ AEMC Reliability Panel 2007, *Comprehensive Reliability Review, Second Interim Report* (August 2007, Sydney), p.87.

³⁴ *Ibid.*, p.129.

³⁵ AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions, Final Rule Determination* (26 June 2008, Sydney), Pp.37-38.

³⁶ *Ibid.* p.38.

³⁷ *Ibid.*

- adding a new step that NEMMCO may take to inform itself prior to entering into a contract for reserves. NEMMCO may develop measures to reduce “double dipping” for reserves in its contracts when it develops its RERT procedures.

2.8 NEMMCO management of reserve contracts to provide for a rolling tender process

2.8.1 The Panel’s exposure draft of its Rule change proposal and RERT Guidelines

The Panel considered that NEMMCO had a rigid tendering and contracting timetable under the Reserve Trader, which was inefficient. The Panel therefore proposed for a rolling tendering process. This process entails NEMMCO undertaking multiple rounds of tendering and contracting when selecting the optimal portfolio of reserve contracts to cover a projected shortfall. NEMMCO would be able to:³⁸

- enter into scheduled or unscheduled reserve contracts; or
- renegotiate existing scheduled or unscheduled reserve contracts.

2.8.2 The AEMC’s finding in relation to the issue

The AEMC adopted the Panel’s proposal for NEMMCO to be able to undertake multiple rounds of tendering and contracting when selecting reserves.³⁹

The AEMC did not accept NEMMCO’s proposal for an initial tender process to establish a qualified “panel” of providers, which would then be used for a period of time to allow incremental changes to its reserve portfolio at short notice.⁴⁰ This is because the AEMC considered that a panel arrangement would not be consistent with its concept of a “rolling tendering process”.⁴¹

2.8.3 Consequential changes to the RERT Guidelines

Section 6 of the draft RERT Guidelines in Appendix A implements the AEMC’s final Rule determination on this issue. The rolling tendering process has been clarified where NEMMCO is limited from using a panel arrangement when it tenders for reserves in relation to the RERT.

³⁸ AEMC Reliability Panel 2007, *Comprehensive Reliability Review, Second Interim Report* (August 2007, Sydney), p.70.

³⁹ AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions, Final Rule Determination* (26 June 2008, Sydney), p.34.

⁴⁰ *Ibid.*, p.40.

⁴¹ *Ibid.*

2.9 NEMMCO's power to enter into reserve contracts up to nine months prior to the projected capacity shortfall arising

2.9.1 The Panel's exposure draft of its Rule change proposal and RERT Guidelines

At the time of the Panel's exposure draft, NEMMCO was only able to contract for capacity reserves up to six months in advance of a projected shortfall. This short lead-time meant that only a limited number of potential sources of reserve capacity were available. To address this, the Panel proposed extending this timeframe to nine months. It considered that this would increase the range of entities willing to offer reserves contracts, increasing competition and hence reducing the procurement cost.⁴²

2.9.2 The AEMC's finding in relation to the issue

The AEMC adopted the Panel's proposal for NEMMCO to be able to contract for reserves nine months in advance of a projected shortfall.⁴³ It considered that this would provide NEMMCO with a greater choice when it contracts for reserves and to allow a broader range of participants offering reserves to be contracted by NEMMCO.⁴⁴

2.9.3 Consequential changes to the RERT Guidelines

Section 6 of the draft RERT Guidelines in Appendix A implements the AEMC's final Rule determination on this issue. In addition to the limitation on NEMMCO in not entering into reserve contracts more than nine months prior to the projected capacity shortfall arising, this limitation also applies to the renegotiation of reserve contracts.

2.10 Regional basis for the operation of the RERT

2.10.1 The Panel's exposure draft of its Rule change proposal and RERT Guidelines

The Panel proposed that the RERT needed to operate on a regional basis because the RERT is a mechanism to address reliability and the reliability standard is expressed on a regional basis. Similarly, the Panel suggested that the need for the RERT is

⁴² AEMC Reliability Panel 2007, *Comprehensive Reliability Review, Second Interim Report* (August 2007, Sydney), Pp.76-77.

⁴³ AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions*, Final Rule Determination (26 June 2008, Sydney), p.34.

⁴⁴ *Ibid.*, p.40.

driven by capacity shortages which are also calculated in PASA and pre-Dispatch on a regional basis.⁴⁵

2.10.2 The AEMC's finding in relation to the issue

There was no change in the AEMC's final Rule determination to the Panel's proposal with respect to this issue.

2.10.3 Consequential changes to the RERT Guidelines

Section 6 of the draft RERT Guidelines in Appendix A indicates that reserves are contracted on a region by region basis.

2.11 Recovering the costs for operating the RERT

2.11.1 The Panel's exposure draft of its Rule change proposal and RERT Guidelines

The Panel proposed two approaches for NEMMCO to recover the costs of exercising the RERT. The first, and the approach that applied prior to 1 July 2008, allowed NEMMCO to recover the Reserve Trader's operating costs from Market Customers (in affected regions) at the end of the reserve contract period. In contrast, the alternative approach would involve NEMMCO administering a series of administered funds, as a compensation fund for the RERT, to spread the operating costs across a number of years. The Panel considered the former approach to be the most equitable. Therefore, the Panel proposed that the costs of operating the RERT would be recovered from Market Participants on a regional basis and in proportion to the energy settled for each Market Customer in the affected regions.⁴⁶

2.11.2 The AEMC's finding in relation to the issue

The AEMC noted the costs of reserve contracts being funded on a regional basis, and that the cost sharing arrangements being negotiated between NEMMCO and relevant jurisdictions. The AEMC approved for this arrangement to continue under the RERT. The AEMC did not accept NEMMCO's proposal for a new compensation recovery mechanism for participants affected by the dispatch of reserve contracts as it considered the appropriate vehicle for this is a separate Rule change proposal.⁴⁷

⁴⁵ AEMC Reliability Panel 2007, *Comprehensive Reliability Review, Second Interim Report* (August 2007, Sydney), p.77.

⁴⁶ *Ibid.*, p.79.

⁴⁷ AEMC 2008, *NEM Reliability Settings: Information, Safety Net and Directions, Final Rule Determination* (26 June 2008, Sydney), Pp.39-40.

2.11.3 Consequential changes to the RERT Guidelines

Section 7 of the draft RERT Guidelines in Appendix A implements the AEMC's final Rule determination on this issue. No substantial changes have been made to this section.

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APPENDIX A - DRAFT RERT GUIDELINES FOR STAKEHOLDER CONSULTATION

Reliability and Emergency Reserve Trader Guidelines

(under clause 3.20.8 of the National Electricity Rules)

1. Interpretation

Any phrase or word that is italicised in the *RERT guidelines* has the meaning given to that phrase or word in Chapter 10 of the *Rules* or in rule 3.20 of the *Rules* (as the case may be).

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

2. Scope of the RERT guidelines

Under clause 3.20.8 of the *Rules*, the *Reliability Panel* must develop, *publish* and amend from time to time, the *RERT guidelines* in accordance with clauses 8.8.3(d) to (l) of the *Rules*. *NEMMCO* must take the *RERT guidelines* into account when exercising the *Reliability and Emergency Reserve Trader* in accordance with rule 3.20 of the *Rules*.

The *RERT* gives *NEMMCO* powers to enter into *reserve contracts* to ensure reliability of supply in accordance with the *RERT guidelines*. The scope of these powers are provided for in the *Rules* primarily in rule 3.20. Clause 3.20.8 identifies the matters which the *Reliability Panel* may make guidelines about. These matters are:

- (1) what information *NEMMCO* 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 *NEMMCO* 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 *NEMMCO* should undertake in contracting for *reserves* including the process for tendering for contracts for such *reserves*;
- (5) any specific or additional assumptions about key parameters that *NEMMCO* must take into account in assessing the cost effectiveness of exercising the *RERT*;
- (6) matters relevant to *NEMMCO* managing a portfolio of *reserve contracts*; and
- (7) additional forecasts that *NEMMCO* should take into account prior to exercising the *RERT*.

Sections 3 to 7 of this document set out the *RERT guidelines* developed by the *Reliability Panel*.

3. Information that NEMMCO must take into account

NEMMCO must inform itself of the circumstances relating to reliability of *supply* in order to determine whether to exercise the RERT. NEMMCO must consider the relevant information at two key stages in addition to generally monitoring the information:

- (1) when NEMMCO is determining whether to commence contract negotiations for the provision of additional *reserves* under clause 3.20.3 (Stage 1); and
- (2) when NEMMCO is making a determination on whether to *dispatch scheduled reserves* under *scheduled reserve contracts* or *activate unscheduled reserves* under *unscheduled reserve contracts* under clause 3.20.7 (Stage 2).

In relation to Stage 1 of the RERT process, NEMMCO may take into account:

- the details of the outcome of the *medium term PASA* as published in accordance with clauses 3.7.2 and 3.13.4; and
- the details of the drought studies during the transitional period prior to NEMMCO publishing the first *energy adequacy assessment projection (EAAP)* (due on 31 March 2010) and the outcome of the EAAP from then onwards.⁴⁸

In relation to Stage 2 of the RERT process, NEMMCO may review the information it took into account in Stage 1 and also consider for the period where *reserves* may be required to ensure reliability of *supply*:

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

4. Relevance of the RERT principles

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

- (1) actions taken should be those which NEMMCO 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.

⁴⁸ 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 NEMMCO, the EAAP will provide an additional source of information to assist NEMMCO in assessing the likelihood of energy shortfalls in the NEM.

4.1 Least distortionary effect on the operation of the market

The *National Electricity Market* is an energy only market where new capacity (generation and demand side) is funded by entities that anticipate periods of sufficiently high prices. When exercising the *RERT*, *NEMMCO* must have regard to the action that is expected to create the least distortion to the operation of the *market*, both in the short term impact on the spot prices and the long term impact on investment signals. In making a determination as to the action to take, *NEMMCO* should consider:

- how it tenders and contracts for *reserves*;
- not setting the *dispatch price* from contracted *reserves*;
- *dispatching* or *activating* contracted *reserves* only after all other energy and ancillary service bids and offers have been *dispatched* subject to plant operating restrictions in accordance with clause 3.8.14 of the *Rules*;
- in relation to *scheduled reserve contracts*, setting the *dispatch price* and *ancillary service prices* for an *intervention price dispatch interval* at the value which *NEMMCO*, in its reasonable opinion, considers would have applied had the *NEMMCO intervention event* not occurred in accordance with clause 3.9.3 of the *Rules*;
- in relation to *unscheduled reserve contracts*, developing and publishing details of the methodology it will use to request that *generating units* or *loads* be *activated* in accordance with clause 3.20.4 of the *Rules*;
- that a four year sunset period is imposed on the *RERT*; and
- that the *RERT* is reviewed by the Panel after three years of operation.

The outcomes of the issues above aim to reduce the distortionary impacts from *NEMMCO* intervening in the *market* to respond to a projected shortfall in *reserves*, and preserve *market* signals to foster a *market* response to those shortfalls. It provides an appropriate balance between allowing *market* responses to projected shortfalls to develop and providing a (temporary) mechanism to maintain the *supply* reliability of the *market*.

4.2 Maximising the effectiveness of reserves at least cost

The matters that *NEMMCO* should consider in addressing this principle are addressed in section 7 of the *RERT guidelines*.

5. NEMMCO actions to be satisfied reserves not offered in other circumstances

NEMMCO must take appropriate steps under clause 3.20.3 of the *Rules* to inform itself that a party with which *NEMMCO* intends to contract for *reserves* has not entered into other arrangements for the same energy capacity. This requirement is designed to prevent “double dipping” where a contracting party enters into a contract with *NEMMCO* but also makes the capacity available to the *market* through another arrangement.

The *Rules* provide that a contract contain a provision that the contracting party has not and will not offer the *reserve*, the subject of the contract in the *market*, for the *trading intervals* to which the contract with *NEMMCO* relates except in accordance with the contract. This means that *NEMMCO* must include a “double dipping” provision in its *reserve contracts*. The *Rules* also imposes a good faith negotiation obligation on all *Registered Participants* in respect

of *reserve contracts*. It would be expected that when NEMMCO deals with entities that are not *Registered Participants*, these participants would also deal in good faith negotiations.

Other steps NEMMCO may take to inform itself prior to entering into a contract for *reserves* include:

- requiring a tenderer (a prospective party to a contract) to provide an undertaking that the *reserve* is not offered in any other capacity (which promotes the efficiency of the contracting process where this undertaking would flow into the terms and conditions of the contract);
- making reasonable enquiries in the *market*;
- assessing any information that is available to NEMMCO and relevant to whether the *reserve* has been offered in another capacity; and
- developing NEMMCO's measures to reduce "double dipping" for *reserves* in its contracts when it develops its *RERT procedures*.⁴⁹

6. Process for contracting

In accordance with transitional clause 11.21.3 of the *Rules*, before NEMMCO publishes the first procedures for the exercise of the *RERT* as required by clause 3.20.7(e) of the *Rules* (due by 30 June 2009), it may develop, publish, and may amend from time to time, interim procedures. In accordance with clause 3.20.7(e) of the *Rules*, NEMMCO 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*. Relevant actions that NEMMCO may undertake in relation to the *RERT* include:

- continually monitoring the *medium term PASA* for periods of low *reserves*;
- continually monitoring the *EAAP* to inform itself in taking any action in relation to the *RERT*;
- determining whether to enter into *reserve contracts*;
- consulting with persons nominated by the relevant *participating jurisdictions* in relation to any determination the *region* or *regions* which NEMMCO intends to contract for *reserves* in;
- issuing a notice in accordance with clause 3.20.3 when NEMMCO commences contract negotiations for the provision of additional *reserves* whether through amending an existing contract or entering into a new contract;⁵⁰
- calling for tenders in relation to providing for *reserves* in the respective *regions* or in some circumstances, combined *regions*.

⁴⁹ NEMMCO is required to take into account the *RERT Guidelines* when it develops its *RERT procedures*.

⁵⁰ Note: NEMMCO is not required to publish a notice when it renegotiates existing contracts for the same reserves.

- evaluating the tenders, dispensing of any tenders that do not provide an undertaking that the *reserve* has not and will not be offered in the *market* except on terms agreed with NEMMCO, taking into account:
 - whether the commercial requirements are met;
 - whether the tender is credible (is it 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 NEMMCO considers to be the optimal portfolio of *reserve contracts*;
- must not use a panel arrangement when NEMMCO tenders for *reserves*;
- monitoring the *medium term PASA* to determine if there have been any changes since the tenders were prepared and evaluated;
- monitoring the *EAAP* to inform itself on any changes since tenders were prepared;
- must not enter into, or renegotiate, *reserve contracts* more than nine months prior to the date that NEMMCO reasonably expects that the *reserves* under that contract may be required to ensure reliability of *supply*;
- giving consideration to including an early termination clause in the event that the capacity is not needed;
- 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 *reserve* procured under the contract; and
- publishing a report at the end of each financial year detailing NEMMCO's use of the *RERT* if it has exercised the *RERT* over the previous financial year.⁵¹

7. Factors to consider in assessing the cost effectiveness of exercising the RERT

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

- the cost (fixed and variable) of the *reserve contracts* for the amount of *reserves* delivered;
- what extra payment is required to be made if the contracted *reserves* are actually used;

⁵¹ Note: if NEMMCO did not exercise the *RERT* over the previous financial year, it would not be required to publish a report.

- the penalty that *NEMMCO* may need to undertake to provide if it terminates the contract early;
- 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 24 hours notice so they can adjust shifts for their processes, others may only require a few hours) with the objective being less notice requirements means more flexibility and therefore, more cost effectiveness;
- the duration of the projected capacity shortfall;
- the size of the projected capacity shortfall, in MW (as for a few MW it may be decided just to accept the risk); and
- the likelihood of the proposed capacity shortfall being resolved.

APPENDIX B - EXPOSURE DRAFT GUIDELINES
(originally published in the Section C.3 of the Second Interim Report for the
Comprehensive Reliability Review, August 2007)

Reliability and Emergency Reserve Mechanism Guidelines

(under clause 3.20.10 of the National Electricity Rules)

1. Interpretation

Any phrase or word that is italicised in the *RERM guidelines* has the meaning given to that phrase or word in Chapter 10 of the *Rules* or in rule 3.20 of the *Rules* (as the case may be).

For the avoidance of doubt, should any inconsistency arise between the *Rules* and the *RERM guidelines*, the *Rules* are to prevail.

2. Scope of the RERM guidelines

Under clause 3.20.10 of the *Rules*, the *Reliability Panel* must develop and *publish* guidelines in accordance with clauses 8.8.3(d) to (l) of the *Rules* that NEMMCO must take into account in exercising the *Reliability and Emergency Reserve Mechanism* in accordance with rule 3.20 of the *Rules*.

The *RERM* gives NEMMCO powers to enter into *reserve contracts* and *non-scheduled reserve contracts* to ensure the *reliability of supply* in accordance with the *RERM guidelines*. The scope of these powers are provided for in the *Rules* primarily in rule 3.20. Clause 3.20.10 identifies the matters which the *Reliability Panel* may make guidelines about. These matters are:

- (1) what information NEMMCO must take into account when deciding whether to exercise the *RERM*;
- (2) the relevance of the *RERM* principles to the exercise of the *RERM*;
- (3) the actions that NEMMCO may take to be satisfied that the reserve or non-scheduled reserve that is to be the subject of a reserve contract or non-scheduled reserve contract (as the case may be) is not available to the *market* through any other arrangement;
- (4) the process NEMMCO should undertake in contracting for *reserves* and *non-scheduled reserves* including the process for tendering for contracts for such *reserves*;
- (5) any specific or additional assumptions about key parameters that NEMMCO must take into account in assessing the cost effectiveness of exercising the *RERM*;
- (6) matters relevant to NEMMCO managing a portfolio of *reserve contracts* and *non-scheduled reserve contracts*; and

- (7) additional forecasts that *NEMMCO* should take into account prior to exercising the *RERM*.

Sections 3 to 7 of this document set out the *RERM guidelines* developed by the *Reliability Panel*.

3. Information that *NEMMCO* must take into account

NEMMCO must inform itself of the circumstances relating to *reliability of supply* in order to determine whether to exercise the *RERM*. *NEMMCO* must consider the relevant information at two key stages in addition to generally monitoring the information:

- (1) when *NEMMCO* is deciding whether to commence contract negotiations for *reserves* and *non-scheduled reserves* under clause 3.20.4(Stage 1);
- (2) when *NEMMCO* is making a determination on whether to *dispatch reserves* under *reserve contracts* or *activate non-scheduled reserves* under non-scheduled reserve contracts under clause 3.20.9 (Stage 2).

In relation to Stage 1 of the *RERM* process, *NEMMCO* may take into account:

- the details of the outcome of the *medium term PASA* as published in accordance with clauses 3.13.4 and 3.7.2; and
- the details of the outcome of the *energy adequacy assessment projection (EAAP)*.

In relation to Stage 2 of the *RERM* process, *NEMMCO* may review the information it took into account in Stage 1 and also consider for the period where *reserves* or *non-scheduled reserves* may be required to ensure *reliability of supply*:

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

4. Relevance of the *RERM* principles

Clause 3.20.3(b) of the *Rules* identifies three principles referred to as the *RERM* principles which *NEMMCO* must have regard to in exercising the *RERM*. These principles are:

- (1) actions taken should be those which *NEMMCO* 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* and *non-scheduled reserve contracts* at the least cost to end use consumers of electricity.

4.1 Least distortionary effect on the operation of the market

The *National Electricity Market* is an energy only market where new capacity (generation and demand side) is funded by entities that anticipate periods of sufficiently high prices. When exercising the *RERM*, *NEMMCO* must have regard to the action that is expected to create the least distortion to the operation of the market. In making a determination as to the action to take, *NEMMCO* should consider:

- whether intervening in the market by contracting for either *reserves* (scheduled or non-scheduled) may potentially affect some long-run investment decisions in peaking generation and demand side options by introducing an alternative funding mechanism that may discourage some participants from bringing their capacity to the market; and
- whether dispatching contracted *reserves* or enabling contracted *non-scheduled reserves* can affect the spot price due to *inflexibilities* in the associated contracting arrangements.

The outcomes of the two issues above will have an impact on whether *NEMMCO* should exercise the *RERM* or consider alternatives to the *RERM* in addressing the capacity shortfall. Where the operation of the *RERM* encourages new capacity to enter the market earlier than it otherwise would, this should not be considered as a significant distortion to the operation of the market as such capacity would become available in any case.

4.2 Maximising the effectiveness of reserves at least cost

The matters that *NEMMCO* should consider in addressing this principle are addressed in section 7 of the *RERM guidelines*.

5. NEMMCO actions to be satisfied reserves not offered in other circumstances

NEMMCO must take appropriate steps under clause 3.20.4 of the *Rules* to inform itself that a party with which *NEMMCO* intends to contract for *reserves* or *non-scheduled reserves* has not entered into other arrangements for the same energy capacity. This requirement is designed to prevent “double dipping” where a contracting party enters into a contract with *NEMMCO* but also makes the capacity available to the *market* through another arrangement.

The *Rules* provide that a contract contain a provision that the contracting party has not and will not offer the *reserve* or *non-scheduled reserve* the subject of the contract in the market except in accordance with the terms of its contract with *NEMMCO*. Other steps *NEMMCO* may take to inform itself prior to entering into a contract for reserves or non-scheduled reserves include:

- requiring a tenderer (a prospective party to a contract) to provide an undertaking that the *reserve* or *non-scheduled reserve* is not offered in any other capacity (which promotes the efficiency of the contracting process where this undertaking would flow into the terms and conditions of the contract;
- making reasonable enquiries in the *market*; and
- assessing any information *NEMMCO* has available to it relevant to whether the *reserve* or *non-scheduled reserve* has been offered in another capacity.

6. Process for contracting

Nothing in the *RERM guidelines* is designed to limit NEMMCO's ability to develop procedures for making the necessary arrangements to exercise the RERM as clause 3.20.9(g) of the *Rules* provides. Relevant actions that NEMMCO may include:

- continually monitoring the *medium term PASA* for periods of low reserves;
- continually monitoring the *EAAP* to inform itself in taking any action in relation to the *RERM*;
- make a determination to enter into *reserve contracts* and *non-scheduled reserve contract*;
- consult with the person nominated by a *participating jurisdiction* in relation to the *region* or *regions* which NEMMCO intends to *contract* for *reserves* or *non-scheduled reserves* in;
- issue a notice in accordance with clause 3.20.4 that NEMMCO is tendering for *reserves* and *non-scheduled reserves*;
- call for tenders in relation to providing for *reserves* in the respective *regions* or in some circumstances, combined *regions*.
- evaluate the tenders, dispensing of any tenders that do not provide an undertaking that the *reserve* and *non-scheduled reserve* has not and will not be offered in the *market* except on terms agreed with NEMMCO, taking into account:
 - whether the commercial requirements are met;
 - whether the tender is credible (is it likely that the tenderer can deliver the offered reserves); and
 - the optimal combination of contracts to deliver the *reserves* and *non-scheduled reserves* necessary to meet the shortfall.
- select the tenders that NEMMCO considers to be the optimal portfolio of *reserve contracts* and *non-scheduled reserve contracts*;
- monitor the *medium term PASA* to determine if there have been any changes since the tenders were prepared and evaluated;
- monitor the *EAAP* to inform itself on any changes since tenders were prepared;
- must not enter into *reserve contracts* and *non-scheduled reserve contracts* more than nine months prior to the date by which NEMMCO expects, acting reasonably, that the reserves and non-scheduled reserves under those contracts may be required to ensure *reliability of supply*;
- 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* or for *non-scheduled reserves*, publish the name of the counterparty to the contract and the volume and timing of reserve procured under the contract.

7. Factors to consider in assessing the cost effectiveness of exercising the RERM

Any consideration of the cost effectiveness of exercising the RERM should be done by NEMMCO in consultation with the relevant *participating jurisdictions*. The factors that would be relevant to this consideration and consultation are:

- the cost (fixed and variable) of the *reserve contracts* and *non-scheduled reserve contracts* for the amount of *reserves* or *non-scheduled reserves* delivered;
- what extra payment is required to be made if the contracted *reserves* or *non-scheduled reserves* are actually used;
- the penalty that NEMMCO may need to undertake to provide if terminates the contract early;
- the nature of the *reserves* being offered including:
 - how firm the capacity is;
 - the minimum and maximum time the *reserves* could be *dispatched* under *reserve contracts* or *non-scheduled reserves activated* under *non-scheduled reserve contracts*; and
 - how much notice is required to *dispatch* a particular *reserve* under a *reserve contract* or *activate* a *non-scheduled reserve* under a *non-scheduled reserve contract* (for example, some *loads* require 24 hours notice so they can adjust shifts for their processes, others may only require a few hours) with the objective being less notice requirements means more flexibility and therefore, more cost effectiveness;
- the duration of the projected capacity shortfall;
- the size of the projected capacity shortfall, in MW (as for a few MW it may be decided just to accept the risk); and
- the likelihood of the proposed capacity shortfall being resolved.

8. Miscellaneous

Clauses 3.15.10(a)(6) and (7) provide for additional matters which the *Reliability Panel* may make RERM guidelines about. Such matters have not been included in this version of the RERM guidelines.