

Australian Energy Market Commission

AEMC Reliability Panel

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

**Exposure Draft Rule and Guidelines for
Consultation**

1 May 2009

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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 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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Abbreviations and Glossary

AEMC	Australian Energy Market Commission
CRR	Comprehensive Reliability Review
DSR	Demand Side Response
MCE	Ministerial Council on Energy
MT PASA	Medium-term PASA
MW	Megawatt
NEL	National Electricity Law
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
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 NEMMCO in accordance with clause 3.20.7(e)
Rules	National Electricity Rules
SOO	Statement Of Opportunities
ST PASA	Short-term PASA
VoLL	Value of Lost Load

Executive Summary

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”.

On 3 March 2009 the AEMC issued the Reliability Panel (Panel) with terms of reference² that included a requirement for the Panel to consider “the need and possible design of a short-term version of the Reliability and Emergency Reserve Trader (RERT) that could be used in a critical emergency”. The Reliability and Emergency Reserve Trader (RERT) was developed by the Panel as part of the Panel’s Comprehensive Reliability Review (CRR)³ and was incorporated into the Rules in June 2008.⁴ 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 has investigated the operation of the current RERT with the objective of developing improvements that would facilitate NEMMCO 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 NEMMCO may operate a RERT panel such that:

- NEMMCO would assess expressions of interest from entities offering reserves to resolve any technical and legal issues;
- entities on the RERT panel would be free to offer their capacity to the market, but would be requested to advise NEMMCO if they do so;
- NEMMCO would not make payments to entities for being on the RERT panel; and
- NEMMCO 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.

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 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>.

³ 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>.

⁴ 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>.

The Panel is seeking stakeholders' views as to whether NEMMCO should be able to pay auditable expenses to entities that negotiate with NEMMCO to join the RERT panel.

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

- develop processes whereby it could enter into reserve contracts with as little as twenty four hours notice;
- operate a RERT panel and regularly solicit expressions of interest from entities wishing to offer reserves to NEMMCO;
- monitor the results of the medium-term PASA, short-term PASA and pre-dispatch processes to assess whether to contract for reserves in the short term;
- develop methodologies to select the optimal portfolio of reserve contracts based on a reasonable endeavours basis;
- consult with the affected Jurisdictions when determining whether to enter into reserve contracts and how to share the associated costs between the Market Customers in those 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 considers that there is value in clarifying that NEMMCO 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 only a localised effect, but believes that NEMMCO may utilise contracted reserves in the cases where this is possible.

Impact on the operation of the wholesale market

When it proposed the RERT in its CRR, the Panel expressed its 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 any distortion to the market.

The Panel still believes that the RERT is a market distortion but considers that prudent incremental improvements to RERT are warranted to further increase the flexibility, including clarifying that NEMMCO may reserve contract with as little as one day of notice. 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 the subject of further review before that date.

Exposure draft Rule and RERT Guidelines

The existing RERT is due to expire on 30 June 2012 and the Panel is required to review the RERT twelve months prior to this date. The Panel notes that, as it is proposed that the short-term RERT be implemented by amending the existing RERT in the Rules, the short term RERT will also be subject to the same expiry date and review. The Panel is seeking the view of stakeholders as to whether the same expiry date and review should also apply to the short term RERT.

The Panel has prepared an Exposure Draft of a Rule change and interim amendments of the RERT Guidelines that it believes would implement the policy objectives above. These Exposure Drafts are in Appendix A. The Panel is seeking stakeholders' comments on:

- the policy contained in this document; and
- the proposed implementation of this policy in the Exposure Draft Rule and associate Exposure Draft of interim amendments for the RERT Guidelines.

The Panel intends to consider the views of stakeholders and then develop a Rule change proposal to be submitted to the AEMC as an Urgent Rule. In addition, the Panel intends to include provisions in the proposed Rule that require the Panel to develop and publish interim amendments to the RERT Guidelines and require NEMMCO to develop and publish interim amendments to its RERT Procedures (to be published by 30 June 2009) following the making of the Rule.

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-term RERT can be in place by September 2009. This would allow NEMMCO several months before the 2009/10 summer to form a RERT panel. The Panel and NEMMCO would consult on long term amendments to the RERT Guidelines and Procedures with respect to the short-term RERT in 2010.

Submissions to the Exposure Draft Rule and RERT Guidelines

The Panel is seeking stakeholder submissions to this Exposure Draft and Proposed Rule by Friday 29 May 2009.

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1 Introduction

1.1 Context of the Exposure Draft

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.⁵ 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”.⁶

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”.⁷ 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 is investigating the current RERT and its operation to determine whether it is 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 exposure draft of the amended Rules and RERT Guidelines that would be necessary to implement the proposed improvements to the RERT.

1.2 Existing RERT

The RERT was developed by the Panel as part of its CRR. The Panel completed its CRR in December 2007 and made a number of recommendations including to redesign the reserve trader arrangements to become the RERT (Reliability and Emergency Reserve Trader).

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

⁵ 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 NEMMCO website.

⁶ MCE 18th Communiqué on 6 February 2009.

⁷ The AEMC's terms of reference for the Panel are available at <http://www.aemc.gov.au/electricity.php?r=20090306.155159>

include both the RERT and to remove the sunset on NEMMCO's power to issue Reliability Directions.⁸

The Panel prepared RERT Guidelines in accordance with clause 3.20.8(a) of the Rules to provide direction to NEMMCO when it applies the RERT. On 24 November 2008 the Panel published the first RERT Guidelines.⁹

1.3 Process to advance the amendments to the RERT

1.3.1 Exposure draft

The AEMC Reliability Panel is the proponent of this Exposure Draft and Proposed Rule and will request that the AEMC make a Rule change, resulting from this Exposure Draft, in accordance with the NEL. The Panel considers that it is able to make this request as section 91(4) allows the Panel to make requests in relation to its functions under the NEL and the Rules. In particular, the Panel can make recommendations on market changes or changes to the Rules on overall power system reliability matters.

The Panel also considers that the Rule change proposal, resulting from this Exposure Draft, is with respect to subject matter that the AEMC may make Rules, as set out in section 34 of the NEL and, more specifically, in Schedule 1 of the NEL.

1.3.2 Urgent Rule

The Rule change proposal, resulting from this Exposure Draft, after consideration of all submissions received, will be submitted to the AEMC. The Panel intends to request that the Rule change proposal be expedited as an "urgent Rule" in accordance with section 96 of the NEL.

1.3.3 Submissions to the exposure draft

The Panel is seeking stakeholder submissions on this Exposure Draft and Proposed Rule by Friday 29 May 2009.

1.3.3.1 Lodging a submission electronically

Comments must be sent by email to submissions@aemc.gov.au. The email must cite the project reference code: "REL0035". The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission must be in PDF format, and must also be forwarded to the Panel via ordinary mail.

⁸ 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>.

⁹ The RERT Guidelines prepared by the Panel are available on the AEMC website at <http://www.aemc.gov.au/electricity.php?r=20080815.172600>

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

1.3.3.2 Lodging a submission by mail

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

The Reliability Panel

Australian Energy Market Commission

PO Box A2449

Sydney South NSW 1235

or by Fax: (02) 8296 7899.

The envelope must be clearly marked with the project reference code: "REL0035".

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

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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 prepare RERT Guidelines that provide NEMMCO with further guidance when operating the RERT.

Currently the RERT is a two stage process whereby NEMMCO 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.¹⁰ In addition, the Rules required the Panel to develop and publish the RERT Guidelines which NEMMCO 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 NEMMCO to contract for reserves. This occurs when NEMMCO, in consultation with the affected Jurisdictions, determines that a period of low reserves is forecast to occur.

Under the RERT Guidelines, NEMMCO performs a full tender process when contracting for reserves. That is, the current RERT Guidelines do not explicitly support NEMMCO 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.¹¹

The Panel understands that, as NEMMCO would be required to undertake a full tendering process, NEMMCO 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 2005/06.¹² That is, NEMMCO would not

¹⁰ Under the Rules the reliability standard is defined in the Power System Reliability and Security Standards and determined by the Panel in accordance with clause 8.8.1. The current reliability standard is 0.002% USE per annum and is specified in detail in the Panel's CRR.

¹¹ 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>

¹² NEMMCO has used its reserve trader powers twice since the start of the NEM:

have sufficient 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 as many of the parties offering reserves have not entered into similar contracts before, especially in relation to double dipping¹³; and
3. analysis of offers – NEMMCO 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 NEMMCO 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 NEMMCO 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 NEMMCO it will not have sufficient reserve contracts to cover the shortfall.

When dispatching or activating contracted reserves NEMMCO 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);

-
- 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
 - 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.

¹³ 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 NEMMCO 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.

- 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;
- 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 change to increase the flexibility of the existing RERT arrangements:

- Clarifying that NEMMCO may use a RERT panel which is expected to reduce the time required for NEMMCO to negotiate reserve contracts to four weeks (discussed in section 2.2); and
- implementing a short term form of the RERT that would facilitate NEMMCO negotiating reserve contracts using its reasonable endeavours with as little as twenty four hours of notice (discussed in section 2.3).

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 NEMMCO 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 NEMMCO some of the technical and legal issues referred to in section 2.1.1. When NEMMCO consequentially determines that reserves are needed, it would need to:

- confirm which of the entities on the RERT panel still 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, to 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 reserve contract would mean that NEMMCO would be able to complete its full tender process with RERT panel members in significantly less time (estimated at approximately four weeks), compared to the current ten weeks.

Therefore, the Panel is proposing that NEMMCO use a RERT panel when it tenders for reserve contracts, which would be necessary where NEMMCO has less than ten weeks of notice of a reserve shortfall. Entities that wish to participate in the RERT panel should submit an expression of interest that describes the reserves they are

interested in offering. NEMMCO and the entity could then resolve any technical and legal issues in advance of the need to enter into reserve contracts.

2.2.2 Entry to the RERT panel and competition

As discussed above, the current RERT Guidelines currently do not explicitly clarify NEMMCO 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 NEMMCO:

- uses the full tender process whenever there was sufficient time, that is more than ten weeks; and
- operates a process that regularly, or possibly continuously, 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 NEMMCO 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

NEMMCO 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:

- NEMMCO 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 NEMMCO because they have:

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

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, and in the absence of a demonstrated market failure, would 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 NEMMCO. The advantage of paying such auditable expenses would be that it may encourage greater participation in the *RERT* panel.

The Panel 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. However, the Panel is seeking stakeholders' views on whether it is likely that increased participation in the *RERT* panel is likely to offset the associated increase in participant fees.

Advising NEMMCO 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 entities on the *RERT* panel should be required to advise NEMMCO when their capacity is unavailable. The Panel considers this would greatly assist NEMMCO if it needs to quickly acquire contracted reserves in an emergency situation.

The requirement to keep NEMMCO informed should be included in the Panel's *RERT* Guidelines and NEMMCO's Procedures.

***RERT* panel participation should be confidential to NEMMCO**

The Panel considers that NEMMCO should not be required to publish a list of the *RERT* panel members as it may deter potential *RERT* panel participants.

The Panel also considers that NEMMCO 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.

2.2.4 Proposed changes to the Rules and *RERT* Guidelines

The current version of the Rules do not allow NEMMCO 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 in its exposure draft Rule to clarify that NEMMCO can negotiate (but not necessarily enter into)

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 NEMMCO may form and use a RERT panel of prospective reserve providers when it manages the tendering process for reserve contracts; and
- expect NEMMCO to undertake a full tender process for reserve contracting if it has 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 NEMMCO's discretion.

2.3 Allowing NEMMCO to enter into reserve contracts at short notice

2.3.1 Minimum notice of twenty four hours for NEMMCO to contract for reserves

As discussed above, NEMMCO currently requires ten weeks or more to tender for reserves and NEMMCO using a RERT panel is likely to reduce this period to approximately four weeks. However, even under a RERT panel arrangement NEMMCO considers that it cannot contract for reserves if it has less than about four weeks notice of a projected shortfall. Consequently, when a shortfall occurs with less than about four weeks notice NEMMCO'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 NEMMCO 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 NEMMCO may enter reserve contracts using an alternative short-term process.

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

2.3.2 Short-term RERT panel

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

NEMMCO would be need:

- develop standard short-term reserve contracts that can be activated at short notice;
- 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 NEMMCO 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 twenty four hours).

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

2.3.3 NEMMCO monitoring of system reliability

NEMMCO continually monitors medium-term PASA and the EAAP¹⁴ when it is considering whether to contract for reserves under the existing RERT process. The Panel considers that when NEMMCO is assessing whether to contract for reserves using the proposed short-term RERT process it will also need to monitor the results of the short-term PASA and pre-dispatch processes.

2.3.4 NEMMCO consultation with the affected Jurisdictions

Under the existing RERT process NEMMCO is currently 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.

The Panel considers that NEMMCO should also be required to consult with the affected Jurisdictions when it is determining whether to enter reserve contracts using the proposed short-term process to ensure that the use of the short term *RERT* is cost effective and to agree on how to share the cost. However, the Panel considers that NEMMCO and the Jurisdictions will need to develop prearranged procedures for very short-term situations, especially if the arrangements for sharing the costs need to be decided within twenty four hours.

¹⁴ The Energy Adequacy Assessment Projection (EAAP) is defined in rule 3.7C.

2.3.5 “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 NEMMCO and the market a false indication of the amount of reserves actually available.

Under clause 3.20.3(j) and the existing RERT process NEMMCO’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 NEMMCO performs due diligence checks, including reasonable market inquiries, to verify the reserves are not in fact contracted through another market mechanism.

The Panel considers that it is equally important for the short-term 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 term *reserve 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 NEMMCO to perform sufficient due diligence checks. Therefore, the Panel is proposing that NEMMCO perform these checks after it contracts for reserves when using the short-term RERT process.

The Panel also considers that where the checks show that there has been double dipping then NEMMCO should not pay out on the associated reserve contract.

2.3.6 Proposed changes to the Rules and RERT Guidelines

To allow NEMMCO to enter into reserve contracts at short notice the Panel is proposing to include in the exposure draft Rule a provision to allow the RERT Guidelines to include guidance on the process NEMMCO should undertake in contracting for reserves for short term situations.

In addition, the Panel is proposing the following interim amendments to its RERT Guidelines that:

- defines the process for NEMMCO to procure contracted reserves with between twenty four hours and four weeks notice;
- require NEMMCO to continually monitors pre-dispatch, ST PASA and MT PASA, plus the EAAP, to inform itself of the need to enter into reserve contracts when there is a projected short-term reserve shortfall situation after having given the market the opportunity to respond of its own accord;

- require NEMMCO to consult with the affected Jurisdictions when entering into reserve contracts and sharing the associated costs in short term reserve shortfall situations;
- require NEMMCO to use reasonable endeavours when it selects what it considers is the optimal portfolio of reserve contracts, given the short timeframe to make this selection; and
- require NEMMCO to ensure that entities that offer capacity under reserve contracts are not double dipping, including allowing NEMMCO to perform due diligence after the reserves have been contracted and even 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 and any load shedding being localised. Therefore, it is unlikely that any reserves contracted under the RERT will be able to be used to manage a system security event. However, the Panel considers that NEMMCO may use reserves contracted under the RERT if:

- already contracted reserves happen to be in a suitable location;
- there is more than twenty four hours notice and NEMMCO is able to contract for the associated reserves at short notice; or
- NEMMCO expects that the security event will last longer than twenty four hours and is able to contract for the associated reserves at short notice.

Therefore, the Panel is proposing to amend its RERT Guidelines to clarify NEMMCO 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 NEMMCO has oversight.

2.5 Transitional arrangements

As discussed above, the aim of the Panel is have a short-term 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 amendments to its interim RERT Guidelines; and
- NEMMCO would need to publish interim amendments to its RERT Procedures.

The Panel has prepared exposure drafts of the proposed amendments to the Rules and to its RERT Guidelines, which are published with this consultation document. The Panel intends to then prepare a Rule change proposal based on the exposure draft Rule, amended to take into account the views raised by stakeholders in submissions. The Panel would then submit this Rule change proposal to the AEMC

for its consideration, requesting that the AEMC treat the proposal as an Urgent Rule change request in accordance with section 96 of the NEL.

Amended interim RERT Guidelines and RERT Procedures

The Panel's exposure draft proposed Rule includes transitional arrangements to:

- allow the Panel and NEMMCO 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 action taken by the Panel for the development of RERT Guidelines by the commencement date of the Rule; and
- require the Panel to publish the amended RERT Guidelines by 26 February 2010 and NEMMCO to publish the amended RERT Procedures by 30 September 2010 with respect to the short term RERT in accordance with the Rules, including the Rules consultation process and procedures.

Under the proposed Rule, as it is described in this exposure draft, the Panel will be required to publish interim amendments to its RERT Guidelines within two weeks of the Rule being made and NEMMCO 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 issues raised in submissions.

The Panel understands that these first procedures will be published by NEMMCO by the 30 June 2009 in accordance with the requirements of clause 3.20.7(g) of the Rules, this publication will be before the Panel's proposals in this document commences. Therefore, the Panel envisages that NEMMCO will be able to publish interim amendments to its RERT Procedures in accordance with interim amendments of the RERT Guidelines and the proposed Rule. Further, the proposed Rule will recognise all actions taken by NEMMCO for the publication of its first procedures will satisfy the equivalent actions for the procedures under clause 3.20.7

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 NEMMCO to publish interim amendments to the RERT Procedures to allow the short term RERT to commence operation before the 2009/10 summer, under the proposed Rule the Panel would be required to consult on these documents but would not need to follow the consultation requirements in clause 8.8.3(d) – (l).

With respect to the short term RERT the Panel is proposing that it be required to consult on relevant amendments to the RERT Guidelines by 26 February 2010 and that NEMMCO be required to consult on relevant amendments to the RERT Procedures by 30 September 2010.

2.6 Recovering the costs of operating the short-term RERT

The proposed amendments to the Rules and the Panel's RERT Guidelines provide an additional process for NEMMCO 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 term 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 this date or prior to this date. Therefore, as it is proposed that the short-term RERT be implemented by amending the existing RERT in the Rules, the short term RERT will also be subject to the same expiry date and review.

The Panel is seeking the view of stakeholders as to whether the same or a different expiry date and review should apply to the short term RERT.

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."¹⁵

One of the potential changes to the reliability settings considered by the Panel was to the Reserve Trader.¹⁶ 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."¹⁷

Therefore, 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 NEMMCO's flexibility when contracting for reserves."¹⁸

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 term 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 NEMMCO to reserve contract with as little as one day of notice, are warranted. In making this recommendation, the Panel notes that:

¹⁵ Page xii of the Panel's Comprehensive Reliability Review, December 2007.

¹⁶ The Reliability Trader existed in the Rules prior to the RERT coming into effect on 1 July 2008.

¹⁷ Page 76 of the Panel's Comprehensive Reliability Review, December 2007.

¹⁸ Page 77 of the Panel's Comprehensive Reliability Review, December 2007.

- 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;
- NEMMCO 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 NEMMCO to enter into reserve contracts with increased flexibility, including at short notice; and
- the proposed amendments to the RERT may promote the utilisation of demand side reserves in the NEM by providing an enhanced mechanism for contracting for reserves with end users.

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.

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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, resulting from this Exposure Draft, to the AEMC, and the power that the Panel considers that the AEMC has to consider the Rule change proposal.

The Panel has attached a copy of the Exposure Draft of the Rule.

3.1 Description of the Proposed Rule

The Panel's Exposure Draft relates to improving the power system reliability through:

- inserting clause 3.20.8(a)(5) to clarify that the Panel is to include the process NEMMCO should undertake in contracting for reserves including the process for reserve contracts for short-term situations;
- inserting clause 3.20.3(d1) to clarify that NEMMCO can negotiate reserve contracts at anytime, thus allowing NEMMCO to form a RERT panel;
- amending clause 3.20.7(a) to clarify that NEMMCO may dispatch contracted reserves during both reliability and security events ; and
- amending the savings and transitional Rule 11.21 to allow the Panel to publish interim amendments to the RERT Guidelines and to allow NEMMCO 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 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 intends to request that the AEMC:

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

Under section 91(4) 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 this Law 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 includes:

“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”.

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 the Rule change proposal, resulting from this Exposure Draft, 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 NEMMCO’s ability to contract for and dispatch contracted reserves).

The Panel views that the Rule change proposal, resulting from this Exposure Draft, is a matter that the AEMC may make a Rule.

Specifically, the proposed Rule is also within 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 NEMMCO’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 intends to request 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 NEMMCO; or

(b) the safety, security or reliability of the national electricity system.”

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

- facilitating NEMMCO’s procurement of reserves with 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 NEMMCO Procedures in place by about September to ensure that NEMMCO has sufficient time to form a RERT panel to manage the short-term RERT process.

Failure to expedite the proposed Rule under section 96 of the NEL could create the risk of insufficient time for NEMMCO 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 NEMMCO 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 clause 8(d) of the Regulations¹⁹, 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 NEL²⁰:

“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 the enhancements to the RERT to clarify that NEMMCO may contract for reserves at short notice are likely to lead to more efficient utilisation of potential electricity services through 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. The Panel also considers that these benefits are likely to outweigh the costs of procuring and dispatching or activating these contracted reserves as, during times of supply scarcity, those entities that are able to offer reserves will be able to 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 to consumers.

¹⁹ National Electricity (South Australia) Regulations, version 1.1.2008.

²⁰ National Electricity (South Australia) Act 1996.

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 chapter presents, in accordance with clause 8(e) of the Regulations²¹, 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 and costs

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 NEMMCO to procure additional reserve capacity at times of projected shortfall with short notice;
- providing another mechanism for allowing consumers to negotiate demand side responses (DSR), 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 NEMMCO through the possible need to administer the RERT; and
- reducing the need for NEMMCO to issue directions and instructions to restore the power system to a reliable operating state.

²¹ National Electricity (South Australia) Regulations, version 1.1.2008.

Appendix A Exposure Draft Rule

Exposure Draft Rule: Short-term RERT (1 May 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) *NEMMCO* must take all reasonable actions to ensure reliability of *supply* 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) *NEMMCO* must have regard to the following principles ('RERT principles') in exercising the RERT under paragraph (a):
 - (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.
- (c) In having regard to the *RERT principles*, *NEMMCO* must have regard where relevant to the *RERT guidelines*.

3.20.3 Reserve contracts

- (a) *NEMMCO* 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) *NEMMCO 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.*
 - (c) *NEMMCO must consult with persons nominated by the relevant participating jurisdictions in relation to any determination to enter into contracts under paragraph (b).*
 - (d) *NEMMCO must not enter into, or renegotiate, a reserve contract more than nine months prior to the date that NEMMCO reasonably expects that the reserve under that contract may be required to ensure reliability of supply.*
 - (d1) *For the avoidance of doubt, NEMMCO may negotiate with potential tenderers at any time.*
 - (e) *Subject to paragraph (d), NEMMCO may :*
 - (1) *enter into reserve contracts; or*
 - (2) *renegotiate existing reserve contracts,*

in addition to the contracts already entered into by NEMMCO under this rule 3.20.
 - (f) *In entering into reserve contracts under paragraph (b) NEMMCO 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 NEMMCO determines that it is necessary to commence contract negotiations for the provision of additional reserves, NEMMCO must publish a notice of its intention to do so.*
 - (h) *When contracting for the provision of scheduled reserves under scheduled reserve contracts, NEMMCO 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 NEMMCO 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 NEMMCO seeks to enter into a reserve contract with a Registered Participant then the Registered Participant must negotiate with NEMMCO in good faith as to the terms and conditions of the contract.*
- (j) *NEMMCO 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 NEMMCO relates except in accordance with the contract.*

3.20.4 Dispatch pricing methodology for unscheduled reserve contracts

- (a) Subject to paragraph (c), *NEMMCO* 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) *NEMMCO* may develop and *publish* the methodology developed in accordance with this clause 3.20.4 as part of the methodology *NEMMCO* is required to develop under clause 3.9.3(e).
- (c) *NEMMCO* 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 NEMMCO's risk management and accounts relating to the reliability safety net

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

3.20.6 Reporting on RERT by NEMMCO

- (a) If a *scheduled generating unit*, *scheduled network service* or *scheduled load* under a *scheduled reserve contract* with *NEMMCO* is *dispatched* or *generating units* or *loads* are activated under an *unscheduled reserve contract*, then *NEMMCO* 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 *NEMMCO* to *dispatch* the *scheduled reserves* or *activate* the *unscheduled reserves*,and if applicable:
 - (5) reasons why *NEMMCO* 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 *NEMMCO* 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 *NEMMCO* 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, *NEMMCO* 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 *NEMMCO*, in each *region*.
- (c) Within 30 *days* of the end of each *financial year* in which *NEMMCO* has exercised the *RERT*, *NEMMCO* 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 NEMMCO's exercise of the RERT

- (a) Notwithstanding clauses 4.8.5A and 4.8.5B, if *NEMMCO* 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, *NEMMCO* may *dispatch* such *scheduled reserves* or *activate* such *unscheduled reserves* in order to ensure that the reliability and the security of *supply* in a *region* or *regions* meets the relevant *power system security and reliability standards* established by the *Reliability Panel* for the *region*, or *regions*.
- (b) *NEMMCO* 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), *NEMMCO* 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* NEMMCO 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) 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* 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 NEMMCO.
- (f) When exercising the *RERT* under this rule 3.20, NEMMCO must take into account the *RERT guidelines*.
- (g) NEMMCO must *publish* the first procedures referred to in paragraph (e) by 30 June 2009.
- (h) NEMMCO must, in respect of its procedures referred to in paragraph (e), *publish* amendments with respect to measures to contract for *reserves* for short term reliability of *supply* and *power system security* situations by 30 September 2010.

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 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) the process *NEMMCO* should undertake in contracting for *reserves* for short term reliability of *supply* and *power system security* situations;
 - (6) any specific or additional assumptions about key parameters that *NEMMCO* must take into account in assessing the cost effectiveness of exercising the *RERT*;
 - (7) matters relevant to *NEMMCO* managing a portfolio of *reserve contracts*; and
 - (8) additional forecasts that *NEMMCO* 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), *publish* amendments with respect to matters relevant to *NEMMCO* contracting for *reserves* for short term reliability of *supply* and *power system security* situations.

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 10 Definitions

reserve contract

A scheduled reserve contract or an unscheduled reserve contract.

scheduled reserve contract

A contract entered into by *NEMMCO* for the provision of *scheduled reserve* in accordance with rule 3.20.

unscheduled reserve contract

A contract entered into by *NEMMCO* for the provision of *unscheduled reserve* in accordance with rule 3.20.

Chapter 11 Savings and Transitional Rules

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 NEMMCO procedures for exercising RERT

- (a) *NEMMCO* 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* for short term reliability of *supply* and *power system security* situations within one month of the commencement date, and may further amend the procedures from time to time prior to 30 September 2010.
- (b) For the purposes of clause 11.xx.2(a):
 - (1) *NEMMCO* 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 *NEMMCO 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) 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 *NEMMCO* contracting for *reserves* for short term reliability of *supply* and *power system security* situations within two weeks of the commencement date.
- (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* does not need 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 Exposure Draft Amendments to the Interim RERT Guidelines

Exposure Draft Interim Reliability and Emergency Reserve Trader (RERT) Guidelines

(under clause 3.20.8 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 NEMMCO to take all reasonable actions to ensure reliability of *supply* by negotiating and entering into contracts to secure the availability of *reserves* under *reserve contracts*.¹ NEMMCO 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 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 *reserves* that are 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) the process NEMMCO should undertake in contracting for *reserves* including the process for *reserve contracts* for short-term reliability or security situations;
- (6) any specific or additional assumptions about key parameters that NEMMCO must take into account in assessing the cost effectiveness of exercising the *RERT*;
- (7) matters relevant to NEMMCO managing a portfolio of *reserve contracts*; and
- (8) additional forecasts that NEMMCO should take into account prior to exercising the *RERT*.

¹ Rule 3.20 of the *Rules*.

² Clause 3.20.2(a) of the *Rules*.

³ Clause 3.20.8(a) of the *Rules*.

Sections 3 to xx 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 *NEMMCO* is determining whether to enter into contracts for the provision of additional *reserves* under clause 3.20.3; and
- (2) Stage 2: when *NEMMCO* 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 NEMMCO must take into account when deciding whether to exercise the RERT

NEMMCO must inform itself of the circumstances relating to reliability of *supply* when deciding whether to exercise the *RERT*. *NEMMCO* must 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) Where *NEMMCO* has more than four weeks of notice

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

- the details of the outcome of the *medium term PASA*;
 - the details of the drought studies prior to *NEMMCO* publishing the first *energy adequacy assessment projection (EAAP)* (due on 31 March 2010), and the outcome of the *EAAP* after the *publication* of the first *EAAP*⁵; and
 - any other information that *NEMMCO* reasonably identifies to be necessary.
- (b) Short term situations where *NEMMCO* has between twenty four hours and four weeks of notice

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

- the details of the outcome of the *medium term PASA*, *short term PASA* and *pre-dispatch* processes;
- the details of the drought studies prior to *NEMMCO* publishing the first *energy adequacy assessment projection (EAAP)* (due on 31 March 2010), and the outcome of the *EAAP* after the *publication* of the first *EAAP*⁶; and

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

- any other information that *NEMMCO* reasonably identifies to be necessary.

4.2 During Stage 2 of the RERT process

During Stage 2 of the *RERT* process, *NEMMCO* 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*:

- 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 *NEMMCO* 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 *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.

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

When exercising the *RERT*, *NEMMCO* must have regard to the action that is expected to create 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, *NEMMCO* 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 *NEMMCO*, in its reasonable opinion, considers would have applied had the *NEMMCO intervention event* not occurred.

The considerations 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 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*.

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 *NEMMCO* in consultation with the relevant *participating jurisdictions* in accordance with

⁶ 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*.

clause 3.20.3 of the *Rules*. The factors that would be relevant to this consideration and consultation include:

- the cost for stages 1 and 2 (as defined to 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 *NEMMCO* would need to pay if it terminates an existing contract early (this is unlikely to apply in short-term 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.

6 NEMMCO’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 *NEMMCO* forming a panel of potential suppliers of contracted *reserves*. *NEMMCO* was concerned because the AEMC in its determination 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 *NEMMCO* may use a *RERT* panel to increase its flexibility when contracting for *reserves* but *NEMMCO* is expected to use the full tender process when more than ten weeks of notice exists.

6.1 Situations with more than ten weeks of notice

The Panel considers that *NEMMCO* should not rely exclusively on the *RERT* panel when it has more than ten weeks notice of a projected need for contracted *reserves*. Under these conditions *NEMMCO* should conduct a full tender process which should include requesting tender responses from both members of the *RERT* panel and other potential reserve providers.

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.

6.2 Operation of the RERT panel for situations with between four and ten weeks notice

NEMMCO should form a *RERT* panel of entities that can potentially provide *reserves* under contract.

NEMMCO should:

- operate the *RERT* panel on a continuous basis and regularly recruit new *RERT* panel members;
- treat information on the *RERT* panel membership as confidential; and
- develop a standard form *RERT reserve contract* for use in situations with between four and ten weeks notice.

Members of the *RERT* panel:

- would negotiate technical and legal issues with *NEMMCO* in sufficient detail for them to be able to enter in *reserve contracts* if *NEMMCO* uses the *RERT* at short notice;
- do not receive any payments from *NEMMCO* for being a member of the *RERT* panel;
- are free to contract their capacity with other parties, including *Market Participants*; and
- should advise *NEMMCO*, to the extent possible, if their *reserves* are not able to be contracted under the *RERT* over the next two years.

The Panel considers that the expressions of interest from entities that wish to be members of the *RERT* panel for short-term situation 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 indicative enablement and usage prices;
- any period in the next two years during which the service would be unavailable due to the fact that it is already contracted to other parties;
- submitting an expression of interest that conforms to the service description in the standard form of *RERT reserve contract*;
- an estimate of the likelihood that the service would be available if the *RERT* panel member was advised of a requirement within between four and ten weeks of notice;
- twenty four hour contact details; and
- an undertaking to advise *NEMMCO* of changes of any of the above details as soon as reasonably practical after the *RERT* panel member becomes aware of the change.

6.3 Operation of the RERT panel in short-term situations (between twenty four hours and four weeks of notice)

The Panel considers that, in addition to the requirements in section 6.2, for situations with between twenty four hours and four weeks of notice:

- *NEMMCO* will need to develop a standard form for *reserve contracts* in situations with between twenty four hours and four weeks of notice; and
- members of the *RERT* panel that are interested in providing *reserves* with between twenty four hours and four weeks of notice will be required to provide *NEMMCO* with detailed expressions of interest to provide *reserves*.

The Panel considers that the expressions of interest from entities that wish to be members of the *RERT* panel for short-term situation 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 indicative enablement and usage prices;
- any period in the future during which the service would be unavailable due to the fact that it is already contracted to other parties;
- submitting an expression of interest that conforms to the service description in the standard form of *RERT reserve contract*, thus indicating their willingness to participate in an expedited tendering process for the provision of *reserves* if called upon by *NEMMCO* with between twenty four hours and four weeks of notice;
- an estimate of the likelihood that the service would be available if the *RERT* panel member was advised of a requirement within between twenty four hours and four weeks of notice;
- twenty four hour contact details; and
- an undertaking to advise *NEMMCO* of changes of any of the above details as soon as reasonably practical after the *RERT* panel member becomes aware of the change.

When *NEMMCO* makes a decision to procure *RERT* services with between twenty four hours and four weeks of notice then it would publish to all members of the *RERT* panel 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 min/max usage times etc);
- the required enablement time;
- the proposed enablement and usage prices; and
- confirmation that the service is not already contracted for the period covered by the schedule.

Based on this information *NEMMCO* 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.

In short-notice situations of between twenty four hours and four weeks of notice, *NEMMCO* reserves the right to only invite tenders from those *RERT* panel members that agreed to participate in an expedited tendering process and to submit complying service offers.

7 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

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

7.1 Situations of more than four weeks of notice

In situations where there is more than four weeks of notice the steps which NEMMCO may take to inform itself if the *reserves* are not the subject of any other arrangements include:

- requiring a tenderer⁸ at the initial tender process for *reserve contracts* to enter into an undertaking with NEMMCO which states that the *reserve* is not available to the *market* through any other arrangement;
- making reasonable enquiries in the *market*;
- assessing any information that is available to NEMMCO and relevant to whether the *reserves* are available to the *market* through any other arrangement; and
- improving NEMMCO's measures when it develops its RERT procedures to reduce the likelihood that NEMMCO 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 term situations with between twenty four hours and four weeks of notice

In short term situations, with between twenty four hours and four weeks of notice, the steps that NEMMCO may take to inform itself if the *reserves* are not the subject of other arrangements should include:

- requiring a member of the RERT panel to inform NEMMCO 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*, NEMMCO must 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.

Following dispatch or activation of *reserves* and prior to settlement, NEMMCO must check the accuracy of the RERT panel members' declaration by:

- making reasonable enquiries in the *market*; and
- assessing any information that is available to NEMMCO and relevant to whether the *reserves* are available to the *market* through any other arrangement.

NEMMCO should include a provision in its *reserve contracts* that prevent payment under the contract when the *reserves* have been shown to be subject to another arrangement at the time the *reserves* are contracted for, *dispatched* or *activated*.

NEMMCO's RERT procedures should consider what measures are necessary to reduce the likelihood that NEMMCO 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 A tenderer means a prospective party to a reserve contract.

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

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

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

Under clause 11.21.3 of the *Rules*, before NEMMCO publishes the first procedures for the exercise of the RERT (due by 30 June 2009), it may develop, publish, and may amend from time to time, interim procedures for the exercise of the RERT. Under 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*.

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

The relevant actions that NEMMCO may take in relation to the exercise of the RERT with more than ten weeks of notice include:

- establishing arrangements for contracting *reserves* in situations where there is more than ten weeks of notice;
- continually monitoring the *medium term PASA* and the *EAAP*, and any other information it 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 NEMMCO is determining whether to contract for *reserves* in;
- calling for tenders from RERT panel 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 NEMMCO, 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 NEMMCO 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 four and ten weeks of notice

The relevant actions that NEMMCO may take in relation to the exercise of the RERT with between four and ten weeks of notice include:

- establishing arrangements for contracting for *reserves* in situations where there is between four and ten weeks of notice;
- continually monitoring the *medium term PASA* and the *EAAP* , and any other information it 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 *NEMMCO* is determining whether to contract for *reserves* in;
- advising on *RERT* panel members in relation to providing for *reserves* in the respective *regions* or in some circumstances, combined *regions*;
- evaluating the offers from *RERT* panel members and dispensing with any 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 *NEMMCO*, taking into account the optimal combination of contracts to deliver the *reserves* necessary to meet the shortfall;
- selecting the offers that *NEMMCO* 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 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-term situations

The relevant actions that *NEMMCO* may take in relation to the exercise of the contracting for *reserves* for situations with between twenty four hours and four weeks of notice, as defined in clause 3.20.8(a)(5), include:

- establishing arrangements for contracting for *reserves* in situations where there is between twenty four hours and four weeks of notice;
- continually monitoring the *pre-dispatch schedule*, *short term PASA*, *medium term PASA* and the *EAAP* for periods of low *reserves*;
- determining whether to enter into *reserve contracts*;
- consulting with persons nominated by the relevant *participating jurisdictions* which *NEMMCO* is determining whether to contract for *reserves* in;
- using a *RERT* panel arrangement for the purpose of identifying expressions of interest for entities with capacity to contract for *reserves*;
- advising on *RERT* panel members in relation to providing for *reserves* in the respective *regions* or in some circumstances, combined *regions*;
- evaluating the expressions of interest from the *RERT* panel members;
- selecting the optimal portfolio of *reserve contracts* to meet a shortfall from the available expressions of interest using reasonable endeavours, taking into account the amount of notice available;
- monitoring the *pre-dispatch schedule*, *short term PASA*, *medium term PASA* and the *EAAP* to determine if there have been any changes since the expression of interest were 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.

9 Use of contracted reserves for security events

NEMMCO may use *reserves* contracted under the *RERT* for a *system security* event in a *transmission network* if:

- already suitable contracted *reserves* are in a suitable location;
- there is more than twenty four hours of notice and *NEMMCO* is able to contract for the associated *reserves* at short notice; or
- *NEMMCO* expects that the security event will last longer than twenty four hours and is able to contract for the associated *reserves* at short notice.