

31 May 2018

Mr John Pierce
Chairman
Australian Energy Market Commission
Via electronic submission

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Dear Mr Pierce

Consultation paper – National Electricity Amendment (Reinstatement of long notice Reliability and Emergency Reserve Trader) Rule 2018

Project reference ERC0238

AEMO welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Consultation Paper on reinstating the long notice Reliability and Emergency Reserve Trader provision within the National Electricity Rules (NER) (**Consultation Paper**).

As the proponent of the rule change, AEMO continues to support the proposed solution to increase the procurement lead time for the Reliability and Emergency Reserve Trader (RERT) under the NER to nine months, up from 10 weeks.

The AEMC has sought views from stakeholders on a range of issues within the consultation paper. AEMO's response to Questions 2, 4 and 5 is provided below.

Procurement efficiency and costs (Question 2)

In accordance with 3.20.2(b), AEMO must have regard to the RERT principles in the Rules and the RERT guidelines to maximise the effectiveness of reserve contracts at the least cost to end use consumers of electricity. Reinstating long notice RERT to nine months will provide a more optimum lead time to procure a broader range of reserves which may be unable to participate in medium or short notice RERT. While the considerations raised in the consultation paper regarding forecasting uncertainty and their impact on direct costs are noted, AEMO clarifies the following matters.

Direct costs:

AEMO considers a range of available information when performing our long, medium and short-term forecasting functions, including in the assessment of risks of supply shortfalls affecting a region or regions. While forecasts are, by definition, uncertain, they are a point-in-time statistical expectation of possible future outcomes, reliant upon the most accurate information provided by industry (Scheduled Generators, Market Customers, TNSPs and MNSPs) to AEMO.¹

Regardless of the procurement timeframe under discussion (long notice, medium notice, short notice), any decision made by AEMO to procure reserve is made based on the most current information AEMO has at hand. Information provided by industry can rapidly change

¹ Industry provides AEMO with a range of information including generation, transmission and market network service maintenance scheduling; intended plant availabilities; energy constraints; other plant conditions which could materially impact upon power system security and the reliability of supply; significant changes to load forecasts etc.

in response to entities own operational considerations or responses to market conditions. These changes are beyond AEMO's control and must be constantly reconsidered to ensure supply reliability risks are identified and managed.

While this may result in the need to make a procurement decision earlier than 10 weeks ahead of a potential supply shortfall, AEMO remains of the view that the '*direct costs*' of this procurement decision are reflective of the market offering and commensurate with the risks for which AEMO is aware of at a point in time and for which we are obligated to manage.

It should also be noted that forecasting uncertainty can apply in both direction. If the need to procure reserves increases over time, then there is potential for the procurement requirement to not be met in its entirety with the cost being potential load shedding of customers.

Preliminary position on RERT guidelines and AEMO's RERT procedure (Question 4)

With regard to the proposed approach for modifications to the Reliability Panel's RERT Guidelines, AEMO is supportive of the Commission's preliminary position and amendments set out in Appendix C of the Consultation Paper.

With regard to the proposed approach for modifications to AEMO's RERT Procedures, the AEMC has presented three options to reflect the RERT framework under a final rule.² Of the three options presented, AEMO's preference is option three:

'Have a transitional rule reinstating the old (pre-expiry of the long-notice RERT) RERT procedure (without any accompanying consultation requirements).'

AEMO supports option three as it provides the ability for AEMO to quickly and efficiently publish the RERT procedure (version 3.1) for which industry are already familiar and which was in effect for industry and long notice providers operating under long-notice provisions for summer 2017-18.

In addition, the timeframe required to tender, negotiate, procure and engage reserves which may be willing to participate in long notice situations ahead of this summer (2018-19) is already tight. If a rule is made by the Commission on 21 June 2018 to reinstate long notice RERT, any opportunities to maximise the tender and negotiation timeframe will increase opportunities for long notice providers to respond, improving AEMO's ability to negotiate the most cost-efficient outcomes.

If option three is determined, AEMO would only require minor administrative changes to the former version 3.1 of the RERT procedure. These administrative changes would remove redundant references to the superseded version of the Reliability Panel's RERT Guidelines; and Chapter 11 transitional rules made in response to historical rule changes which are no longer applicable. It is noted that further adjustments may be required pending the outcome of the consultation.

For the minimisation of uncertainty, AEMO has attached a mark-up of version 3.1 of the RERT procedure that could be reinstated if option three were to be supported in the final determination (Refer Attachment).

² Refer AEMC consultation paper s5.3.2.

Option for temporary reinstatement (Question 5)

AEMO agrees that it is appropriate that concurrent, market design changes which are relevant to the RERT, including the National Energy Guarantee and the pending Enhanced RERT rule change proposal,³ must be considered in making any changes to the regulatory framework. We recognise that other market design changes may support increased competition and, in the future, supplant the role of the long notice RERT. We do, however, considers it to be good regulatory practice to avoid assumptions about future regulatory changes that have yet to be decided upon.

A two-year temporary reinstatement of the long notice RERT has been put forward for consideration in the Consultation Paper, upon which it has been proposed that the long notice RERT would expire and revert back to 10 weeks.⁴

In the absence of other market design changes, AEMO considers that the benefits of increased competition that would be provided by long notice RERT will be diminished if a temporary reinstatement period is adopted. Consequently, AEMO recommends that no sunset clause is included in the rule determination.

As noted by the AEMC, the insertion of a sunset clause may itself create uncertainty for the market and for potential providers of the RERT.

For example, some providers with high mobilisation and establishment costs may remain on site for multiple seasons. If long notice RERT were to expire after two years, this would introduce uncertainty and may dis-incentivise these, or other potential long notice providers from tendering in long notice situations. It may also increase the cost of the reserve (as these establishment costs cannot be amortised over a number of seasons).

If you would like to discuss the contents of this submission further, please contact Ms Violette Mouchaileh on 03 9609 8551.

Yours sincerely



Peter Geers
Executive General Manager, Markets

Attachment: Procedure for the Exercise of RERT – v3.1 MARK-UP

³ AEMO, *Rule Change Proposal - Enhancement to the Reliability and Emergency Reserve Trader*. Available at: <https://www.aemc.gov.au/rule-changes/enhancement-reliability-and-emergency-reserve-trader>

⁴ Refer AEMC consultation paper section s.5.4.

PROCEDURE FOR THE EXERCISE OF RELIABILITY AND EMERGENCY RESERVE TRADER

PREPARED BY: Systems Capability

VERSION NO: X.X

Final

Note:

This is the Attachment to AEMO's submission to AEMC Consultation paper – National Electricity Amendment (Reinstatement of long notice Reliability and Emergency Reserve Trader) Rule 2018.

This Attachment reflects the draft markup of AEMO's RERT Procedure v3.1.

Version Control

VERSION	DATE	AUTHOR	COMMENTS
1.0	22/05/09	Evy Papadopoulos	Version consistent with the final determination of the RERT consultation
2.0	12/11/09	Evy Papadopoulos	Interim Amendments made in accordance with Rule 11.31.4(a)
2.1	27/07/10	Michael Lyons	Version established based on interim amendments to facilitate consultation
2.2	29/09/10	Michael Lyons	Version established based on responses received to first stage notice of consultation
3.0	23/11/10	Michael Lyons	Version consistent with the final determination of the RERT consultation based on interim amendments
3.1	17/10/14	Peter Biddle	Modification of procedure expire date
<u>4.0</u>	<u>19/10/17</u>	<u>Damien Sanford</u>	<u>Modified to reflect changes in the Rules 3.20.1, 3.20.3 and 3.20.8; and changes in AEMC RERT Guidelines.</u> <u>General review.</u>
<u>x.x</u>	<u>XX/XX/18</u>	<u>Damien Sanford</u>	<u>Modified to reinstate Long Notice RERT in accordance with changes in the Rules XXX.</u>

Table of Contents

DISCLAIMER	5
1. INTRODUCTION	6
2. PURPOSE	6
3. APPLICATION OF THIS PROCEDURE	6
4. ENFORCEABILITY OF THIS PROCEDURE	6
5. REQUIREMENT TO PUBLISH PROCEDURE	6
6. MEANING OF “EXERCISE”	8
7. USE OF RERT PANEL	8
7.1 Operation of RERT Panel	9
7.2 Recruitment of Members of RERT Panel	9
7.2.1 Requests for Expressions of Interest for RERT Panel Members for Medium Notice Situations	9
7.2.2 Requests for Expressions of Interest for RERT Panel Members for Short Notice Situations	10
7.3 Ensuring that Offered Reserve is not otherwise available to the Market	11
7.4 Conditions of Membership of RERT Panel	11
7.5 Retirement of RERT Panel Members	12
8. EVALUATION OF TENDERS	12
8.1 Having regard to the RERT principles	12
8.1.1 AEMO’s actions should be those AEMO reasonably expects to have the least distortionary effect on the operation of the market	12
8.1.2 AEMO’s actions should aim to maximise the effectiveness of reserve contracts at the least cost to end use consumers of electricity	13
8.2 Ensuring that Offered Reserve is not otherwise available to the Market	14
8.3 Credibility of Tenders	15
8.4 Additional Requirements	16
9. DETERMINING TO ENTER INTO RESERVE CONTRACTS	16
10. TIMING OF ENTRY INTO RESERVE CONTRACTS	16
11. PROCURING RESERVE IN COMBINED REGIONS	17
12. ENTRY INTO RESERVE CONTRACTS	17
12.1 Entry into and renegotiation of more than one Reserve Contract	17
12.2 Required provisions in Reserve Contracts	17
13. PROCUREMENT OF RESERVE IN LONG NOTICE SITUATIONS	18

13.1	Determining that there exists a Reserve Shortfall	18
13.2	Consultation with Jurisdictions	18
13.3	Publishing Notice of Intention to enter into Reserve Contracts	19
13.4	Determining to Enter into Reserve Contracts	19
13.5	Requirement for Invitation to Tender	19
13.5.1	Requirement for Rolling Tender	19
13.6	Evaluation of Tenders	20
13.6.1	Ensuring that Offered Reserve is not otherwise available to the Market	20
13.6.2	Meeting Commercial Requirements	21
13.6.3	Optimal Portfolio	21
13.7	Continuous Monitoring of Forecast Shortfall	22
13.8	Required provisions in Reserve Contracts	22
14.	PROCUREMENT OF RESERVE IN MEDIUM NOTICE SITUATIONS	23
14.1	Determining that there Exists a Reserve Shortfall	23
14.2	Determining to Enter into Reserve Contracts	23
14.3	Consultation with Jurisdictions	23
14.4	Evaluation of Tenders	23
14.4.1	Ensuring that Offered Reserve is not otherwise available to the Market	23
14.4.1	Optimal Portfolio	23
14.5	Continuous Monitoring of Forecast Shortfall	24
14.6	Required provisions in Reserve Contracts	24
15.	PROCUREMENT OF RESERVE IN SHORT NOTICE SITUATIONS	25
15.1	Determining that there Exists a Reserve Shortfall	25
15.2	Determining to Enter into Reserve Contracts	25
15.3	Consultation with Jurisdictions	26
15.4	Evaluation of Tenders	27
15.4.1	Optimal Portfolio	27
15.4.2	Ensuring that Offered Reserve is not otherwise available to the Market	27
15.5	Continuous Monitoring of Forecast Shortfall	28
16.	PUBLISHING INFORMATION ABOUT RERT	28
16.1	Publishing RERT Panel Details	28
16.2	Publishing of Reserve Contract Details	28
17.	DISPATCH OR ACTIVATION OF RESERVE	29
17.1	Relevant Considerations	29
17.2	Dispatching Reserve to Address Power System Security Events	29
17.3	Determining the Latest Time for Dispatching or Activating Reserve	29

17.4	How AEMO will Dispatch or Activate Reserve	29
18.	DEFINITIONS AND INTERPRETATION	30
	SCHEDULE 1 - GLOSSARY	31

DISCLAIMER

- ~~(a) **Purpose** - This report has been prepared by the Australian Energy Market Operator Limited (AEMO) for the sole purpose of consultation in accordance with clauses 3.20.7(e) and 11.31.4(c) of the National Electricity Rules.~~
- ~~(b) **No Reliance or warranty** - While AEMO has used due care and skill, AEMO does not warrant or represent that the information in this procedure is accurate, reliable, complete or current or that it is suitable for particular purposes. You should verify and check the accuracy, completeness, reliability and suitability of this procedure for any use to which you intend to put it, and seek independent expert advice before using it, or any information contained in it.~~
- ~~(c) **Limitation of liability** - To the extent permitted by law, AEMO and its advisers, consultants and other contributors to this procedure (or their respective associated companies, businesses, partners, directors, officers or employees) shall not be liable for any errors, omissions, defects or misrepresentations in the information contained in this procedure, or for any loss or damage suffered by persons who use or rely on such information (including by reason of negligence, negligent misstatement or otherwise). If any law prohibits the exclusion of such liability, AEMO's liability is limited, at AEMO's option, to the re-supply of the information, provided that this limitation is permitted by law and is fair and reasonable.~~

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1. Introduction

1. This Procedure for the Exercise of Reliability and Emergency Reserve Trader (“**Procedure**”) is made in accordance with Rules 3.20.7(e) and [\[insert transitional rule reference\]](#)~~11.31.4(e)~~ and the *RERT guidelines*.

2. This Procedure may be amended in accordance with Rule 3.20.7(e).

~~3. This Procedure expires at the same time as Rule 3.20¹~~

2. Purpose

This document details the process *AEMO* will follow when exercising the *RERT*.

3. Application of this Procedure

This Procedure applies to:

- *AEMO*; and
- Respondents to calls for offers of *reserve*.

4. Enforceability of this Procedure

This Procedure is enforceable in accordance with Rule 3.20.

5. Requirement to Publish Procedure

~~The National Electricity Amendment (NEM Reliability Settings: Information Safety Net and Directions) Rule 2008 No. 6 made a number of changes to the framework by which *reserve* is addressed under the *Rules*. On 15 October 2009, the *AEMC* made the National Electricity Amendment (Improved RERT Flexibility and Short notice Reserve Contracts) Rule 2009 No. 19 that amended this framework.~~

AEMO’s fundamental obligation with respect to the management of *reserve* is contained in Rule 3.20.2, which states:

- (a) *AEMO* must take all reasonable actions to ensure reliability of *supply* and, where practicable, take all reasonable actions to maintain *power system security* by negotiating and entering into contracts to secure the availability of *reserves* under *reserve contracts* (‘reliability and emergency reserve trader’ or ‘RERT’) in accordance with:
 - (1) this rule 3.20;
 - (2) where relevant:

¹~~See Rule 3.20.1.~~

- (i) clauses 1.11, 3.8.1, 3.8.14, 3.9.3, 3.12, 3.12A.5, 3.15.6, 3.15.9, 4.8.5A and 4.8.5B; and
- (ii) any other provision of the *Rules* necessary to exercise the *RERT*;
- (3) the *RERT principles*; and
- (4) the *RERT guidelines*.
- (b) *AEMO* must have regard to the following principles ('*RERT principles*') in exercising the *RERT* under paragraph (a):
 - (1) actions taken should be those which *AEMO* reasonably expects, acting reasonably, to have the least distortionary effect on the operation of the *market*; and
 - (2) actions taken should aim to maximise the effectiveness of *reserve contracts* at the least cost to end use consumers of electricity.
- (c) In having regard to the *RERT principles*, *AEMO* must have regard where relevant to the *RERT guidelines*.

Rule 3.20.7(e) requires the *publication* of a procedure by which the *RERT* is to be exercised. It states:

- (e) *AEMO* must develop, *publish*, and may amend from time to time, in accordance with the *Rules consultation procedures*, procedures for the exercise of the *RERT* under this rule 3.20 that take into account the *RERT principles* and *RERT guidelines*. These procedures must include measures to be adopted in order to reduce the possibility that *generating units* or *loads* likely to be *activated* under *unscheduled reserve contracts* are otherwise engaged at the time the *unscheduled reserve contracts* are entered into by *AEMO*.

~~Moreover, Rule 11.31.4(c) requires the publication of amendments to this Procedure. It states:~~

- ~~(e) — *AEMO* must, in respect of its procedures referred to in clause 3.20.7(e) and in accordance with that clause, develop and publish amendments by 30 November 2010, with respect to measures to contract for reserves in relation to long, medium and short notice situations, as described in amendments to the *RERT guidelines* published in accordance with clause 11.31.3(d), to ensure reliability of supply and, where practicable, to maintain power system security.~~

Where required, this Procedure takes into account the *RERT principles* and *RERT guidelines*.² The former is contained in Rule 3.20.2(b), while the latter have been published by the *Reliability Panel*.³

~~The changes made to the *Rules* on 15 October 2009 require this Procedure to facilitate the acquisition of reserve in three different types of situations prescribed in the *RERT guidelines* developed and published in accordance with Rule 11.31.3, namely:~~

1. Where *AEMO* has more than 10 weeks' notice of a potential shortfall in reserves ("**Long Notice Situations**");
2. Where *AEMO* has between 10 weeks' and 7 days' notice of a potential shortfall in reserves ("**Medium Notice Situations**") and

² See also Rule 3.20.7(f) that requires *AEMO* to take the *RERT guidelines* into account when exercising the *RERT*.

³ A copy of the *RERT guidelines* can be found at: [insert new footnote reference to RERT Guidelines](http://www.aemc.gov.au/Markets-Reviews-Advice/Consultation-on-the-Amended-RERT-Guidelines/)
<http://www.aemc.gov.au/Markets-Reviews-Advice/Consultation-on-the-Amended-RERT-Guidelines/>

3. Where AEMO has between 3 hours' and 7 days' notice of a potential shortfall in reserves ("**Short Notice Situations**").

~~Also enacted were transitional provisions in the *Rules*⁴ requiring AEMO to develop and publish interim amendments to this Procedure within 4 weeks of 15 October 2009 without the need for a consultation in accordance with the *Rules consultation procedures*, on the proviso that a consultation on this Procedure would occur and amendments to this Procedure be published prior to 30 November 2010.⁵~~

6. Meaning of "Exercise"

Rule 3.20.7(e) requires this document to detail the procedures for the "exercise" of the *RERT* under Rule 3.20.

AEMO takes this to mean that this Procedure must detail all the processes AEMO will undertake from the moment a *reserve* shortfall has been forecast in one or more *regions*, through to the procurement and entry into *reserve contracts* and the *dispatch* of *scheduled reserve*, or *activation of unscheduled reserve*.

Section 3 of the *RERT guidelines* divides these activities into two stages. It states:

The operation of the *RERT* is divided into the following two stages:

- (1) Stage 1: when AEMO is determining whether to enter into contracts for the provision of additional reserves under clause 3.20.3; and
- (2) Stage 2: when AEMO is considering whether to *dispatch scheduled reserves* under *scheduled reserve contracts* or *activate unscheduled reserves* under *unscheduled reserve contracts* under clause 3.20.7.

Stage 1 is covered by sections 7 to 15 of this Procedure, and Stage 2 is covered by section 17 of this Procedure.

7. Use of RERT Panel

Section 6 of the *RERT guidelines* indicates that AEMO should form a panel of entities that may be called upon to tender for, and enter into, a *reserve contract* in Medium Notice Situations and Short Notice Situations ("**RERT Panel**"). Importantly, AEMO is not permitted to rely exclusively on the RERT Panel in Long Notice Situations. Section 6.2 states:

AEMO should not rely exclusively on the *RERT* panel when it has more than ten weeks' notice of a projected shortfall in reserves. Under these circumstances, AEMO is expected use a full tender process, which should include requesting tender responses from both members of the *RERT* panel and other potential reserve providers.

~~The Panel considers that AEMO should not rely exclusively on the *RERT* panel when it has more than ten weeks notice of a projected shortfall in reserves. Under these circumstances, AEMO is expected to use the~~

⁴ See Rule 11.31.4(a).

⁵ See Rule 11.31.4(e).

~~full tender process, which should include requesting tender responses from both members of the RERT panel and other potential reserve providers.~~

This means that, where a *reserve* shortfall is forecast more than 10 weeks into the future, AEMO will need to conduct an invitation to tender as detailed in section 13.5 of this Procedure.

7.1 Operation of RERT Panel

Section 6.1 of the *RERT guidelines* details how the RERT Panel should be operated. The relevant part of section 6.1 states:

AEMO should:

...

- operate the *RERT* panel on a continuous basis and periodically open the RERT panel for new members; and
- treat information on the *RERT* panel membership as confidential information.

Once constituted, the RERT Panel will provide AEMO with a source of potential *reserve* that AEMO will be able to access for Medium Notice Situations and Short Notice Situations at any time. Because of the complexity and length of time involved in assessing expressions of interest, recruitment for the RERT Panel will generally be conducted once a year, unless AEMO considers that there is a need to recruit more than once in a year. This appears to be an appropriate period between recruitments, as there is a requirement in sections 6.3 and 6.4 of the *RERT guidelines* on RERT Panel members that they provide AEMO with a 12-month projection of the availability of their *reserve*.

7.2 Recruitment of Members of RERT Panel


Section 6.1 of the *RERT guidelines* requires AEMO to issue a request for expressions of interest in order to recruit members of the RERT Panel. Its relevant part states:

AEMO may form a *RERT* panel of entities that may be called upon to tender for, and enter into, a contract for *reserves* for medium-notice situations where there is between ten weeks and seven days of notice and short-notice situations of between three hours and seven days of notice of a projected shortfall in *reserves*. The process for submitting expressions of interest for the medium-notice and short-notice *RERT* differ significantly with each process outlined in sections 6.3 and 6.4 of the *RERT guidelines*.

Although the recruitment for membership of the RERT Panel for both Medium Notice Situations and Short Notice Situations will occur concurrently, the terms of the request for expressions of interest for each will differ.

7.2.1 Requests for Expressions of Interest for RERT Panel Members for Medium Notice Situations

Section 6.3 of the *RERT guidelines* describes some of the terms of the request for expressions of interest for Medium Notice Situations as follows:



The Panel considers that *AEMO* may operate a *RERT* panel for situations with between seven days and ten weeks of notice of a projected shortfall in *reserves*, and would need to develop a standard form of *reserve contract* for use in these situations.

The Panel considers that the expressions of interest from entities that wish to be members of the *RERT* panel for medium-notice situations should conform to the standard form of *reserve contract*.

These expressions of interest should include:

- the location of the service;
- the likely available capacity;
- the minimum and/or maximum period for which the offered service is likely to be continuously available;
- the enablement time required prior to actual usage;
- any period in the next twelve months during which the service would be unavailable due to the fact that it is already contracted to other parties;
- an estimate of the likelihood that the service would be available if the *RERT* panel member was advised of a requirement within between seven days and ten weeks of notice;
- twenty four hour contact details; and
- an undertaking to advise *AEMO* of changes of any of the above details as soon as reasonably practical after the *RERT* panel member becomes aware of the change.

These requirements will be contained in *AEMO*'s request for expressions of interest documentation and proposed *reserve contract*, a copy of which will be made available with the request for expressions of interest.

7.2.2 Requests for Expressions of Interest for RERT Panel Members for Short Notice Situations

Section 6.4 of the *RERT guidelines* states that the request for expressions of interest conditions for Medium Notice Situations apply to Short Notice Situations in addition to those described in section 6.4. The relevant part of section 6.4 states:

The Panel considers that, in addition to the requirements in sections 6.1 to 6.3, for situations with between three hours and seven days of notice of a projected shortfall in *reserves*:

- *AEMO* would need to develop a standard form of *reserve contract*; and
- members of the *RERT* panel that are interested in providing *reserves* with less than seven days of notice will be required to provide *AEMO* with confirmation of the location and availability of their *reserves*.

The Panel considers that the expressions of interest from entities that wish to be members of the *RERT* panel for short-notice situations should include:

- the location of the service;
- the likely available capacity;
- the minimum and/or maximum period for which the offered service is likely to be continuous available;
- the enablement time required prior to actual usage;
- the enablement and usage prices for the service;
- any period in the next twelve months during which the service would be unavailable due to the fact that it is already contracted to other parties;
- an estimate of the likelihood that the service would be available if the *RERT* panel member was advised of a requirement with less than seven days of notice;

- twenty four hour contact details; and
- an undertaking to advise *AEMO* of changes of any of the above details as soon as reasonably practical after the *RERT* panel member becomes aware of the change.

Entities that wish to be members of the *RERT* panel for short-notice situations should submit an expression of interest that conforms to the standard form of short-notice *reserve contract*, thus indicating their willingness to participate in an expedited provision of *reserves* if called upon by *AEMO* with less than seven days of notice.

These requirements will be contained in *AEMO*'s request for expressions of interest documentation and proposed *reserve contract*, a copy of which will be made available with the request for expressions of interest.

7.3 Ensuring that Offered Reserve is not otherwise available to the Market

The *Rules* require *AEMO* to ensure that offered *reserve* is not otherwise available to the market.⁶ *AEMO* considers the expressions of interest should also require information to assist *AEMO*'s assessment of the suitability of proposed *RERT* Panel members as providers of *reserve*.

Entities wishing to be members of the *RERT* Panel will need to:

- provide written confirmation that any offered *reserve* involving the reduction of *load* is not subject to any demand side management, network support or other similar contracts or arrangements; and
- give *AEMO* their consent to contact their electricity retailer and *Network Service Provider* in whose *network* the facility they intend to use is located.

7.4 Conditions of Membership of RERT Panel

Section 6.1 of the *RERT guidelines* also prescribes some of the conditions of membership of the *RERT* Panel. The relevant part of section 6.1 states:

Members of the *RERT* panel:

- would negotiate and agree with *AEMO* on technical and legal requirements in sufficient detail for them to be able to enter into *reserve contracts* if *AEMO* uses the *RERT* with less than ten weeks notice of a projected shortfall in *reserves*;
- do not ~~receive-recover~~ any payments from *AEMO* for being a member of the *RERT* panel;
- are free to contract their capacity with other parties, including *Market Participants*; and
- should advise *AEMO* if their *reserves* are not available to be contracted under the *RERT* at any time over the next twelve months, including due to the fact that it is already contracted to other parties.

These conditions and other conditions⁷ governing the process by which *AEMO* will seek tenders to provide *reserve* from *RERT* Panel members will be contained in a contract called a "RERT Panel Agreement" that will be entered into by *RERT* Panel members and *AEMO*.

⁶ See section 8.2 for a fuller discussion.

⁷ See, for example, section 15.4.2 of this Procedure.

7.5 Retirement of RERT Panel Members

Once on the RERT Panel, members may retire in one of two ways:

1. By terminating their RERT Panel Agreement by giving AEMO not less than 90 days' notice; or
2. At the conclusion of 12 months of the commencement of their RERT Panel Agreement, if the member fails to update the information required to be updated by that Agreement in accordance with that Agreement.

Provided they do not cover any period during which a *reserve contract* might be in place, RERT members are free to enter into arrangements with other parties before the 90-day termination notice period has expired.

8. Evaluation of Tenders

There are a number of requirements AEMO must adhere to when evaluating tenders, that are common to tenders received following an invitation to tender in Long Notice Situations, Medium Notice Situations and Short Notice Situations.

8.1 Having regard to the RERT principles

Rule 3.20.2(b) requires AEMO to have regard to the *RERT principles* when exercising the *RERT*. There are two principles involved:


1. AEMO's actions should be those that AEMO reasonably expects, acting reasonably, to have the least distortionary effect on the operation of the *market*; and
2. AEMO's actions should aim to maximise the effectiveness of *reserve contracts* at the least cost to end use consumers of electricity.

8.1.1 AEMO's actions should be those AEMO reasonably expects to have the least distortionary effect on the operation of the market

This requires that AEMO act reasonably when assessing its expectations of the impact of its actions. Section 5.1 of the *RERT guidelines* provides further guidance on how AEMO should interpret this. It states:

When exercising the *RERT*, actions should be taken which AEMO reasonably expects to have the least distortionary effect on the operation of the *market*, both in relation to the short term impact on the *spot prices* and the long term impact on investment signals. In determining the action to take, AEMO must consider:

- how it ~~seeks offers, tenders~~ and contracts, for *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 ~~AEMO~~ *intervention price dispatch interval* at a value which AEMO, in its reasonable opinion, considers would have applied had the *AEMO intervention event* not occurred.



The considerations above aim to reduce the distortionary impacts from *AEMO* intervening in the *market* to respond to a projected shortfall in *reserves*, and preserve *market* signals to foster a *market* response to those projected shortfalls. It provides an appropriate balance between allowing *market* responses to projected shortfalls to develop and providing a temporary mechanism to maintain the reliability of *supply* and where practicable, *power system security*.

Essentially, *AEMO* must take both a short-term and long-term view of the financial impact on the market of exercising *RERT*. *AEMO*'s tendering processes will have both short-term and long term impacts on investment signals, however, the requirement to consider how *AEMO* tenders and contracts for *reserve* is subject to a number of mandatory requirements imposed by the *Rules* as well as the *RERT guidelines*. These affect how flexible these arrangements can be. *AEMO* will review the impact of these arrangements each time it concludes a round of tendering and contracting to identify where these arrangements can be made more efficient.

The way in which *AEMO* sets the *spot price* during an *AEMO intervention event* is a short-term impact, which is addressed in *AEMO*'s Intervention Pricing Methodology, which complies with the principles enunciated in section 5.1 of the *RERT guidelines*.

8.1.2 AEMO's actions should aim to maximise the effectiveness of reserve contracts at the least cost to end use consumers of electricity

This requires *AEMO*'s actions to balance the effectiveness of *reserve contracts* entered into against the least cost to end use consumers. The relevant part of section 5.2 of the *RERT guidelines* provides further guidance on how *AEMO* should interpret this. It states:

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

- the cost for stages 1 and 2 (as defined in section 3 of these guidelines) of the *reserve contracts* for the amount of *reserves* delivered;
- what extra payment is required to be made if the contracted *reserves* are actually *dispatched* or *activated*;
- any penalty costs that *AEMO* would need to pay if it terminates an existing contract early (this is unlikely to apply in short-notice situations);
- the nature of the *reserves* being offered including:
 - how firm the capacity is;
 - the minimum and maximum time the *scheduled reserves* could be *dispatched* under *scheduled reserve contracts* or *unscheduled reserves activated* under *unscheduled reserve contracts*; and
 - how much notice is required to *dispatch* a particular *scheduled reserve* under a *scheduled reserve contract* or *activate* an *unscheduled reserve* under an *unscheduled reserve contract*. For example, some *loads* require twenty four hours of notice so they can adjust the timing of processes, while others may only require a few hours;
- the duration of the projected capacity shortfall;
- the size of the projected capacity shortfall, in megawatts (MW); and
- the likelihood of the proposed capacity shortfall being resolved.

Where AEMO has *reserve contracts* in place to meet a projected shortfall in *reserves*, and there is ~~sufficient more than ten weeks of~~ notice of a material increase in the shortfall, it may ~~seek offers from RERT panel members and other potential reserve providers conduct additional rounds of full tendering (rolling tenders)~~ in order to achieve the optimal contract portfolio in accordance with the *RERT principles*, which may result in the execution of new *reserve contracts* or the early termination of existing *reserve contracts*.

The principle is that AEMO's actions should aim to maximise the effectiveness of *reserve contracts* at the least cost to end use consumers of electricity. AEMO must have regard to this principle at different times in the process:

- A number of assessments are required to be undertaken in consultation with the same jurisdictional representatives AEMO is required to consult with in accordance with Rules 3.20.3(c) and (f). With due regard to probity and the confidentiality of tenders and *reserve contracts*, AEMO will provide its evaluation of tenders to these representatives in Long Notice Situations and Medium Notice Situations. These assessments are:
 - The anticipated expenditures under proposed *reserve contracts*;
 - The characteristics of the offered *reserve* by reference to its location, availability or firmness, minimum and maximum time it can be *dispatched* or *activated*, and the length of notices to *activate* or *dispatch*;
 - The *reserve* shortfall by reference to its duration, location and size; and
 - The likelihood that the offered *reserve* will address the forecast shortfall;
- ~~In Long Notice Situations, AEMO is required to conduct 'rolling tenders' to try and identify more optimal combinations of offered reserve;~~⁸ and
- AEMO is required to select the least cost *reserve* when *dispatching* or *activating* it, however, where there is insufficient time for this assessment, AEMO should *dispatch* or *activate* *reserve* contracted in Long Notice Situations and Medium Notice Situations.⁹

8.2 Ensuring that Offered Reserve is not otherwise available to the Market

AEMO is required in all situations to ensure that offered *reserve* is not otherwise available to the *market*. Rules 3.20.3(h) & (j) state:

- (h) When contracting for the provision of *scheduled reserves* under *scheduled reserve contracts*, AEMO must not enter contracts in relation to capacity of *generating units*, *scheduled network services* or *scheduled loads* for which *dispatch offers* or *dispatch bids* have been submitted or are considered by AEMO to be likely to be submitted or be otherwise available for *dispatch* in the *trading intervals* to which the contract relates.
- ...
- (j) AEMO may only enter into a *reserve contract* if the contract contains a provision that the other party to the contract has not and will not otherwise offer the *reserve* the subject of the contract in

⁸ See section 13.5.1 of this Procedure for a fuller discussion on the role of "rolling tenders".

⁹Section 5.2 of the *RERT guidelines*.

the *market* for the *trading intervals* to which the contract with *AEMO* relates except in accordance with the contract.

These requirements are mandatory. *AEMO* must reject tenders in the following circumstances:

- where *dispatch offers* or *dispatch bids* have been submitted or *AEMO* considers it likely will be submitted in respect of the *reserve* the subject of the tender, or will otherwise be available for *dispatch* in the *trading intervals* to which the proposed *reserve contract* relates; and
- where the offered *reserve* is subject to deleting the provision in the proposed *reserve contract* that the provider of *reserve* will not otherwise offer the *reserve* in the *market* for *trading intervals* to which the proposed *reserve contract* relates other than in accordance with that proposed *reserve contract*.

AEMO will investigate its own records to ascertain whether it is likely that *dispatch offers* or *dispatch bids* might be submitted in respect of any offered *scheduled reserve*, or might otherwise be available for *dispatch* in the *trading intervals* to which a proposed *reserve contract* relates.

Tenderers will need to:

- provide written confirmation that any offered *reserve* involving the reduction of *load* is not subject to any demand side management, network support or other similar contracts or arrangements; and
- give *AEMO* their consent to contact their electricity retailer and *Network Service Provider* in whose *network* the facility they intend to use is located.

8.3 Credibility of Tenders

Section 8.1 of the *RERT guidelines* requires *AEMO* to assess the credibility of tenders. The relevant parts state:

The relevant actions that *AEMO* may take in relation to the exercise of the *RERT* with more than ten weeks of notice of a projected shortfall in *reserves* include:

...

- evaluating the tenders ... taking into account:
 - whether the tender is credible, that is, whether it is likely that the tenderer can deliver the offered *reserves*; ...

Whether the tenderer can deliver the offered *reserve* will be assessed by reference to whether the tenderer owns the facilities to be used to deliver the offered *reserve*. If the tenderer does not own those facilities, evidence will be sought as to the tenderer's right to offer the *reserve* and deliver it if required. A copy of a relevant contract with the owner of the relevant facilities would usually be sufficient.

Another relevant criterion is previous experience, that is, whether a tenderer has previously been awarded a *reserve contract* or any other contract to provide *reserve*, such as a demand side contract, and whether they have delivered *reserve* successfully under that *reserve contract* or reduced *load* in accordance with that other contract.

Although this requirement appears to be applicable in Long Notice Situations only, AEMO considers it appropriate that AEMO assess the credibility of tenders for *reserve* not only in Long Notice Situations, but also in Medium Notice Situations and Short Notice Situations as well as when evaluating any expressions of interest from potential RERT Panel members.

8.4 Additional Requirements

Additional requirements are applied to each of the Long Notice Situations,¹⁰ Medium Notice Situations¹¹ and Short Notice Situations.¹²

9. Determining to Enter into Reserve Contracts

Rule 3.20.3(b) states:

- (b) ~~AEMO may determine to enter into reserve contracts to ensure that the reliability of supply in a region or regions meets the reliability standard for the region and, where practicable, to maintain power system security. AEMO may determine to enter into reserve contracts to ensure that the reliability of supply in a region or regions meets the relevant power system security and reliability standards established by the Reliability Panel for the region and, where practicable, to maintain power system security.~~

A determination to enter into *reserve contracts*, therefore, is in AEMO's discretion, but will be based on an assessment of reliability of *supply* against the *Reliability Standard*¹³, having regard to:

- The *RERT principles*; and
- The *RERT guidelines*.

Rule 3.20.3(b) grants AEMO a discretion to enter into *reserve contracts* to ensure that the reliability of *supply* in one or more *regions* meets the ~~reliability standard for the region and, where practicable, to maintain power system security~~ relevant regional power system security and reliability standards established by the Reliability Panel.¹⁴ In doing so, however, AEMO is also required by Rule 3.20.3(c) to consult with persons nominated by affected *participating jurisdictions*, and agree on the cost-sharing arrangements as between affected *regions* in accordance with Rule 3.20.3(f).

10. Timing of Entry into Reserve Contracts

Rule 3.20.3(d) prevents AEMO from entering into, or renegotiating, any *reserve contract* more than 9 months prior to the date AEMO reasonably expects that the *reserve* under that *reserve*

¹⁰ See section 13.6.1 of this Procedure.

¹¹ See section 14.4 of this Procedure.

¹² See section 15.4 of this Procedure.

¹³ A copy of the Reliability Standard can be found at: <http://www.aemc.gov.au/Australias-Energy-Market/Market-Legislation/Electricity-Guidelines-and-Standards>

¹⁴ ~~This is the Reliability Standard.~~

contract may be required to ensure reliability of *supply* and, where practicable, to maintain *power system security*.

11. Procuring Reserve in Combined Regions

AEMO is permitted by sections 8.1, 8.2 and 8.3 of the *RERT guidelines* to call for tenders for *reserve* in *regions*, or combined *regions* where there is a forecast *reserve* shortfall.

The decision whether to combine *regions* for the purposes of procurement and entering into *reserve contracts* will be made by AEMO in its absolute discretion.

12. Entry into Reserve Contracts

12.1 Entry into and renegotiation of more than one Reserve Contract

The relevant parts of Rule 3.20.3 state:

- (a) AEMO may enter into one or more contracts with any person in relation to the capacity of:
 - (1) *scheduled generating units, scheduled network services or scheduled loads* (being *scheduled reserve contracts*); and
 - (2) *unscheduled reserves* (being *unscheduled reserve contracts*).
- (e) Subject to paragraph (d), AEMO may:
 - (1) enter into *reserve contracts*; or
 - (2) renegotiate existing *reserve contracts*,in addition to the contracts already entered into by AEMO under this rule 3.20.

These requirements enable AEMO to:

- enter into *reserve contracts*; and
- renegotiate the terms of existing *reserve contracts*

at any time in order to meet the requirement for *reserve*, ~~in a manner consistent with the “rolling tender” requirement imposed by the RERT guidelines.~~

12.2 Required provisions in Reserve Contracts

Both the *Rules* and the *RERT guidelines* specify that certain provisions are required to be included in *reserve contracts*.

Rule 3.20.3(j) states:

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

The relevant part of section 8.1 of the *RERT guidelines* states:

The relevant actions that AEMO may take in relation to the exercise of the *RERT* with more than ten weeks of notice of a projected shortfall in *reserves* include:

...

- giving consideration to including an early termination clause in the event that the capacity is not needed; ...

The *Rules* requirement is mandatory, but the *RERT guidelines* requirement is not. Nevertheless, *AEMO* considers it prudent that the proposed *reserve contract* include an early termination payment, to enable *AEMO* to assess whether any later offers of *reserve* would be of more benefit to end use consumers of electricity by reference to the cost of terminating an existing *reserve contract* and replacing it with another, cheaper, *reserve contract*.

13. Procurement of Reserve in Long Notice Situations

13.1 Determining that there exists a Reserve Shortfall

As required by section 4.1(a) of the *RERT guidelines*, in considering whether to enter into *reserve contracts*, *AEMO* may take into account:

- The outcome of the *medium term PASA* for periods of *low reserve*;
- The results of the *EAAP* to identify any periods of projected *energy constraints*; and
- Any other information *AEMO* reasonably identifies to be necessary.

AEMO's monitoring will continue even after *reserve contracts* have been entered into in order to be in a position to assess whether the *reserve* continues to be required or whether the quantity of *reserve* the subject of *reserve contracts* needs to be varied.

Once a *low reserve condition* is declared under Rule 4.8.4, *AEMO* must consider how to address this through a range of options, including whether to procure *reserve*.

13.2 Consultation with Jurisdictions

Rules 3.20.3(c) and (f) impose requirements on *AEMO* to consult with persons nominated by relevant *participating jurisdictions* as follows:

- (c) *AEMO* must consult with persons nominated by the relevant *participating jurisdictions* in relation to any determination to enter into contracts under paragraph (b).

and

- (f) In entering into *reserve contracts* under paragraph (b) *AEMO* must agree with the relevant nominated persons referred to in paragraph (c) cost-sharing arrangements between the *regions* for the purpose of clause 3.15.9.

Section 8.1 of the *RERT guidelines* reiterates this requirement. Thus, *AEMO* must consult with these jurisdictional representatives prior to making any decision to procure *reserve* in respect of two issues:

1. Whether to determine to enter into *reserve contracts*; and

2. The costs associated with the entry into *reserve contracts* and how they are to be shared between *Market Customers* from the affected *regions*.¹⁵

13.3 Publishing Notice of Intention to enter into Reserve Contracts

Rule 3.20.3(g) requires *AEMO* to *publish* notice of its intention to commence contract negotiations for the provision of additional *reserves*.

Because *AEMO* is required to undertake an invitation to tender process when seeking to enter into, or renegotiate, *reserve contracts* in Long Notice Situations,¹⁶ *AEMO* interprets this to mean that *AEMO* must *publish* a notice of its determination to issue an invitation to tender for the procurement of *reserve*. *AEMO* considers that it is consistent with the *RERT principles* for this notice to be *published* on *AEMO*'s website and by an *AEMO* Communication. Where appropriate, *AEMO* may also *publish* a notice in a daily newspaper that is published in the *region* for which *reserve* is being sought.

13.4 Determining to Enter into Reserve Contracts

AEMO will determine whether to enter into *reserve contracts* consistent with its discretion in Rule 3.20.3(b).¹⁷

13.5 Requirement for Invitation to Tender

For Long Notice Situations, section 8.1 of the *RERT guidelines* requires *AEMO* to undertake an invitation to tender process and section 6.2 does not permit *AEMO* to rely exclusively on the *RERT Panel*.

Hence, any invitation to tender will be open to any person who can offer *AEMO* the required *reserve*.

13.5.1 Requirement for Rolling Tender

~~Although both the *Rules* and the *RERT guidelines* are silent on this issue, the *Reliability Panel's* Final Report indicated that *AEMO* was expected to conduct a "rolling tender" process, a view supported by the *AEMC*.~~

~~The *RERT guidelines*, however, address the issue of a "rolling tender" in section 5.2 as follows:~~

~~Where *AEMO* has *reserve contracts* in place to meet a projected shortfall in *reserves*, and there is more than ten weeks of notice of a material increase in the shortfall, it may conduct additional rounds of full tendering (rolling tenders) in order to achieve the optimal contract portfolio in accordance with the *RERT principles*, which may result in the execution of new *reserve contracts* or the early termination of existing *reserve contracts*.~~

¹⁵ Rule 3.15.9 requires that *AEMO*'s costs associated with contracting for the provision of *reserves* be met by fees imposed on *Market Customers*.

¹⁶ See section 8.1 of the *RERT guidelines*.

¹⁷ See section 9 of this Procedure for further details.

~~AEMO takes this to mean that, W~~where practicable, AEMO it will conduct multiple rounds of tendering in respect of the same required *reserve* and may renegotiate existing *reserve contracts* in order to achieve the optimal portfolio of *reserve contracts* to cover a projected material increase in the *reserve* shortfall, but only where there is more than 10 weeks' notice of that projected increase.

13.6 Evaluation of Tenders

When evaluating tenders received during a Long Notice Situation invitation to tender, *AEMO* may take into account the following matters in addition to the matters referred to in section 8 of this Procedure:

13.6.1 Ensuring that Offered Reserve is not otherwise available to the Market

Sections 7.1 and 8.1 of the *RERT guidelines* contain relevant requirements:

[section 7.1]

In situations where there is more than seven days of notice of a projected shortfall in *reserves*, the steps which *AEMO* may take to inform itself if the *reserves* are not the subject of any other arrangements include:

- requiring a ~~prospective party to a reserve contract tenderer~~ at the initial ~~tender~~ stage for *reserve contracts*, to enter into an undertaking with *AEMO* which states that the *reserve* is not available to the *market* through any other arrangement;
- making reasonable enquiries in the *market*;
- assessing any information that is available to *AEMO* and relevant to whether the *reserves* are available to the *market* through any other arrangement; and
- improving *AEMO*'s measures when it develops its *RERT procedures* to reduce the likelihood that *AEMO* will enter into a *reserve contract* with a party who ~~has~~ made the *reserves*, the subject of the *reserve contract*, available to the *market* through any other arrangements.

[section 8.1]

The relevant actions that *AEMO* may take in relation to the exercise of the *RERT* with more than ten weeks of notice of a projected shortfall in *reserves* include:

...

- ... dispensing with any tenders that do not provide an undertaking that the *reserves* are not available to the *market* through any other arrangements except on terms agreed with *AEMO* ...

One of these requirements mandates *AEMO*'s rejection of tenders where tenderers do not provide an undertaking that the *reserve* being offered is not available to the *market* through any other arrangements except on terms agreed with *AEMO*. The other requirements are not mandatory. Nevertheless, *AEMO* considers it prudent to reject any tenders where:

- A tenderer who is offering *reserve* that involves the reduction of *load* refuses to provide *AEMO* a signed consent that enables *AEMO* to contact the tenderer's electricity retailer to confirm whether the offered *reserve* is the subject of any demand side management

or other similar contracts or arrangements during the period for which *AEMO* is seeking *reserve*; and

- A tenderer refuses to provide *AEMO* a signed consent that enables *AEMO* to contact the *Network Service Provider*, in whose *network* the facility the tenderer intends to use to provide the offered *reserve* is situated, to confirm whether the offered *reserve* is the subject of any *network support agreement* or other similar contracts or arrangements during the period for which *AEMO* is likely to need to *dispatch* or *activate reserve*.

13.6.2 Meeting Commercial Requirements

Section 8.1 of the *RERT guidelines* requires *AEMO* to assess whether the commercial requirements are met. The relevant parts state:

The relevant actions that *AEMO* may take in relation to the exercise of the *RERT* with more than ten weeks of notice of a projected shortfall in *reserves* include:

...

- evaluating the tenders ... taking into account:
 - whether the commercial requirements are met; ...

Relevant requirements include the following:

- The *reserve* offered for *dispatch* or *activation* must be at least 10MW;
- Appropriate *metering* must be installed, or if not installed at the time of tendering, will be installed before the *reserve contract* will commence;
- Single point of contact for *dispatch* or *activation of reserve*;
- Availability and reliability of offered *reserve*, including confidence in the validation of availability and reliability requirements;
- Nature and location of offered *reserve*;
- Ease with which offered *reserve* can be provided; and
- Minimal changes to *AEMO*'s preferred form of *reserve contract*.

13.6.3 Optimal Portfolio

Section 8.1 of the *RERT guidelines* requires *AEMO* to assess the optimal combination of *reserve contracts* necessary to meet a *reserve* shortfall. The relevant parts state:

The relevant actions that *AEMO* may take in relation to the exercise of the *RERT* with more than ten weeks of notice of a projected shortfall in *reserves* include:

...

- evaluating the tenders ... taking into account:
 - ...
 - the optimal combination of contracts to deliver the *reserves* necessary to meet the shortfall;
- selecting the tenders that *AEMO* considers to be the optimal portfolio of *reserve contracts*;

AEMO will evaluate all tenders as between themselves and as against all existing *reserve contracts* in order to ensure that *reserve* is procured at the least possible cost to the *market* and, where appropriate, will terminate existing *reserve contracts* in favour of entering into new, less costly, *reserve contracts*.

~~This is also reflected in section 5.2 of the *RERT guidelines* in requiring the use of a “rolling tender” process as a means of achieving the optimal portfolio.~~

13.7 Continuous Monitoring of Forecast Shortfall

Section 8.1 of the *RERT guidelines* requires that AEMO continue to monitor forecast shortfalls of *reserve*. The relevant part of section 8.1 states:

~~The relevant actions that AEMO may take in relation to the exercise of the *RERT* with more than ten weeks of notice of a projected shortfall in *reserves* include~~Following contracting of *reserves*, the actions that AEMO may take includes:

...

- monitoring the *medium term PASA* and the *EAAP* to determine if there have been any changes since the tenders were prepared and evaluated; ...

~~This requirement ties in with the requirement that AEMO conduct “rolling tenders” to ensure that an optimal portfolio of *reserve* be always available.~~

13.8 Required provisions in Reserve Contracts

As referred to in section 12.3 of this Procedure, both the *Rules* and the *RERT guidelines* specify that certain provisions are required to be included in *reserve contracts*.

In addition to the Rule 3.20.3(j) requirement, section 8.1 of the *RERT guidelines* prescribes what a *reserve contract* might contain. The relevant part of section 8.1 states:

The relevant actions that AEMO may take in relation to the exercise of the *RERT* with more than ten weeks of notice of a projected shortfall in *reserves* include:

...

- giving consideration to including an early termination clause in the event that the capacity is not needed; ...

The *Rules* requirement is mandatory, but the *RERT guidelines* requirement is not. Nevertheless, AEMO considers it prudent that the proposed *reserve contract* include an early termination payment, to enable AEMO to assess whether any later offers of *reserve* would be of more benefit to end use consumers of electricity by reference to the cost of terminating an existing *reserve contract* and replacing it with another, cheaper, *reserve contract*.

14. Procurement of Reserve in Medium Notice Situations

14.1 Determining that there Exists a Reserve Shortfall

The considerations applicable to Medium Notice Situations are identical to those applicable to Long Notice Situations.¹⁸

14.2 Determining to Enter into Reserve Contracts

Reserve contracts in Medium Notice Situations will be entered into following an assessment of tenders from RERT Panel members to provide *reserve* to meet any forecast shortfall.

14.3 Consultation with Jurisdictions

The considerations applicable to Medium Notice Situations are largely identical to those applicable to Long Notice Situations. Section 8.2 of the *RERT guidelines* replicates the requirement imposed in Long Notice Situations for Medium Notice Situations.¹⁹

14.4 Evaluation of Tenders

When evaluating tenders received *AEMO* may take into account two other matters in addition to the matters referred to in section 8 of this Procedure.

14.4.1 Ensuring that Offered Reserve is not otherwise available to the Market

Refer to section 13.6.1 of this Procedure for further details.

14.4.1 Optimal Portfolio

Section 8.2 of the *RERT guidelines* requires *AEMO* to assess the optimal combination of *reserve contracts* necessary to meet a *reserve* shortfall. The relevant parts state:

The relevant actions that *AEMO* may take in relation to the exercise of the *RERT* with between seven days and ten weeks of notice of a projected shortfall in *reserves* include:

...

- evaluating the *reserve* offers ~~from RERT panel members~~... taking into account:
 - the optimal combination of contracts to deliver the *reserves* necessary to meet the shortfall;

...

~~Following contracting of reserves, the actions that AEMO may take includes:~~

...

¹⁸ See section 13.1 of this Procedure for further details.

¹⁹ See section 13.2 of this Procedure for further details.

- selecting the *reserve* offers that *AEMO* considers to be the optimal portfolio of *reserve contracts*; ...

AEMO will evaluate all tenders as between themselves and as against all existing *reserve contracts* in order to ensure that *reserve* is procured at the least possible cost to the *market* and, where appropriate, will terminate existing *reserve contracts* in favour of entering into new, less costly, *reserve contracts*.

14.5 Continuous Monitoring of Forecast Shortfall

Section 8.2 of the *RERT guidelines* requires that *AEMO* continue to monitor forecast shortfalls of *reserve*. The relevant part of section 8.2 states:

The relevant actions that *AEMO* may take in relation to the exercise of the *RERT* with between seven days and ten weeks of notice of a projected shortfall in *reserves* include:

...

~~Following contracting of *reserves*, the actions that *AEMO* may take includes:~~

...

- continually monitoring the *medium term PASA* and the *EAAP*, and any other information *AEMO* considers is relevant, to inform itself of any periods of low *reserves* to determine if there have been any changes since the *reserve* offers were prepared and evaluated; ...

14.6 Required provisions in Reserve Contracts

As referred to in section 12.3 of this Procedure, both the *Rules* and the *RERT guidelines* specify that certain provisions are required to be included in *reserve contracts*.

In addition to the Rule 3.20.3(j) requirement, section 8.2 of the *RERT guidelines* also prescribes what a *reserve contract* might contain. The relevant part of section 8.2 states:

The relevant actions that *AEMO* may take in relation to the exercise of the *RERT* with between seven days and ten weeks of notice of a projected shortfall in *reserves* include~~Following contracting of *reserves*, the actions that *AEMO* may take includes:~~

...

- giving consideration to including an early termination clause in the event that the capacity is not needed; ...

The *Rules* requirement is mandatory, but the *RERT guidelines* requirement is not. Nevertheless, *AEMO* considers it prudent that the proposed *reserve contract* include an early termination payment, to enable *AEMO* to assess whether any later offers of *reserve* would be of more benefit to end use consumers of electricity by reference to the cost of terminating an existing *reserve contract* and replacing it with another, cheaper, *reserve contract*.

15. Procurement of Reserve in Short Notice Situations

15.1 Determining that there Exists a Reserve Shortfall

As required by sections 4.1(c) and 8.3 of the *RERT guidelines*, in considering whether to enter into *reserve contracts*, AEMO may monitor:

- the details of the outcome of the *short term PASA* and *pre-dispatch* processes; and
- any other information that AEMO reasonably identifies to be necessary,

for periods of *lack of reserve condition* level 2 (“LOR2”)

Once an LOR2 is declared under Rule 4.8.4, AEMO must consider how to address this through a range of options, including whether to procure *reserve*.

15.2 Determining to Enter into Reserve Contracts

Reserve contracts in Short Notice Situations will be entered into following an assessment of tenders received from RERT Panel members to provide *reserve* to meet any forecast shortfall.

Section 6.1 of the *RERT guidelines* also prescribes the process by which AEMO may enter into *reserve contracts*. The relevant part of section 6.1 states:

When AEMO makes a decision to contract for *reserves* with between three hours and seven days of notice of a projected shortfall in *reserves*, then it would *publish* to all eligible members of the *RERT* panel (that is, those with *reserves* in the associated *region* that can be *dispatched* or *activated* within the period of *reserve* shortfall) a schedule of the requirements and request members to confirm by a set deadline:

- the availability of the service for the period covered by the schedule (capacity and minimum/maximum usage times etc);
- the required enablement time;
- confirmation that the service is not already contracted for the period covered by the schedule.

Based on this information AEMO would then determine, in accordance with the *RERT principles*, which services should be procured to meet the schedule of requirements and would then contract with these selected *RERT* panel members on the basis of the standard terms and conditions of the short-notice *reserve contract*.

Additionally, section 8.3 of the *RERT guidelines* requires AEMO to exclude tenders from those RERT Panel members that are costlier than a defined benchmark. The relevant part of section 8.3 states:

The relevant actions that AEMO may take in relation to the exercise of the *RERT* for situations with between three hours and seven days of notice of a projected shortfall in *reserves*, as defined in clause 3.20.8(a)(6), include:

...

- excluding in advance entities from the *RERT* panel for short-notice situations that have an average cost (in \$/MWh) that is greater than the maximum average price threshold approved by the respective *participating jurisdiction*;

Finally, section 6.4 of the *RERT guidelines* provides a further condition on eligibility. The relevant part of section 6.4 states:

In short-notice situations of between three hours and seven days of notice of a projected shortfall in *reserves*, *AEMO* may decide to only consider *reserve* offers from *RERT* panel members that agreed to participate in an expedited process and submitted complying *reserve* offers, including short-notice enablement and usage prices.

Thus, *AEMO* will restrict its invitation to tender to those *RERT* Panel members:

- who can offer *reserve* in the relevant *region* or combined *regions* in the required timeframe; and
- whose prices are below the maximum average price threshold determined in consultation with jurisdictional representatives.²⁰

The invitation to tender will be sent electronically to those *RERT* Panel members and the “schedule of requirements” referred to in section 6.1 of the *RERT guidelines* will form part of the invitation to tender.

15.3 Consultation with Jurisdictions

In addition to the requirement to consult with persons nominated by the relevant *participating jurisdictions* contained in Rules 3.20.3(c) and (f), *AEMO* must consult with them in accordance with section 8.3 of the *RERT guidelines*. The relevant parts of section 8.3 state:

The relevant actions that *AEMO* may take in relation to the exercise of the *RERT* for situations with between three hours and seven days of notice of a projected shortfall in *reserves*, as defined in clause 3.20.8(a)(6), include:

- ...
- consulting in advance with the *participating jurisdictions*²¹ to determine a maximum average price threshold (in \$/MWh) that *AEMO* should pay to *dispatch* or *activate reserve contracts* in the relevant region under the short-notice *RERT* (reflecting the opportunity cost of shedding customer load in that region),
 - ...
 - agreeing in advance with the *participating jurisdiction* as to the cost sharing arrangements between *participating jurisdictions* in short-notice reserve shortfall situations;

Thus, following consultation with the jurisdictional representatives:

- *AEMO* must determine, a maximum average price threshold in \$/MWh for each *region* in which *reserve* is to be procured; and
- *AEMO* must agree with the jurisdictional representatives the cost-sharing arrangements as between affected *regions*.

²⁰ See section 15.3 of this Procedure.

²¹ A footnote to this requirement states: “Given the reduced timeframe for the short-notice *RERT*, it would not be possible to fully consult with affected *participating jurisdictions* on all matters considered when executing the *reserve contracts*.”

15.4 Evaluation of Tenders

When evaluating tenders, *AEMO* may take into account two other matters in addition to the matters referred to in section 8 of this Procedure.

15.4.1 Optimal Portfolio

The relevant part of section 8.3 of the *RERT guidelines* states:

The relevant actions that *AEMO* may take in relation to the exercise of the *RERT* for situations with between three hours and seven days of notice of a projected shortfall in *reserves*, as defined in clause 3.20.8(a)(6), include:

- ...
- selecting the optimal portfolio of *reserve contracts* to meet a shortfall from the available expressions of interest using reasonable endeavours and subject to practical limitations including the extent of notice available of an impending reliability or *power system security* event.

AEMO will evaluate all tenders as between themselves and as against all existing *reserve contracts* in order to ensure that *reserve* is procured at the least possible cost to the *market* and, where appropriate, will terminate existing *reserve contracts* in favour of entering into new, less costly, *reserve contracts*.

15.4.2 Ensuring that Offered Reserve is not otherwise available to the Market

Section 7.2 of the *RERT guidelines* imposes requirements on *AEMO* as follows:

In short-notice situations, with between three hours and seven days of notice of a projected shortfall in *reserves*, the steps that *AEMO* may take to inform itself if the *reserves* are not the subject of other arrangements should include:

- requiring a member of the *RERT* panel to inform *AEMO* when the *reserves* for which the expression of interest relates to are no longer available to the *market* as a result of another arrangement; and
- prior to and after contracting of *reserves*, *AEMO* 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; and
- after contracting of *reserves*, *AEMO* should assess any information that is available to it and relevant to whether the *reserves* are available to the *market* through any other arrangement.

AEMO's RERT procedures should consider what measures are necessary to reduce the likelihood that *AEMO* will enter into a *reserve contract* with a party who has made the *reserves*, the subject of the *reserve contract*, available to the *market* through any other arrangements.²²

Thus, the contract between *AEMO* and *RERT* Panel members will contain conditions that cover these requirements.

²² *AEMO* is required to take into account the *RERT Guidelines* when it develops its *RERT procedures* in accordance with clause 3.20.7(e).

15.5 Continuous Monitoring of Forecast Shortfall

Section 8.3 of the *RERT guidelines* requires that AEMO continue to monitor forecast shortfalls of *reserve*. The relevant part of section 8.3 states:

Following contracting of *reserves*, the actions that AEMO may take includes:

- monitoring the *pre-dispatch schedule* and *short term PASA* to determine if there have been any changes to the relevant *reserve* requirements; ...

16. Publishing Information about RERT

16.1 Publishing RERT Panel Details

Section 6.1 of the *RERT guidelines* states, amongst other things:

AEMO should:

- inform the market before it forms the *RERT panel* and when it commences negotiations for *reserve contracts*;
...

AEMO interprets this as requiring the *publication* of two things:

- the fact that AEMO has called for expressions of interest from persons wishing to join the RERT Panel; and
- when AEMO has issued requests for tender to RERT Panel members.

AEMO will *publish* this information on its website, through an AEMO Communication, or if there is insufficient time for either of these options, through a Market Notice.

16.2 Publishing of Reserve Contract Details

Sections 8.1, 8.2 and 8.3 of the *RERT guidelines* require AEMO to *publish*, within one month of entering into a new *reserve contract*:

- The name of each *reserve contract* counterparty; and
- The volume and timing of the *reserve* procured under each *reserve contract*.

AEMO will *publish* this information on its website and through an AEMO Communication.

17. Dispatch or Activation of Reserve

17.1 Relevant Considerations

As required by section 4.2 of the *RERT guidelines*, in addition to the material AEMO is required to consider under section 4.1 of the *RERT guidelines*,²³ in order to assess whether *reserve* will be required to be *dispatched* or *activated* to ensure reliability of *supply*, or to maintain *power system security*, AEMO will monitor:

- The outcome of the *short term PASA*;
- The details of the *pre-dispatch schedule* in terms of the anticipated available *reserve*; and
- Any other information AEMO reasonably identifies to be necessary.

17.2 Dispatching Reserve to Address Power System Security Events

Section 9 of the *RERT guidelines* permits AEMO to *dispatch* or *activate* reserve in order to address a *power system security* event. It states:

~~AEMO may dispatch or activate reserves under reserve contracts to address a power system security event in a transmission network that it has oversight for, if there are suitable reserves that AEMO has contracted under the RERT for long, medium or short-notice situations at an appropriate location, and there is sufficient notice of the power system security event to allow AEMO to dispatch or activate these reserves. AEMO may dispatch or activate reserves under reserve contracts to address a power system security event in a transmission network that it has oversight for and if:~~
~~there are suitable reserves that AEMO has contracted under the RERT for long or medium notice situations at an appropriate location, and there is sufficient notice of the power system security event to allow AEMO to dispatch or activate these reserves; or~~
~~there are suitable reserves that AEMO can contract under the RERT for short notice situations at an appropriate location, and there is sufficient notice of the power system security event to allow AEMO to dispatch or activate these reserves.~~

17.3 Determining the Latest Time for Dispatching or Activating Reserve

AEMO has published SO_OP_NEM_3717 - Procedure for the Dispatch and Activation of Reserve, which details how AEMO carries out this action. If it will be necessary for AEMO to issue *directions*, AEMO will do so in accordance with SO_OP3707 – Operating Procedure: Intervention, Direction and Clause 4.8.9 Instructions and the *Rules*.

17.4 How AEMO will Dispatch or Activate Reserve

Details on how AEMO *dispatches scheduled reserve* or *activates unscheduled reserve* are contained in SO_OP_NEM_3717 - Procedure for the Dispatch and Activation of Reserve.

²³ See sections 13.1, 14.1 and 15.1 of this Procedure for further details.

A relevant consideration is section 5.2 of the *RERT guidelines*, which prescribes a priority of *dispatch* or *activation* in certain circumstances. The relevant part of section 5.2 states:

Under some circumstances *AEMO* will be required to *dispatch* or *activate reserves* that are contracted under the long-notice or medium-notice situations as well as contracting with additional *reserves* under the short-notice situations. Under these circumstances *AEMO* should aim to maximise the effectiveness of *reserve contracts* at the least cost to end use consumers of electricity by selecting the least cost combination of *reserves* contracted under the long, medium and short-notice situations. However, where *AEMO* has only a few hours notice of a reserve shortfall it may have insufficient time to determine the least cost combination of reserves. In which case *AEMO* should *dispatch* or *activate* its long-notice and medium-notice *reserve contracts* ahead of contracting for further *reserves* using the short-notice *RERT*. Nevertheless, where *AEMO* has sufficient time to perform the necessary analysis it should aim to maximise the cost effectiveness of the *RERT* by selecting the combination of *reserve contracts* that has the lowest incremental cost.

18. Definitions and interpretation

1. In this Procedure:
 - a) a capitalised word or phrase has the meaning set out opposite that word or phrase in the Glossary contained in Schedule 1 of this Procedure; and
 - b) a word or phrase *in this style* has the same meaning as given to that term in the *Rules*;
 - c) a reference to a “Rule” followed by a number refers to a provision in the *Rules*.
2. Unless the context otherwise requires, this Procedure shall be interpreted in accordance with Schedule 2 of the *National Electricity Law*.
3. The single includes the plural and vice versa.
4. If there is any inconsistency between this Procedure and the *Rules*, the *Rules* will prevail to the extent of that inconsistency.

SCHEDULE 1 - GLOSSARY

DEFINED TERM	DEFINITION
AEMO Communication	An email communication that is forwarded by <i>AEMO</i> to a specified list of addressees who are representatives of <i>Registered Participants</i> .
Long Notice Situations	Situations where <i>AEMO</i> has more than 10 weeks' notice of a projected shortfall in <i>reserves</i> .
Market Notice	A notice published in accordance with <i>AEMO's</i> Operating Procedure: Market Reporting SO_OP4000
Medium Notice Situations	Situations where <i>AEMO</i> has between 7 days' and 10 weeks' notice of a projected shortfall in <i>reserves</i> .
Reliability Standard	The part of the <i>power system security and reliability standards</i> by that name published by the <i>Reliability Panel</i> .
RERT Panel	A panel of entities recruited by <i>AEMO</i> in accordance with the <i>RERT guidelines</i> that might be called upon to tender for and enter into a <i>reserve contract</i> in Medium Notice Situations and Short Notice Situations.
Short Notice Situations	Situations where <i>AEMO</i> has between 3 hours' and 7 days' notice of a projected shortfall in <i>reserves</i> .