



Consultation on RERT framework

AEMC invites submissions on consultation paper on the RERT
The Australian Energy Market Commission has commenced consultation on a rule change request seeking broad changes to the Reliability and Emergency Reserve Trader (RERT) framework. Submissions close on 26 July 2018.

Background – what is the RERT?

The RERT is an existing intervention mechanism within the reliability framework in the NEM which allows AEMO to contract for additional reserves, e.g. generation or demand response, that are not already available in the market.

These additional resources are called emergency reserves or strategic reserves as they may only be procured as a last resort to avoid unnecessary blackouts, typically during summer when the demand and supply balance is tight. In other words, the RERT is the NEM's safety net. It is appropriate that the NEM has some form of strategic reserves to act as a safety net and as one of the last resort alternatives to involuntary load shedding.

Currently, AEMO can only use the RERT in the event that it projects that the reliability standard will not be met (i.e. when AEMO projects that unserved energy is expected to be greater than 0.002 per cent) and, where practicable, to maintain power system security. The reliability standard reflects a trade-off between the cost of higher reliability which is borne by consumers through higher prices, and the benefits of higher reliability – i.e. fewer blackouts. The direct costs of the RERT are recovered from market customers, such as retailers, and may ultimately be passed on to consumers meaning that the RERT can have an impact on retail price outcomes.

AEMO's Enhancement to the RERT rule change request

On 9 March 2018, AEMO submitted a rule change request to the AEMC seeking broad changes to the RERT. This includes considering the lead time that AEMO has to enter into RERT contracts prior to projecting shortfalls, whether the procurement trigger is still appropriate or whether a broader risk assessment framework should be taken into account (including the appropriateness of the reliability standard), and standardisation of RERT products.

This follows AEMO's rule change request to reinstate the long-notice RERT, which was considered by the Commission on an expedited basis. The final determination was published on 21 June 2018, with the Commission increasing the lead time available for AEMO to procure out of market reserves to nine months ahead of a projected reserve shortfall, effectively reinstating the long-notice RERT.

The consultation paper published today seeks stakeholders' views on the issues identified by AEMO, and the proposed changes to the RERT framework, including on:

- The **pros and cons of increasing the procurement lead time** to one year (from nine months) and appropriateness of multi-year contracting.
- The procurement trigger for the RERT, including on the **appropriateness and operationalisation of the existing reliability standard**, as well as changing the procurement trigger to a different metric.
- The **transparency of how much AEMO should procure**, and potential methodologies for procuring the RERT.
- Whether there should be a **high-level framework for standardised RERT products** in the NEM.
- **Governance and transparency** of the RERT framework.

Submissions to the consultation paper are due by 26 July 2018.

The consultation paper also seeks stakeholders' views on AEMO's high-level enhanced RERT design, which AEMO considers outlines a pathway for addressing the issues with the RERT.

More broadly, the Commission is interested in stakeholders' views on any concerns that they have on the **existing RERT framework**, how the **RERT has worked to date**, and on the **trade-offs involved in achieving higher levels of reliability**, including doing so through the RERT.

How does this interact with the National Energy Guarantee?

The Energy Security Board is currently progressing the development of the National Energy Guarantee (Guarantee). The proposed Procurer of Last Resort function of the reliability requirement of the Guarantee would use the RERT mechanism to provide a safety net to make sure adequate resources are committed to meet demand when there is an expected shortfall relative to the reliability requirement i.e. the Guarantee will set out the trigger for the procurer of last resort in the context of the reliability requirement of the Guarantee. The rules governing the RERT framework will provide the mechanism for the procurement of reserves through the procurer of last resort.

Consultation on the RERT framework will occur through this rule change request. The AEMC is working closely with the ESB as the design of the NEG progresses.

Next steps

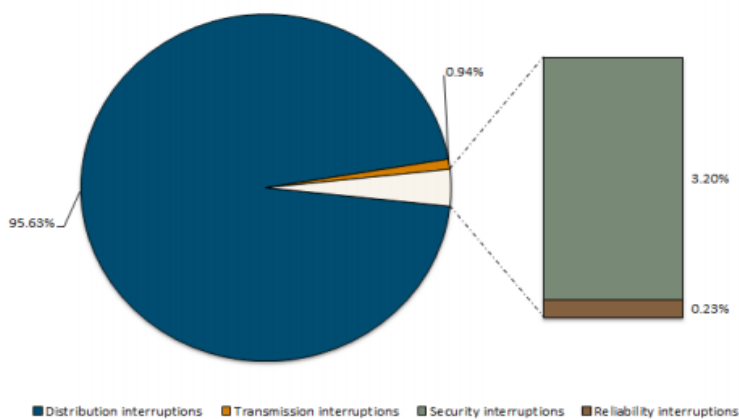
Due to the complexity of the issues discussed in this rule change request, as well as other consultations occurring at the same time, the Commission has decided to give stakeholders five weeks to respond to this consultation paper. Submissions are due by **26 July 2018**.

The Commission will shortly be seeking expressions of interest to join a technical working group associated with this project.

Background: What drives reliability outcomes in the NEM?

Importantly, the reliability standard, and the RERT, only addresses reliability interruptions or 'wholesale' level adequacy i.e. in terms of generation and demand response in the wholesale market. Network reliability is separate from this and accounts for the majority of supply interruptions in the NEM, as shown in the figure below.

Figure 1: Sources of supply interruptions in the NEM: 2007-08 to 2016-17



Source: AEMC analysis and estimates based on publicly available information from: AEMO's extreme weather event and incident reports and the AER's RIN economic benchmarking spreadsheets.

For information contact:

AEMC Executive General Manager, **Suzanne Falvi** (02) 8296 7883
AEMC Director, **Victoria Mollard** (02) 8296 7872

Media: Communication Director, Prudence Anderson 0404 821 935 or (02) 8296 7817

21 June 2018