RERT GUIDELINES

Effective from 13 July 2018
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About the Reliability Panel
The Panel is a specialist body within the Australian Energy Market Commission (AEMC) and comprises industry and consumer representatives. It is responsible for monitoring, reviewing and reporting on reliability, security and safety on 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.

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1 Interpretation

These *RERT guidelines* are made under clause 11.107.2 of the National Electricity Rules (*Rules*) and commence on 13 July 2018.

Italicised expressions in the *RERT guidelines* have the meaning given to that expression in the glossary in Chapter 10 of the *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 AEMO to take all reasonable actions to ensure reliability of supply and where practicable, maintain power system security by negotiating and entering into contracts to secure the availability of reserves under reserve contracts.\(^1\) AEMO 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 AEMO 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 AEMO may take to be satisfied that the reserves that are to be the subject of a reserve contract are not available to the market through any other arrangement;
4. the process AEMO should undertake in contracting for reserves including the process for tendering for contracts for such reserves;
5. the process AEMO should undertake in contracting for reserves in relation to different notice situations, as described in the RERT guidelines, to ensure reliability of supply and, where practicable, maintain power system security;
6. any specific or additional assumptions about key parameters that AEMO must take into account in assessing the cost effectiveness of exercising the RERT;
7. matters relevant to AEMO managing a portfolio of reserve contracts; and
8. additional forecasts that AEMO should take into account prior to exercising the RERT.

Sections 3 to 9 of this document set out the RERT guidelines developed by the Reliability Panel.\(^4\)

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1 Rule 3.20 of the Rules.
2 Clause 3.20.7(f) of the Rules.
3 Clause 3.20.8(a) of the Rules.
4 Developed in accordance with Clause 3.20.8 of the Rules.
3 Operation of the RERT

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.
4 Information that AEMO must take into account when deciding whether to exercise the RERT

AEMO should inform itself of the circumstances relating to reliability of supply when deciding whether to exercise the RERT. AEMO should 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) Long-notice situations where AEMO determines it has more than ten weeks of notice of a projected shortfall in reserves;

When it is considering whether to enter into reserve contracts during Stage 1 of the RERT process for long-notice situations, AEMO may take into account:

• the details of the outcome of the medium term PASA;
• the outcome of the energy adequacy assessment projection (EAAP); and
• any other information that AEMO considers relevant.

(b) Medium-notice situations where AEMO has between ten weeks and seven days of notice of a projected shortfall in reserves.

When it is considering whether to enter into reserve contracts during Stage 1 of the RERT process for medium-notice situations, AEMO may take into account the information identified in paragraph (a) above;

(a) Short-notice situations where AEMO has between three hours and seven days of notice of a projected shortfall in reserves.

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

• the details of the outcome of the short term PASA and pre-dispatch processes; and
• any other information that AEMO considers relevant.

4.2 During Stage 2 of the RERT process

During Stage 2 of the RERT process, AEMO 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 and where practical, maintain power system security:

• 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 *AEMO* considers relevant.
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 AEMO must have regard to in exercising the RERT. These principles are:

1. actions taken are to 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.

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

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, 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.

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 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:

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5 Note that for short-notice situations consultation with the participating jurisdictions would be limited to that outlined in section 8.3.
• 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 notice of a material increase in the shortfall, it may seek offers from RERT panel members and other potential reserve providers 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.

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 for 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.
6 AEMO’s use of a RERT panel

6.1 Constitution of the RERT panel

AEMO may form a RERT panel of entities that may be called upon to make reserve offers, 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.

AEMO should:

- inform the market before it forms the RERT panel and when it commences negotiations for reserves contracts;
- operate the RERT panel on a continuous basis and periodically open the RERT panel for new members; and
- subject to any decision by AEMO under section 8.1, 8.2 or 8.3 to publish relevant details following contracting of reserves, treat information on the RERT panel membership as confidential information.

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 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.

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.

6.2 Operation of the RERT panel for long-notice situations (more than ten weeks of notice)

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

6.3 Operation of the RERT panel for medium-notice situations (between seven days and ten weeks of notice)

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 medium-notice 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.
6.4 Operation of the RERT panel in short-notice situations (between three hours and seven days of notice)

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 short-notice 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 continuously available;

- the enablement time required prior to actual usage;

- the enablement and usage price for the service;

- any period in the next twelve months during which the services 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.

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.
7 Actions that AEMO 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

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

7.1 Long-notice and medium-notice situations

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, at the initial 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 had made the reserves, the subject of the reserve contract, available to the market through any other arrangements.\(^6\)

7.2 Short-notice situations with between three hours and seven days of notice

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:

- requesting a member of the RERT panel to inform AEMO when the reserves for which the expression of interest related to are no longer available to the market as a result of another arrangement; and
- prior to contracting of reserves, AEMO should 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

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\(^6\) AEMO is required to take into account the RERT guidelines when it develops its RERT procedures in accordance with clause 3.20.7(e).
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.\(^7\)

\(^7\) AEMO 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 contracts

8.1 Process for contracting for reserve contracts in long-notice situations (more than ten weeks of notice)

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:

• establishing arrangements for contracting reserves in situations where there is more than ten weeks of notice of a projected shortfall in reserves;

• 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;

• determining whether to enter into reserve contracts;

• consulting with persons nominated by the relevant participating jurisdictions which AEMO is determining whether to contract for reserves in those participating jurisdictions;

• calling for tenders 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 AEMO, 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 AEMO considers to be the optimal portfolio of reserve contracts; and

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

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; 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.

Box 8.1 Explanatory note

In medium-notice situations, AEMO may secure reserve contracts by seeking:

• reserve offers from RERT panel members; or

• reserve offers from RERT panel members and, at AEMO’s discretion, offers from other potential reserve providers, which may include a tender process.8

8.2 Process for contracting for reserve contracts in medium-notice situations (between seven days and ten weeks of notice)

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:

• establishing arrangements for contracting for reserves in situations where there is between seven days and ten weeks of notice of a projected shortfall in reserves;

• 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;

• determining whether to enter into reserve contracts;

• consulting with persons nominated by the relevant participating jurisdictions which AEMO is determining whether to contract for reserves in;

• notifying RERT panel members in relation to providing reserves in the respective regions or in some circumstances, combined regions;

• calling for reserve offers from other potential reserve providers in relation to providing reserves in the respective regions or in some circumstances, combined regions;

• evaluating the reserve offers and dispensing with any reserve 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 AEMO, taking into account:

— whether the commercial requirements are met;

AEMO may determine whether a tender process is open to the public or limited to specific potential reserve providers.
— whether the reserve offer is credible, that is, whether it is likely that the RERT panel member or other potential reserve provider can deliver the offered reserves; and

— the optimal combination of contracts to deliver the reserves necessary to meet the shortfall;

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

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

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 reserve offers were prepared and evaluated; 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 reserve contracts in short-notice situations (between three hours and seven days of notice)

Explanatory note

The execution of short-notice reserve contracts would need to be a simplified process but it is likely to be more involved than a simple telephone call for reasons of probity. Therefore execution of short-notice reserve contracts would require a minimum 3 hour response time.

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:

- establishing arrangements for contracting for reserves in situations where there is between three hours and seven days of notice of a projected shortfall in reserves;

- continually monitoring the pre-dispatch schedule and short term PASA, for periods of low reserves or lack of reserve (LOR2);

- determining whether to enter into reserves contracts;
• consulting in advance with the *participating jurisdictions*\(^9\) 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);

• 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*;

• agreeing in advance with the *participating jurisdiction* as to the cost sharing arrangements between *participating jurisdictions* in short-notice *reserve* shortfall situations;

• using a *RERT* panel arrangement to identify which panel members are technically able, on the basis of their expressions of interest, to provide *reserves* within the applicable notice period and in the required *regions* or in some circumstances, combined *regions*;

• contacting those eligible *RERT* panel members to confirm the quantity of *reserve* available and period for which it is available;

• evaluating the *reserve* offers from the eligible list of *RERT* panel members; and

• 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.

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; 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.

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\(^9\) 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*.
9 Use of contracted reserves for security events

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.