

Our ref: 18-14081
6 September 2018
By email: brian.spalding@aemc.gov.au

Dear Dr Spalding

Enhancement to the Reliability and Emergency Reserve Trader (RERT): Request for Reliability Panel advice

As you would know, the Commission has received a rule change request from AEMO seeking broad changes to the Reliability and Emergency Reserve Trader (RERT).

Background to rule change request

Through this rule change process, the Commission will consider the RERT framework, including whether or not the reliability standard is still the appropriate procurement trigger, what should be the form and level of any procurement trigger, what the lead time should be for AEMO ahead of procuring reserves and standardisation of RERT products.

On 21 June 2018 the Commission published a consultation paper on the rule change request, starting consultation of this rule change. The consultation paper can be found on the AEMC's website, and sought stakeholder views on the proposed changes to the RERT framework. There was strong interest in the consultation paper, and we received 25 submissions to date from a range of stakeholders.

Context for advice

The Reliability Panel has a number of responsibilities that are related to this rule change request, specifically:

- under the NER the Panel has an ongoing and periodic obligation to review and provide advice on the reliability standards and settings to the AEMC every four years, with its most recent review of the reliability standards and settings published in April 2018
- in reviewing the standard and settings, the Panel has regard to a *Reliability Standard and Settings Guideline*, which it prepares, the most recent of which was published in December 2016 with this version guiding the recent review of the standards and settings
- the Panel is also required under the NER to develop and publish guidelines that provide guidance for AEMO in its operation for the RERT.

Given the role of the Panel, as described above, I am writing to you to seek the Reliability Panel's views on one particular aspect of this rule change, namely, the appropriateness of the reliability standard as a procurement trigger for the RERT.

The Commission notes that the Panel recently completed its review of the reliability standard and settings to apply in the NEM from 1 July 2020, in April 2018. However, the reliability standard was not reassessed in this review given there was not sufficient evidence that the materiality threshold for its reassessment was met. We also note that the assessment of the *form* of the reliability standard itself (e.g. whether it should be expressed in USE or some other metric) was considered to be outside the scope of the reliability standard and settings review.

However, in its rule change request, AEMO notes that the reliability standard may no longer be appropriate given changing system conditions, in particular, a more peaky system and one with more common extreme weather events. It also states that community expectations have shifted so that jurisdictional governments are unwilling to tolerate load shedding and are intervening themselves directly in the market as a result. The Commission understands AEMO has briefed the Reliability Panel on these issues in the past.

Content of the advice

The Commission requests that the Reliability Panel draw on previous work that relates to this rule change request as identified above, informed by its expert views, and present views back to the Commission on the following matters:

- whether the reliability standard, i.e. 0.002 per cent unserved energy remains appropriate for the NEM
- whether there was any evidence in the recent review of the reliability standard and reliability settings that the standard may need to be tightened, in some or all conditions, to meet community expectations, including any stakeholder submissions on this point
- the potential costs and benefits arising from any tightening of the reliability standard
- whether the Panel considered a different metric to the reliability standard (i.e. a metric that is different from unserved energy) as part of its analysis and any views on its appropriateness

- the implications that might arise if the RERT's procurement trigger was delinked from the reliability standard and what implications this may have for the reliability settings.

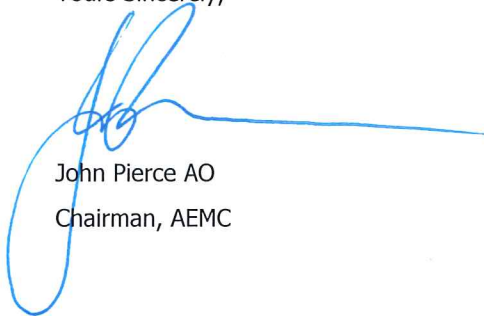
These views should be presented in a letter back to the Commission, in order for these to be incorporated into the Commission's progression of these issues on this rule change request. Given the time constraints associated with this advice, the Commission appreciates that these views will be mainly qualitative.

The Commission requests that the Panel respond to the Commission by Wednesday 26 September 2018.

If you have any questions regarding this request, please contact me on 02 8296 7800.

I look forward to receiving your advice on this matter.

Yours Sincerely,

A handwritten signature in blue ink, consisting of a large, stylized 'J' and 'P' followed by a long horizontal line extending to the right.

John Pierce AO
Chairman, AEMC