AEMC

INFORMATION

# Options for RERT procurement

## The AEMC has today published an options paper for AEMO's enhancement to the RERT rule change request

**This paper sets out three options for what should be the trigger for reserves to be purchased and how much reserves should be bought. The paper also sets out how the Commission is approaching considering the appropriateness of the reliability standard, including how technical input provided from the Reliability Panel and further AEMO analysis expected in mid November will be taken into account. We are seeking stakeholder feedback on these matters. We will also host a workshop in November.**

### Background - what is the RERT?

The RERT (reliability and emergency reserve trader) is an existing intervention mechanism that allows AEMO to contract for additional reserves such as generation or demand response that are not otherwise available in the market. It is an important part of the regulatory framework that AEMO uses as a safety net at times when a supply shortfall is forecast, or, where practicable, to maintain power system security.

These additional reserves are commonly referred to as "emergency reserves" or "strategic reserves" as they may only be used as a last resort to avoid unnecessary blackouts, typically during summer when the demand and supply balance is tight.

Currently, AEMO can only use the RERT in the event that it projects that the reliability standard will not be met 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 onto consumers meaning that the RERT can have an impact on consumers' bills.

### AEMO's Enhancement to the RERT rule change request

On 9 March 2018, AEMO submitted two rule change requests to the AEMC.

The first was a request to reinstate the long-notice RERT. The Commission considered this as an urgent rule, and so this was progressed through 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. This allowed AEMO to procure reserves under the long-notice RERT for the upcoming summer.

Broader changes proposed to the RERT are detailed in the second rule change request. These broader changes include considering:

- the lead time that AEMO has to enter into RERT contracts prior to projecting shortfalls
- whether the reliability standard is still appropriate, given this is one of the existing triggers for procurement of the RERT, or whether a broader risk assessment framework should be taken into account when deciding whether to buy reserves and
- standardisation of RERT products.

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## Three options for procurement trigger and procurement volume

An options paper has been published by the AEMC to test some of the potential design options for the key elements of the RERT with stakeholders i.e. the procurement trigger and the procurement volume, in order to get stakeholder views on these, prior to making a draft determination for this rule change. The options paper also sets out how the Commission will be approaching considering the appropriateness of the reliability standard which is part of the scope of this rule change request.

The Commission presents three options for the RERT procurement trigger and procurement volumes. Given the Commission has not yet assessed the appropriateness of the reliability standard, the below options assume that the reliability standard (in some form, level and metric) remains unchanged. The three options are:

- **Option 1 Reliability standard determines procurement trigger and volume:** This can be considered an enhanced status quo, where the RERT could only be triggered with respect to breaches of the reliability standard. AEMO would continue to operationalise the reliability standard consistent with its *Reliability Standard Implementation Guidelines*.
- **Option 2 Broader risk assessment of procurement trigger and volume:** This option is based on AEMO's proposal and seeks to address the concern that there may be out of market reserves that may be procured at a cost *greater* than the market price cap, but *lower* than the cost of load shedding, which are not currently being procured since the current procurement trigger (i.e. a projected breach of the reliability standard) has not been met. Under this option, the procurement trigger and procurement volume would be based on a broader risk assessment framework. The economic assessment framework would procure an amount of reserves that minimises the combined estimated cost of procuring reserves and estimated cost of load shedding. Consequently, this option delinks the procurement of RERT frrom the relibaility standard.
- **Option 3 Changes to operationalisiation of the reliability standard:** This option retains the reliability standard as the trigger for the procurement of the RERT but provides more guidance as to how much RERT should be procured in terms of operational timeframes. In this way, it allows the reliability standard to be more closely linked to operational timescales.

Other elements of the RERT such as transparency arrangements and cost recovery will be considered and consulted upon separately by the Commission when it releases its draft determination. If at this point in time, stakeholders have any views on these or how these may change given the above options, we welcome stakeholder views on these.

## Approach to considering the appropriateness of the reliability standard

AEMO in its rule change request 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. Given this, and the fact that the reliability standard is the current trigger for the RERT, the appropriateness of the reliability standard is an issue within scope of this rule change request.

This issue is not considered in-depth in the options paper, nor does the paper set out the Commission's views on this issue. However, it does set out the approach the Commission is taking to considering this issue. This can be summarised as follows:

1. Seek technical input - The Reliability Panel has provided advice on its views on the appropriatness of the reliability standard to the Commission. AEMO will also provide further analysis and views on this issue in mid November.
2. Review and discuss - Following receipt of these inputs the Commission will review these, and discuss these inputs with the technical working group.
3. Consider - The Commission will then consider how giving effect to these views may necessitate changes to the existing reliability standard framework, including the RERT and the associated time and cost that this would take to achieve.
4. Present - These views will be presented for stakeholder consultation in a workshop in mid November as well as in the draft determination for this rule change request.

We are also after stakeholder views on this approach.

## Next steps

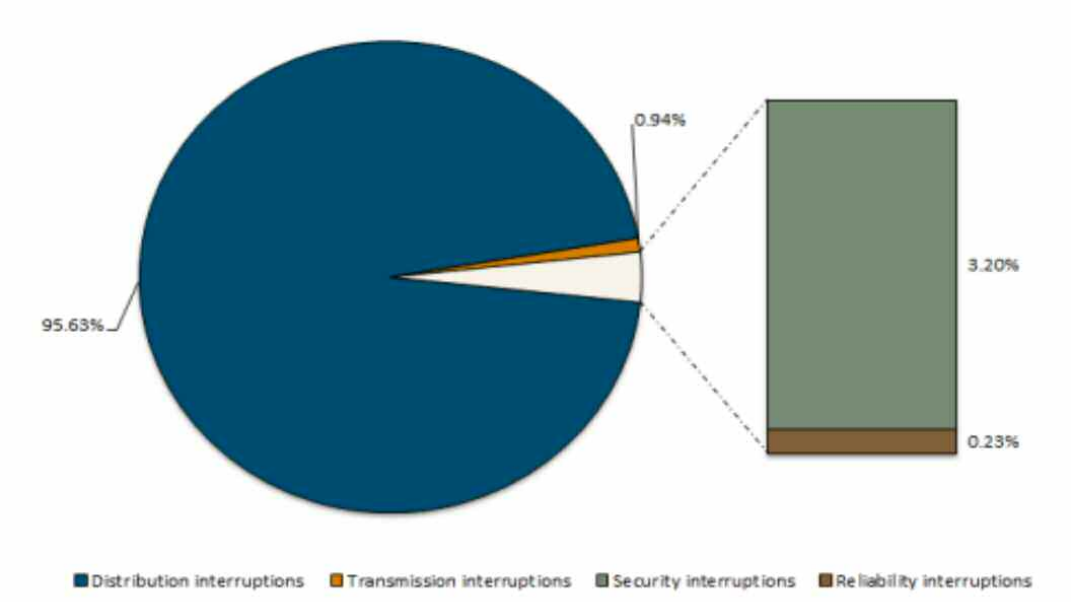
The AEMC will hold a stakeholder workshop in Sydney in November 2018 to discuss the options paper and gather feedback. The AEMC invites stakeholders to make submissions on the options paper by 29 November 2018.

The draft determination will be published on 31 January 2019. On 4 October 2018 the rule change was extended to enable advice from the Reliability Panel and AEMO on the appropriateness of the reliability standard to be considered as part of the rule change request. The reliability standard is important because the RERT can be triggered and so procured if AEMO forecasts that the standard will be breached.

## Context - 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.

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