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NEWS

New rules to boost emergency Power supplies at lower cost

Enhancement to the reliability and emergency reserve trader – final determination 2 May 2019

Chairman of the Australian Energy Market Commission, John Pierce, today released new rules for the emergency reserves framework which backs-up power supplies in the national electricity market.

The reliability and emergency reserve trader (RERT) is the national electricity market's emergency reserve – it has always been part of the market's reliability safety-net – and is used by the system operator, AEMO, as a last-resort mechanism to keep the lights on.

"The new RERT rules boost the power system's emergency reserve mechanism to protect reliability at the lowest possible cost to consumers," Mr Pierce said.

"The changes also underpin the Energy Security Board's proposed retailer reliability obligation (RRO) which encourages investment in long-term capacity so AEMO is not forced to intervene more than necessary with higher cost safety-net options."

There has been a shortage of generation capacity on only a few days in the past decade, all during extreme heatwaves. AEMO has only used the RERT to supply demand three times in the history of the market in November 2017, January 2018 and in January 2019.

"The market is at a cross-roads," Mr Pierce said.

"The power system is changing from a small number of large generators to a large number of smaller generators and varied capacity providers; the supply-demand balance is tightening; and there are more extreme heat events that can drive demand to peak suddenly when power stations are already under strain.

"Using emergency reserves more frequently means higher costs associated with the RERT making their way onto consumer bills," he said.

"It's time to enhance the emergency reserve framework to provide AEMO with the flexibility it needs to meet the operational challenges arising from the restructure of the generation sector.

The new RERT rules:

- **Improve incentives for customers to reduce demand and minimise the need for emergency reserves**: We want incentives for more demand response so retailers and demand response providers can, for example, reward customers who reduce energy use during heatwaves. Costs of emergency reserves will be recovered, where possible, from customers who caused the need for the RERT.
- **increase transparency:** AEMO will provide regular updates on how the RERT is procured and used, and how much it costs.

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It is more important than ever to address structural issues in the market's ability to supply consumers with power when they need it especially if those market issues are triggering the need for emergency reserves more often.

- **clarify the trigger:** the RERT can be triggered if AEMO forecasts a breach of the reliability standard which requires enough generation to service 99.998% of consumer demand. This clarity helps the market plan operations and budgets.
- **increase the lead time to buy reserves to 12 months**: so the RERT can become part of the planned retailer reliability obligation (RRO). The RRO has two triggers. The three-year trigger requires retailers to bring dispatchable firm capacity to market if there is a supply gap three years out. If retailers have not filled the gap 12 months out then AEMO can use the RERT.
- **encourage a lower-cost competitive market response:** We want the market to deliver lower cost reliability so we can reduce the need for emergency reserves. There are new requirements for emergency reserve providers to enable this.
- **provide guidance to AEMO on costs:** in relation to the appropriate costs of emergency reserve contracts, for it to consider when entering into emergency reserve contracts.
- **provide AEMO with flexibility:** AEMO has flexibility and discretion as to how the reliability standard is incorporated in its day-to-day operations, particularly through its modelling and forecasting of power system risks.

"At the same time it is more important than ever to address structural problems in the market's ability to supply consumers with power when they need it – especially if those market issues are triggering the need for emergency reserves more often," Mr Pierce said.

"The RERT played an important part in shielding Melbourne from even more widespread and longer power shortages during January's extreme weather event that coincided with unexpected generator breakdowns.

"But it's not a tool to deliver more day-to-day supply to the market, or to underpin new investment. It's an emergency mechanism that's used when electricity supply can't meet consumer demand.

"The larger issue is to get the overarching policy framework right to support the least-cost commercial investments in the energy sector.

"Reliability is holding up for now. But we need some policy stability and coordinated solutions like the RRO that can address the root cause of problems not more costly 'stop gap' measures," he said.

"The RERT's design is very specific to make sure it does not undermine incentives for efficient investment in the capacity the system needs.

"The RRO would make retailers enter into agreements with generators and demand response providers who can guarantee capacity through variable weather conditions. This means the reliability standard in each region could be met if and when gaps are expected.

"It is a solution that would encourage investment in demand response and the right types of technology to support reliability – and it's a key action that governments can take right now to boost everyday market reserves and address consumer concerns about their power supplies.

"The COAG Energy Council is already considering the RRO so it can start on 1 July as planned – and address supply issues that have emerged in the changing power system," Mr Pierce said.

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