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RULE

Australian Energy Market Commission

CONSULTATION PAPER

NATIONAL ELECTRICITY AMENDMENT (VICTORIAN JURISDICTIONAL DEROGATION – RERT CONTRACTING) RULE 2019

PROPONENT

The Honourable Lily D'Ambrosio MP, Minister for Energy, Environment and Climate Change, Minister for Solar Homes (Victoria)

24 OCTOBER 2019

INQUIRIES

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ABOUT THE AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

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1 INTRODUCTION

On 8 October 2019, the Hon Lily D'Ambrosio MP, Minister for Energy, Environment and Climate Change, Minister for Solar Homes (Victoria) submitted a derogation proposal (rule change request) to the Australian Energy Market Commission (AEMC or Commission) relating to the Reliability and Emergency Reserve Trader (RERT).[1] The Victorian Government is seeking a jurisdictional derogation for Victoria to allow the Australian Energy Market Operator (AEMO) to contract for emergency reserves under the RERT mechanism on a multi-year basis in that state. Specifically, this would enable AEMO to procure long-notice RERT contracts of up to three years' duration. The rule change request by the Victorian Government is for five years, until 30 June 2025, and could enable multi-year RERT contracts of up to three years commencing in June 2025 and ending in June 2028.

In submitting the derogation proposal, the Victorian Government has requested that it be subject to the expedited rule making process on the basis that it is an 'urgent rule' as defined in the National Electricity Law (NEL). The Victorian Government states that assessment of the rule change on an expedited basis is needed to allow the derogation to come into effect prior to Victoria's peak electricity demand occurring this summer.

This consultation paper has been prepared to facilitate public consultation on the derogation proposal and to seek stakeholder submissions.

This paper:

- provides a summary of, and background to, the derogation proposal
- identifies a number of questions and issues to facilitate consultation on this derogation proposal
- outlines the process for making submissions.

1.1 Key dates for this rule change

The Commission considers that this derogation request is a request for an urgent rule under the NEL and, therefore, has decided to use the expedited rule change process for the derogation proposal provided it does not receive any valid requests not to do so.[2] Under section 96 of the NEL, stakeholders may object to the Commission using the expedited process.

Consistent with the timelines and requirements for an expedited rule change process under the NEL, the **key dates** for stakeholders in this process are as follows:[3]

- Commencement of the rule change process: **24 October 2019.**
- Objections to the Commission's decision that the derogation proposal is a request for an urgent rule (and be subject to the expedited process) to be received by: **7 November 2019.**

1 Hereafter, we refer to the proponent as the Victorian Government.
2 See chapter six of the consultation paper for more information on the treatment of this rule change request as urgent.
3 These timelines would be subject to change in the event the Commission receives a valid objection to the expedited process.

- Submissions to the consultation paper to be received by: **21 November 2019.**
- Final determination and final rule to be published under an expedited process by: **19 December 2019.**

1.2 Structure of this paper

The structure of this paper is as follows:

- chapter 2 provides background information on the RERT
- chapter 3 summarises the Victorian Government's derogation proposal
- chapter 4 sets out the assessment framework
- chapter 5 identifies a number of questions and issues in order to facilitate consultation on this derogation proposal
- chapter 6 discusses the process for making this rule change, including its treatment as an urgent rule and sets out the process for making a submission
- the appendix contains details of recent load shedding and use of the RERT.

2 BACKGROUND

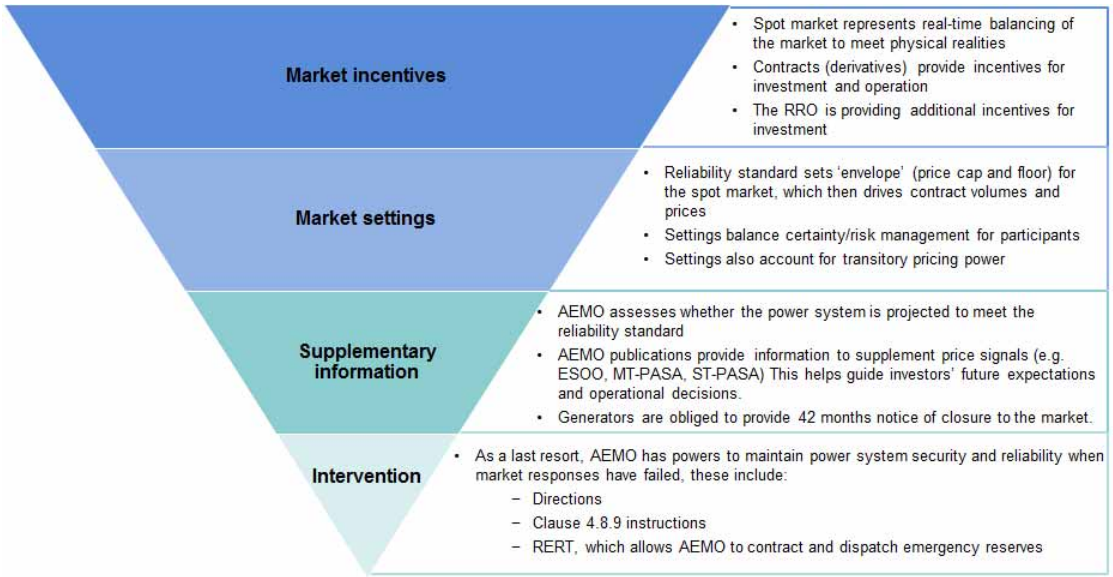
2.1 The role of the RERT

The RERT is the National Electricity Market's (NEM) strategic reserve and has formed part of the reliability framework since the start of the NEM in December 1998. It is a tool that allows AEMO to procure 'standby' emergency reserves (generation and demand-side capacity that is not otherwise being traded in the market). AEMO can use the RERT in the event that it forecasts the market will not meet the reliability standard (i.e. when AEMO projects that unserved energy (USE) is expected to be greater than 0.002 per cent) and where practicable, to maintain power system security.

The RERT forms part of the broader reliability framework for the NEM, comprising market mechanisms and incentives, the reliability standard and reliability settings, the provision of information to the market and intervention mechanisms. In addition, the reliability framework was recently supplemented by the Retailer Reliability Obligation (RRO) that was put in place on 1 July 2019. The RRO will help to ensure a reliable energy system by requiring companies to hold contracts or invest directly in generation or demand response to support reliability in the NEM.

As shown in figure 2.1, the RERT is one of three existing last resort interventions that AEMO can use to maintain reliability if the market fails to respond to published forecast information. The RERT is used to help avoid larger and more widespread blackouts from occurring. To date the RERT has typically been used when extreme heat-waves are predicted.[4]

Figure 2.1: Current reliability framework with escalating series of interventions



Source: AEMC

4 A more comprehensive discussion of the reliability framework can be found in the AEMC's recent Reliability Frameworks Review, available at https://www.aemc.gov.au/sites/default/files/2018-07/Final%20report_0.pdf.

The NER provide the high-level framework for the RERT, including: [5]

- setting out the RERT principles [6]
- requiring the Reliability Panel to publish RERT guidelines [7]
- requiring AEMO to publish procedures for the exercise of the RERT.[8]

The RERT principles provide that:[9]

- actions taken should be those which AEMO reasonably expects, acting reasonably, to have the least distortionary effect on the operation of the market
- actions taken should aim to maximise the effectiveness of reserve contracts at the least cost to end use consumers of electricity.

The RERT guidelines, prepared by the Reliability Panel, provide additional guidance to AEMO on RERT principles and on the cost-effectiveness of emergency reserves.[10] AEMO is required to exercise the RERT in accordance with the RERT guidelines.

AEMO's discretion as to how it should procure and dispatch the RERT is limited by a number of provisions in the NER, including those relating to the application of the RERT principles. The RERT allows AEMO to contract for additional, emergency reserves that are not otherwise available in the market. The RERT framework is designed to minimise distortions to the wholesale market. The relevant aspects of the RERT framework for this derogation proposal, and key recent changes to the RERT and reliability framework more generally, are summarised in the following sections.

Prior to 2017, AEMO had only entered into RERT contracts three times and it had never been dispatched. This changed in 2017, when AEMO entered into a number of emergency reserve contracts. Since that time, AEMO has used the RERT a number of times, including November 2017, January 2018, and most recently in January 2019. This increase in use of the RERT reflects the changing system needs, including a growing proportion of variable renewable generation, an aging fleet of thermal generation, a tightening supply-demand balance, peakier demand and higher temperature peaks. [11]

2.2 Relevant aspect of the RERT framework: procurement lead time and the contracting period

There are three types of emergency reserves based on how much time AEMO has to procure emergency reserves prior to the projected reserve shortfalls occurring:[12]

5 Rule 3.20 of the NER.

6 Clause 3.20.2(b) of the NER.

7 Clause 3.20.8 of the NER.

8 Clause 3.20.7(e) of the NER.

9 Clause 3.20.2(b) of the NER.

10 The Reliability Panel recently updated these Guidelines in response to the AEMC's final determination for the *Enhancement to the RERT* rule change request.

11 AEMC, Enhancement to the Reliability and Emergency Trader Reserve, Rule determination, 2 May 2019, pp. 26 - 27, and AEMC, Enhancement to the Reliability and Emergency Trader Reserve, Consultation Paper, 21 June 2018, pp 15 - 17. The appendix to this paper details recent load shedding and use of the RERT.

12 Definitions of the long, medium and short-notice situation RERTs are set out in the RERT guidelines.

- Long-notice RERT — currently between nine months' and ten weeks' notice of a projected reserve shortfall. The maximum procurement lead time will increase to 12 months from 26 March 2020.[13]
- Medium-notice RERT — between ten weeks' and one week's notice of a projected reserve shortfall.
- Short-notice RERT — between seven days' and three hours' notice of a projected reserve shortfall.

Typically, AEMO sets up a RERT panel of providers for both the medium-notice and short-notice RERT, and only triggers the procurement contract when it has identified a potential shortfall and after seeking offers from RERT panel members.[14] There is no panel for the long-notice RERT; rather, contracts are signed following the close of a public tender process.

This derogation request relates to the maximum duration of a long-notice RERT contract. Currently, AEMO can enter into a contract up to nine months in duration. [15] From 26 March 2020, AEMO will be able to procure RERT contracts of up to 12 months duration.[16] While AEMO cannot currently enter into multi-year contracts, the rules do not prevent AEMO from negotiating at any time with potential tenderers in relation to RERT contracts.[17]

2.3 Recovery of RERT costs

The NER require that RERT costs incurred by AEMO be met by fees imposed on market customers in the region where emergency reserves have been procured and/or dispatched. [18] The cost per market customer is proportional to the energy consumption of that customer in the relevant region during certain time periods.[19] If emergency reserves are required in multiple regions, cost sharing arrangements must be agreed between the regions and AEMO when entering the contracts.[20] Costs are recovered through the usual weekly settlement process.

The NER do not prescribe how market customers (e.g. retailers) then recover these costs from end customers. Market customers typically do so based on the conditions of the contracts with their customers. For example, tariffs in residential contracts (while not a NER restriction), tend to only change once per year and so this affects how these costs are recovered. Other contracts such as with large customers may have different conditions, including the ability for retailers to pass directly through RERT costs, should they choose to, in a more timely manner.

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13 Under the Rule change referred to as the *Enhanced RERT*, the maximum procurement lead time will increase from nine months to 12 months, see the following section for further detail.

14 AEMO has the discretion to use a tender process in addition to using panel members in the case of the medium-notice RERT.

15 The maximum duration of a RERT contract is implied by the procurement lead time. Clause 3.20.3(d) of the NER.

16 As the maximum procurement lead time will increase from nine to 12 months upon the commencement of the Enhanced RERT rule change.

17 Clause 3.20.3(d) of the NER.

18 Clause 3.15.9(a) of the NER

19 Clause 3.15.9(e) of the NER

20 Clause 3.20.3(f) of the NER.

The Commission's changes to the RERT in the enhancement to the RERT rule change introduce a more cost reflective approach to who pays for emergency reserves. This is discussed below.

2.4 Overview of recent changes to the Reliability Framework

There have been a number of recent changes to the reliability framework in the NEM, including rule changes relating to the RERT. The information below summarises the key recent changes as context for this derogation proposal.

Extension of the RERT — 2016[21]

While the RERT was originally designed with an expiry clause, in June 2016 the Commission made it a permanent feature of the reliability framework. In making this decision, the Commission noted that ongoing uncertainty raised the possibility that future electricity demand may not be met and that the RERT is more efficient than other intervention mechanisms in the NEM's reliability framework (for example, directions) in managing shortfalls of supply. In making the RERT a permanent feature, the Commission also decided to reduce the time frame for its exercise (from nine months to ten weeks), in effect removing the long-notice RERT. This was done to minimise the distortionary effects of the RERT on market participants, which can contribute to increased costs to consumers. The final determination noted that removing the long-notice RERT would:

- give market participants greater time and opportunity to respond to a projected shortfall, before AEMO seeks to enter into RERT contracts. A response from market participants is more economically efficient than reserve contracting.
- minimise the likelihood that, in contracting for reserves, AEMO crowds out potential market-based arrangements (such as retailers seeking to engage with their customers to reduce load through demand response)
- allow AEMO to utilise new and more up-to-date information to inform both its assessments of capacity adequacy, and its decisions on whether to enter into reserve contracts(s). This can reduce the risk that reserve contracts are unnecessarily entered into and not dispatched, with the associated costs being ultimately borne by customers.

Reinstatement of the long notice RERT — 2018

In June 2018 the Commission made the decision to reinstate the long-notice RERT in response to a request from AEMO.[22] The procurement lead time was increased to nine months. The Commission noted that having more resources able to participate in the RERT through a longer procurement lead time may improve the efficiency of the procurement process and may put downward pressure on the direct costs of the RERT.

Enhancement to the RERT — 2019

21 AEMC, *Extension of the Reliability and Emergency Reserve Trader,* Final Determination, 23 June 2016.

22 AEMC, *Reinstatement of the long notice Reliability and Emergency Reserve Trader*, Final determination, June 2018.

In May 2019, the Commission made a final rule, The Enhancement to the RERT, in response to a request from AEMO.[23] The substantive features of the final rule, which commences on 26 March 2020, are that it:[24]

- Explicitly links the RERT procurement trigger and volume to the reliability standard — clarifying how the RERT fits into the broader reliability framework. Linking the procurement process explicitly to the reliability standard (through the largest credible risk [LCR] and lack of reserve [LOR] declarations) will limit the misallocation of reliability risks, in terms of how they are managed in the NEM. The final rule also recognises the practical limitations and challenges of emergency reserves, and incorporates some flexibility into these parameters.
- Extends the maximum procurement lead time for emergency reserves from nine to 12 months— to broaden the pool of potential RERT providers and so potentially reduce costs associated with the RERT and create consistency with the lead time under the RRO.
- Clarifies the out-of-market provisions for reserve providers — to emphasise that the wholesale market is the primary means by which reliability is delivered, which has the effect of minimising reliability cost outcomes for consumers.[25]
- Aligns the cost of reserves with, where possible, the customers who caused the need for RERT [26]— by introducing a more cost-reflective approach to who pays for emergency reserves, this will provide efficient incentives for parties to reduce or avoid the costs.
- Increases transparency and both backward and forward looking reporting, to assist market participants and consumers — new reporting requirements clearly explain the reasons for RERT procurement and improves the ability of retailers, consumer groups, governments, policy-makers and other interested parties about the costs of the RERT, and what is driving the use of the RERT in order to guide these parties to make more informed operational and investment decisions, as well as to better budget and plan for RERT related charges. It also allows lessons to be learned from past RERT events.
- Adds an additional RERT principle that the costs of the RERT should not exceed the estimated average Value of Customer Reliability (VCR) — providing guidance to AEMO to consider whether the cost of entering into emergency reserve contracts is reasonable.

Of particular relevance to this derogation request, the enhancement to the RERTfinal rule also:

23 See https://www.aemc.gov.au/sites/default/files/2019-05/Final%20Determination.pdf

24 The final rule commences on 26 March 2020, although certain reporting requirements commence on 31 October 2019

25 Scheduled reserves cannot participate in the RERT if in the wholesale market for the past 12 months, and for the duration of the contract. Unscheduled reserves cannot be both in the wholesale market and in the RERT for the trading intervals to which the contract relates. Requires AEMO to provide guidance on implementation.

26 Requires AEMO to recover costs associated with the direct and immediate activation of RERT resources (e.g. activation costs or usage charges) in proportion to market customers' consumption over each of the trading intervals in which the RERT resource is activated, in the region in which RERT was used. Also requires AEMO to recover all other costs associated with the procurement of reserves (other than administrative and operational costs) in proportion to market customers' consumption during each of the billing periods in which the costs were incurred, in the region in which RERT was used.

- Does not allow multi-year contracting — following consideration of the potential costs (both direct and indirect) weighed against the potential benefits.[27]
- Introduced a new clause that AEMO must use reasonable endeavours to ensure the expected contracting duration is to cover a time frame that is reasonably necessary to address the identified shortfall.

The Retailer Reliability Obligation (RRO) — 2019

On 19 December 2018, the Council of Australian Government (COAG) Energy Council agreed to the final draft bill of the NEL amendments which would give effect to the Retailer Reliability Obligation (RRO), as presented by the Energy Security Board (ESB). The RRO was developed to help with additional investment in dispatchable generation, needed to avoid the risk of supply shortfalls. The RRO, which commenced on 1 July 2019, builds on existing spot and financial market arrangements in the electricity market to facilitate investment in dispatchable capacity and demand response. It is designed to incentivise retailers, on behalf of their customers, to support the reliability of the power system through their contracting and investment decisions. If the RRO is triggered, retailers will be required to enter into contracts that will have the aim of unlocking new investment, improving liquidity and increasing demand response, which will increase in-market reserves and support reliability further.

The obligation on retailers to secure sufficient qualifying contracts will be triggered if there is a material gap (i.e a breach of the reliability standard) between forecast demand and supply three years out from the period in which the gap is forecast by AEMO[28] and the AER has subsequently made a 'T-3 reliability instrument'.[29]

If the AER triggers the RRO, retailers (and other liable entities) will be required to enter into sufficient qualifying contracts to cover their share of a one-in-two year peak demand at the time of the reliability gap. When liable entities submit their contract positions to the AER each contract will be adjusted for relative 'firmness". To make sure enough contracts are available to smaller market customers, a Market Liquidity Obligation will require the obligated parties to make contracts available to the market. .[30]

Under the RRO, if a gap that was identified three years out still persists one year out, then AEMO may commence procurement of emergency reserves at T-1 (i.e. 12 months ahead of the gap) through the RERT framework to address the remaining gap, with costs to be recovered through the Procurer of Last Resort cost recovery mechanism.

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27 See AEMC, Enhancement to the Reliability and Emergency Reserve Trader, Rule Determination, 2 May 2019, pp. 132 - 139. In its April 2019 submission into the Enhanced RERT rule change, Victoria supported amendments to the NER for multi-year contracting.

28 AEMO will identify any potential reliability gaps in each NEM region in the coming five years using its Electricity Statement of Opportunities (ESOO)

29 When AEMO identifies a material gap three years out, it has to apply to the AER to make a "T-3 reliability instrument". This instrument is then the trigger for the RRO mechanism and obligations, such as requiring retailers to have enough contracts in place.

30 Commonwealth of Australia, *Retailer Reliability Obligation Factsheet*, 2019.

The need for consistency between the lead times on the RERT and the RRO was one of the reasons why the Commission increased the procurement lead time for long-notice RERT contracts to 12 months in the enhancement to the RERT final determination.

The cost recovery arrangements for emergency reserves procured under a T-1 instrument will differ from other RERT cost recovery arrangements. Under the NER, all RERT costs will initially be settled on the basis of existing RERT cost recovery arrangements. A portion of RERT costs will subsequently be reallocated under the Procurer of Last Resort (POLR) cost recovery regime. The reallocation will be calculated on an ex-post basis, once compliance has been determined by the AER. Once total POLR costs have been determined, these costs will be recovered from under-contracted liable entities, capped at $100 million per liable entity. A liable entity's share of total POLR costs will be proportionate to the extent of its under-contracting.[31]

The 2019 Electricity Statement of Opportunities (ESOO) released in August was the first report that could be used under the RRO to predict reliability gaps. It states that while the expected level of USE in Victoria in 2019-20 is forecast to exceed the reliability standard under some scenarios (for instance, if either of the current outages at the Loy Yang and Mortlake Power Stations extend over the summer), this 2019-20 summer does not fall within the timeframes for the RRO to be triggered. [32] As there are no reliability gaps in the other years covered by the 2019 ESOO, AEMO will not be requesting T-3 reliability instruments in response to the 2019 ESOO.[33]

As outlined, there are direct interactions in the NEM's reliability framework between the RRO and the RERT. In particular, if a T-1 reliability instrument is made by the AER under the RRO, then AEMO would become the Procurer of Last Resort and could purchase reserves through the RERT mechanism. As noted above, one reason the procurement lead time for long-notice RERT contracts was increased to a maximum of twelve months was to give AEMO the ability to procure emergency reserves for the duration of a T-1 reliability instrument.

31 Energy Security Board, Retailer Reliability Obligation, Final Rules package, 2 May 2018, Section 8.

32 AEMO, 2019 Electricity Statement of Opportunities, p. 73, p 77.
Without a T-3 reliability instrument for the same period, a T-1 reliability instrument cannot be requested. As this is the first year the RRO is in effect, there are no T-3 reliability instruments in existence. There are also no forecast reliability gaps in the T-1 timeframe (2020-21).

33 AEMO, 2019 Electricity Statement of Opportunities (ESOO), August 2019, page 77.

3 DETAILS OF THE RULE CHANGE REQUEST

This chapter provides a summary of the derogation proposal. The Victorian Government seeks a derogation to allow AEMO to contract for reserve electricity capacity under the RERT mechanism on a multi-year basis (of up to three years) in Victoria. This is in order to assist AEMO procure a greater volume of emergency reserves for the forthcoming 2019-20 summer and the years that follow. The Victorian Government proposes that the derogation remain in place until June 2025 and could enable contracts of up to three years, to commence up until June 2025 and ending in June 2028. This chapter sets out:

- the issues raised by the Victorian Government in its proposed derogation
- the details of the Victorian Government's solution to these issues.

3.1 Issues raised in the proposed derogation

In its derogation proposal, the Victorian Government provides the following rationale and core issues:

- Since the Commission made its final determination on the Enhanced RERT in May 2019, the 2019 Electricity Statement of Opportunities (ESOO) has been published (August 2019) forecasting a heightened risk of load shedding in Victoria this summer, with Victoria the only state expected to breach the reliability standard.[34]
- Reliability is expected to remain a concern for 2020-21 and 2021-22 in Victoria. This is due to the state's unique position in the NEM of a high dependence on a relatively small number of brown coal generation units, that are becoming increasingly unreliable due to their age.[35]
- The need for a specific mechanism to address reliability in Victoria is expected to be short-term, until the RRO comes into effect. The market measures included in the RRO, which came into effect on 1 July 2019, cannot assist in resolving the shortages forecast for the coming summer peak period in Victoria. The RRO is a long-term solution to forecast capacity shortages.[36]
- Restricting RERT contracts to nine or 12 months is stated to be limiting the availability of emergency reserves in Victoria to a level that threatens the reliability of the national electricity system as it operates in Victoria and it is proposed that introducing multi-year contracts would enable AEMO procure a greater volume of RERT contracts ahead of the 2019/20 summer peak.[37]

These issues are discussed below along with other issues raised in the derogation proposal.

34 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation – RERT contracting, rule change request, p.3.
35 Ibid, pp.4-7.
36 Ibid, p 5.
37 Ibid, p 3.

3.1.1 Heightened risk of load shedding for the Victorian 2019-20 summer

The Victorian Government states that there has been a "material change in conditions" since the Commission made its final determination on the Enhanced RERT in May 2019.[38] The derogation proposal cites the new information provided in AEMO's 2019 ESOO, published August 2019, on the reliability outlook for Victoria.[39]

Based on the forecasts in the 2019 ESOO, the Victorian Government considers that, if the rule change proposal is not made there will be an "inability to contract sufficient RERT reserve capacity over the peak summer demand period in 2019-20" to avoid widespread load shedding in Victoria.[40] The Victorian Government has stated in its derogation proposal that "AEMO has indicated that existing intervention measures (such as the utilisation of demand-response RERT) can not address the magnitude of the forecast USE."[41] [42]

The Victorian Government highlights in its proposed derogation the following 2019 ESOO findings:

- The 2019 ESOO identifies a risk of insufficient supply that could lead to between "125 MW and 560 MW of unserved energy (USE) in Victoria during summer 2019-20"[43][44]
- The 2019 ESOO forecasts Victoria breaching the reliability standard in 2019-20.[45][46]
- AEMO has forecast a 30 per cent probability that Loy Yang A remains out of service until 1 March 2020; and a 60 percent probability that the Mortlake unit remains out of service until 1 March 2020.[47] AEMO has also forecast an 18 per cent probability (or roughly one-five-chance) that neither of these generating units will be available over summer 2019-20.[48] In this case, expected USE in Victoria would rise to 0.0047 per cent and may be as great as 0.0168 per cent in the worse case scenario.[49]
- Due to the damage resulting from the failures of the thermal generators, and the extensive repairs required, delayed return to service of one or both units is considered likely.[50] The derogation proposal highlights that "generators on such extended outages are often delayed in their return to service due to new, unforeseen issues with the plant

38 Ibid, p.3.

39 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation – RERT contracting, rule change request, p.3.

40 Ibid, p.3.

41 Ibid, p.5.

42 USE is energy that cannot be supplied to customers, resulting in involuntary load shedding (loss of customer supply), as a result of insufficient levels of generation capacity, demand response, or network capability, to meet demand. 'Expected' refers to the mathematical definition of the word, which describes the weighted-average USE outcome.

43 Ibid, p.3.

44 For clarity, the 2019 ESOO identifies between 125 MW and 560 MW in Victoria to close the gap to the current reliability standard or reduce the likelihood of exceeding the standard to a 'one-in-10 year' event, respectively. Reference: AEMO, 2019 ESOO, page 3.,.

45 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation – RERT contracting, rule change request, p.3.

46 The forecast breach of the reliability standard in Victoria is based on AEMO's assessment of the probability of two major generating units that are currently offline having a delayed return to service. AEMO's modelling has assumed that there is a 30% probability that Loy Yang A Unit 2 will remain out of service until 1 March 2020 and a 60% probability that the Mortlake unit remains out of service until 1 March 2020. Based on these probabilities, the expected USE would be above the reliability standard at 0.0026%. See AEMO, *2019 ESOO*, page 72

47 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation – RERT contracting, rule change request, p.4.

48 Ibid, p.3.

49 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation – RERT contracting, rule change request, p.3.

50 Ibid, p.4.

that are revealed during repair and recommissioning, or due to delays as parts need to be ordered, sourced and shipped to Australia".[51]

The rule request states that if no additional supply is secured, involuntary load shedding may be experienced in Victoria during extreme weather events, equivalent to between 260,000 and 1.3 million households being without power for four hours.[52]

3.1.2 Victoria is unique in the NEM because it relies on fewer thermal plants than other states

The Victorian Government's proposed derogation also states that Victoria is in a unique position in the NEM because it has a high dependence on a relatively small number of ageing brown coal generation units, which are becoming increasingly unreliable.[53] The Government notes that unplanned outages appear to be increasing and therefore the potential impact of unplanned outages of one or more coal-fired generation units on system reliability is greater for Victoria than any other jurisdiction.[54] The proposed derogation highlights that:

- Since December 2017, the Loy Lang A and Yallourn power stations have suffered the most outages compared to other gas and coal-fired power stations across the NEM, with 29 and 26 outages respectively.
- Over summer 2018-19, Victoria's coal-fired thermal generators had 16 major outages.

3.1.3 Reliability problem in Victoria is short term until the RRO comes into effect

The Victorian Government states that "this derogation is a short-term measure designed to address a short-term reliability problem — consequently, it will expire after five years".[55]

The Victorian Government anticipates supply reliability to be resolved over the longer term by other measures including:

- on market investment in generation and transmission augmentation
- the Retailer Reliability Obligation; and
- the Energy Security Board's post 2025 Market Design for the NEM.[56]

The rule change request considers that the new measures contained in the Enhanced RERT will not be able to meet the immediate short-term reliability challenges in Victoria.[57]Similarly, the Victorian Government considers that the market measures incorporated into the RRO, which came into effect on 1 July 2019, cannot assist in resolving the shortages forecast for the coming summer peak period in Victoria as the RRO is a long-term solution to forecast capacity shortages.[58]

51 Ibid, p.4.
52 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation – RERT contracting, rule change request, p.3.
53 Ibid, p.7.
54 Ibid, p.7.
55 Ibid, p.4.
56 Ibid, p.8.
57 Ibid, pp.4-5. The key changes in the Enhancement to the RERT final rule come into effect from March 2020 (after 2019-20 peak summer period).
58 Ibid, p.5.

3.1.4 Current contracting period insufficient to attract small scale generation

In its proposed derogation, the Victorian Government states that the RERT is not delivering sufficient reserves to support reliability during the energy transition in Victoria.[59] According to the Victorian Government, allowing for multi-year contracting of up to three years would help to attract greater volumes of reserve capacity generation.[60]

The proposed derogation states that:[61]

- "indications are that maximum market availability for demand-side contracts has been materially reached
- restricting RERT contracts to nine/twelve months is a barrier to participation for those parties who face significant upfront deployment costs (i.e. small-scale generation units); and
- small-scale generation contracts are potentially available, but require greater certainty to be able to cost-effectively recoup their investment within the term of the contract."

The Victorian Government states that "[b]ased upon past invitations to tender and preliminary discussions in anticipation of the 2019-20 summer peak demand period, the capital investment for small-scale gas and diesel generation:

- is the same regardless of contract duration, but can be recovered more cost effectively over a multi-year contract;
- is more cost-effective than reserve capacity activated under medium and short-term, arrangements; and
- once deployed, is more reliably available in years two and three of a multi-year contract, as opposed to annual arrangements."[62]

The proposed derogation further notes that "[b]ased on preliminary discussions with potential RERT supply side providers, the Department of Environment, Land, Water and Planning (DELP) is aware that several parties have stated that they are unable to offer in resources below the value of customer reliability within the constraints of a one-year RERT contract. However, these same parties have indicated that they are able to provide substantial new energy generation resources at significantly lower annual cost if multi-year contracts were available."[63]

The Victorian Government also points to the benefits multi-year contracting could provide through the diversification of the types of RERT reserves held in Victoria. The Government states that there is a lack of diversity in RERT contracts in the Victorian region, as they are currently dominated by demand-response capacity.[64] The proposed derogation states that diversity of resource providers is important as not all resources can necessarily be activated

59 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation – RERT contracting, rule change request, p.3.
60 Ibid, p.10.
61 Ibid, p.6.
62 Ibid, p.6.
63 Ibid, p.6.
64 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation – RERT contracting, rule change request, p.6.

for a given shortfall event. This is particularly so for potential demand-side capacity contracted on the medium and short-term RERT Panel arrangements.[65]

Reliability outlook in Victoria for 2020-21 and 2021-22

The proposed derogation suggests that Victoria could face reliability problems beyond the 2019-20 peak summer period into 2020-21 and 2021-22, even though the 2019 ESOO does not forecast a shortfall for those years comparable to that forecast for 2019-20. The Victorian Government notes that the ESOO forecasts are 'volatile'. As an example, the Government highlights the change between the 2018 ESOO and the 2019 ESOO. The volatility in forecasts, the Government argues, drastically reduces the time available for the market to respond.[66] The upcoming closure of Liddell power station in 2022-23 is said to represent "the next significant danger period for the Victorian supply reliability beyond the current forecast of shortfall and the coming online of new generation."[67]

As previously outlined, the proposed derogation also considers that Victoria's current, but transitioning, high reliance on a small number of ageing thermal plants increases the State's exposure to potential capacity shortage during periods of peak summer demand.[68]

3.1.5 Other issues

The Victorian Government also raised the following issues in support of its proposed derogation:

- AEMO will "only enter into multi-year contracts for RERT where it is more cost effective than entering short term contracts"[69]
- Multi-year contracts "better enables the market to deliver additional capacity through new reserve generation capacity, at more cost-effective prices."[70]
- "[I]nvoluntary load shedding, which remains a feature of the NEM, is a relatively blunt intervention instrument and does have an economic and social cost."[71] Maintaining supply by procuring reserves through reserve contracts may create more efficient outcomes compared to involuntary load shedding because involuntary load shedding does not differentiate between customers.[72]
- Procuring RERT reserves through multi-year contracts may "also contribute to delivering more efficiently priced electricity by facilitating the development of further demand response options, as has been observed with the ARENA/AEMO Demand Response trial".[73]

65 Ibid.
66 Ibid, p.4.
67 Ibid, pp.4-5.
68 Ibid, p.7.
69 Ibid, p.10.
70 Ibid, p.10.
71 Ibid, p.10.
72 Ibid, p.10.
73 Ibid, p. 10 - 11. In late 2017, Australian Renewable Energy Agency (ARENA) and AEMO partnered to trial how innovative sources of demand response could be delivered in emergency situations.

3.2 Proposed solution

The proposed derogation would introduce an interim change that would extend the duration of long-notice RERT contracts to periods of up to three years in the jurisdiction of Victoria.

These contracts would commence within existing procurement lead times of a forecast shortfall in capacity identified in the annual ESOO.[74] This would mean that a RERT contract could only be entered into nine months (currently) or 12 months (after 26 March 2020) in advance of a forecast reliability gap. However, the contract duration would be a maximum of three years rather than being implied by the procurement lead time as is currently the case. If the proposed rule was made, the forecast shortfalls for summer 2019-20 would trigger RERT contracts in Victoria (because it is within the current nine-month procurement lead time). However, the contracts could be three years in duration (rather than nine months). The maximum three-year contract duration would be regardless of the ESOO USE forecasts in subsequent years. The Victorian Government state that having the contracts remain in effect for up to three years would potentially result in availability payments for the duration of the contract, where that was assessed as cost-effective and justified.[75]

The derogation is proposed as a short term measure. It is proposed that this arrangement continue for five years until 30 June 2025.

The Victorian Government states, if made as proposed, the rule would have the effect of:[76]

- Enabling AEMO to use its discretion to enter into multi-year (up to three years) RERT capacity reserves in Victoria within the parameters articulated in the NER and RERT Guidelines.
- Multi-year contracts being entered into, potentially assisting AEMO to procure additional emergency reserves that could help avoid load shedding during the forthcoming summer and in future years in Victoria.
- Multi-year RERT contracts being entered into up until the proposed expiry of the derogation, which is 30 June 2025. This would mean that multi-year contracts could be entered into up until 30 June 2025 (enabling a multi-year contract to be in place until June 2028).
- Separating the concepts of contract duration and procurement lead time in the NER on a temporary basis for the state of Victoria.[77]

The Commission has considered whether the proposed derogation, if made would require amendments to be made to the RERT Guidelines and AEMO's RERT procedures and have concluded that amendments would not be required to incorporate multi-year contracting.

The proposed derogation does include a proposed rule.

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74 The lead times are a period of nine months up until 26 March 2020 and twelve months thereafter.

75 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation – RERT contracting, rule change request, p.8.

76 Ibid, p 7-8.

77 The NER does not currently prescribe a specific duration for RERT contracts, however the procurement lead time specified in the NER has been interpreted and implied as the maximum limit on the duration of these contracts.

Copies of the proposed derogation (rule change request) may be found on the AEMC website, www.aemc.gov.au.

4 ASSESSMENT FRAMEWORK

4.1 Achieving the NEO

Under the NEL the Commission may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the national electricity objective (NEO).[78] This is the decision-making framework that the Commission must apply.

The NEO is:[79]

> to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to -
>
> (a) price, quality, safety, reliability and security of supply of electricity; and
>
> (b) the reliability, safety and security of the national electricity system.

Based on a preliminary assessment of this proposed derogation, the Commission considers that the relevant aspects of the NEO are the efficient investment in, and efficient operation and use of electricity services with respect to the price and reliability of supply of electricity, and reliability of the national electricity system as it operates in Victoria because the:

- RERT is one of the intervention mechanisms available to AEMO to manage reliability of the power system in the event that the market is projected to fail to meet the reliability standard.
- Direct costs of the RERT are passed on to consumers, meaning that the RERT has an impact on prices, while the indirect costs such as market distortions also have implications for reliability and prices.

In assessing the proposed derogation, the Commission proposes to consider whether or not the rule change improves the efficiency of the RERT process and the reliability of the system in Victoria. In particular, it will consider the following principles:

- **Promoting reliability of the power system**: A reliable power system is a crucial part of the energy market and an important aspect of the long-term interest of consumers. The Commission will have regard to the potential benefits to reliability brought about by the proposed solution, weighed against the likely costs, including market distortions.
- **Minimising market distortions**: Minimising market distortions is important in order to minimise indirect costs. In assessing the case for regulation in the presence of a market failure, it is necessary to consider the potential distortionary effects of regulation. Efficient outcomes can be best promoted by aligning the commercial incentives on businesses with the interests of consumers. The Commission will have regard to the distortionary impact of the proposed solution.
- **Minimising direct costs**: Procurement efficiency is an important aspect of the RERT and helps to minimise direct costs and improves AEMO's ability to manage reliability. The

78 Section 88 of the NEL.
79 Section 7 of the NEL.

Commission will assess the potential costs and benefits in relation to the procurement process.

4.2 Making a more preferable rule

Under s.91A of the NEL, the Commission may make a rule that is different (including materially different) to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule will or is likely to better contribute to the achievement of the NEO.

4.3 Other considerations in making a jurisdictional derogation

Section 89 of the NEL requires the AEMC in making a jurisdictional derogation to have regard to whether:

"(a) the derogation provides for the orderly transfer of the regulation of the electricity industry in a participating jurisdiction under jurisdictional electricity legislation to the regulation of that industry under the national electricity legislation; or

(b) the derogation continues existing regulatory arrangements applying to the electricity industry in a participating jurisdiction and the Minister of the participating jurisdiction requesting the derogation has notified, in writing, the AEMC that he or she considers it necessary and appropriate that the existing regulatory arrangements continue; or

(c) the derogation is necessary to exempt, on an ongoing basis, generating, transmission or distribution systems or other facilities owned, controlled or operated in the participating jurisdiction to which the derogation relates from complying with technical standards relating to connection to the national electricity system set out in the Rules because those systems or facilities, by reason of their design or construction, are unable to comply with those standards."

The Victorian Government has noted in its derogation that it does not consider that section 89 of the NEL does not determine jurisdictional derogations, but rather outlines matters the AEMC must have regard to.[80] The AEMC agrees with that position and so the matters that the Commission will give consideration to in its assessment of the rule change request relate to the achievement of the NEO under section 88 of the NEL.

4.4 Making a differential rule

Under the Northern Territory legislation adopting the NEL, the Commission may make a differential rule if, having regard to any relevant MCE statement of policy principles, a different rule will, or is likely to, better contribute to the achievement of the NEO than a uniform rule. A differential rule is a rule that:

- varies in its term as between:
  - the national electricity system, and

80 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation – RERT contracting, rule change request, p.11.

  - one or more, or all, of the local electricity systems, or
- does not have effect with respect to one or more of those systems

but is not a jurisdictional derogation, participant derogation or rule that has effect with respect to an adoptive jurisdiction for the purpose of s. 91(8) of the NEL.

As the rule change is unlikely to relate to parts of the NER that currently apply in the Northern Territory, it is unlikely that the Commission will need to assess the rule change against additional elements required by the Northern Territory legislation.[81]

QUESTION 1: **ASSESSMENT FRAMEWORK**

(a) Is the proposed assessment framework appropriate for considering the changes proposed in the derogation proposal?

(b) What, if any, other relevant considerations should be included in the assessment framework?

81 From 1 July 2016, the NER, as amended from time to time, apply in the NT, subject to derogations set out in regulations made under the NT legislation adopting the NEL. Under those regulations, only certain parts of the NER have been adopted in the NT. (See the AEMC website for the NER that applies in the NT.) National Electricity (Northern Territory) (National Uniform Legislation) Act 2015.

5 ISSUES FOR CONSULTATION

Taking into consideration the assessment framework, a number of issues have been identified for initial consultation. Stakeholders are encouraged to comment on these issues or any others they consider relevant, including the proposed assessment framework.

5.1 Demand and supply balance in Victoria

As discussed in section 2.4 of this paper, the Commission made a final rule in May 2019 that did not allow for multi-year contracting. In its derogation proposal, the Victorian Government provides information about what has changed in Victoria since the Commission's May 2019 decision.

As discussed in chapter 3, the Victorian Government notes in its derogation proposal that new information has become available in the 2019 Electricity Statement of Opportunities (ESOO) (August 2019) on the potential reliability outlook in Victoria.[82] The ESOO forecasts that "the risk of load shedding in Victoria in 2019-20 is high, with the expected level of USE in excess of both the reliability standard and the level of load shedding that was experienced last summer".[83] Furthermore, the current unplanned outages at two major power stations in Victoria, including Loy Yang A2 (500 MW) and Mortlake 2 (259 MW) if extended into the 2019-20 peak summer period, are forecast to "pose a significant risk of insufficient supply that could lead to material involuntary load shedding".[84]

The Victorian Government is concerned that emergency reserves will not be available in sufficient volumes to address the load shedding risks that the state faces during the forthcoming summer. It has proposed that multi-year contracting would help to increase the volume of RERT contracts. The Victorian Government's view draws on discussions that the Victorian Government has held with potential RERT suppliers as well as AEMO, that have stated that they are able to provide substantial new energy generation resources if multi-year contracts were available.[85]

As discussed in chapter 3, the Victorian Government is also concerned about the risks of load shedding in Victoria during peak demand periods beyond the 2019-20 summer. The derogation proposal argues that the jurisdiction has a unique set of reliability challenges given that it has a disproportionate dependence on a relatively small number of aging brown coal generation units, which are becoming increasingly unreliable.

82 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation — RERT contracting, rule change request, p.3.
83 AEMO, 2019 ESOO, p.72.
84 AEMO, 2019 ESOO, p3.
85 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation – RERT contracting, rule change request, p.6.

QUESTION 2: **NEW INFORMATION ABOUT THE DEMAND AND SUPPLY BALANCE IN VICTORIA**

(a) What are stakeholders' views on Victoria's set of reliability challenges amongst NEM regions and the risks of load shedding that would necessitate allowing for multi-year RERT contracting in that state?

(b) Are stakeholders aware of any other information that the Commission should consider in relation to the demand and supply balance in Victoria over the short to medium term and/or the availability of emergency reserves that would be relevant to this derogation proposal?

5.2 Implications of RERT contract periods for Victoria

According to the derogation proposal, the current RERT mechanisms may not be adequate to respond to existing and emerging power system events in Victoria.[86]

As discussed in chapter 3, the Victorian Government considers that multi-year contracting would increase the volume, diversity and cost-effectiveness of the RERT contracts. The derogation proposal suggests that "maximum market availability for demand-side contracts has been materially reached" and "restricting RERT contracts to nine/twelve months is a barrier to participation for those parties who face upfront deployment costs (i.e. small-scale generation units)."[87] The Victorian Government considers that required additional reserve resources, such as small scale generation, could be available in Victoria if multi-year contracts were offered since potential supply side resources need greater certainty to recover their investment costs within the term of the contract.[88] These supply side resources would need to be not participating in the wholesale market in order to qualify for the RERT.

The Victorian Government also considers that multi-year contracting is also likely to deliver more efficiently priced electricity by facilitating the development of further demand response options.[89]

The Victorian Government states that the proposed rule would be expected to deliver a net economic benefit.[90]The Victorian Government highlights that RERT providers have advised that "longer term contracts have significantly lower costs for each MW of available capacity compared to short term contracts".[91] The Victorian Government also states that, in alignment with the RERT Guidelines and RERT principles under the NER, "AEMO will only enter into multi-year contracts for RERT where it is more cost effective than entering short term contracts.[92]Finally, the Victorian Government argues that "extended contract duration would

86 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation – RERT contracting, rule change request, p.10.
87 Ibid, p.6.
88 Ibid, p.6.
89 Ibid, p.10.
90 Ibid, p. 10.
91 Ibid, p.10.
92 Ibid, pp.8-10.

mitigate the risks of electricity supply disruption, the costs of which are high...[and] may create more efficient outcomes compared to involuntary load shedding because involuntary load shedding does not differentiate between customers".[93]

On the other hand, increased multi-year contracting could lead to potential costs such as:

- Direct costs, which may be higher because of costs incurred that turn out to have been incurred unnecessarily(that is, information closer to real time reveals that reserves were not necessary).
- Distortions to market participants' incentives to invest and the risks of higher cost to consumers.

The proposed duration of multi-year contracts is up to three years. Under the Victorian Government's proposed rule AEMO could negotiate and enter into RERT contracts at any time up until 26 March 2020 — these contracts would be up to three years in length and subject to the existing RERT arrangements for their duration. From 26 March 2020 through to 30 June 2025, it is proposed that reserve contracts of up to three years could be negotiated and entered into in Victoria - these would be subject to the enhanced RERT provisions commencing 26 March 2020. In either case, the reserve contracts may be for a period that is longer than the period of any forecast breach of the reliability standard.

QUESTION 3: **IMPLICATIONS OF RERT CONTRACT PERIODS FOR VICTORIA**

(a) Do stakeholders consider that introducing multi-year RERT contracts would remove a barrier to participation for potential providers of emergency reserves in Victoria?

(b) What do stakeholders consider to be the benefits of introducing multi-year contracting in Victoria up until 30 June 2025?

(c) What do stakeholders consider to be the costs associated with introducing multi-year contracting in Victoria up until 30 June 2025?

(d) What are stakeholders views about the proposed contract duration of up to three years ?

(e) What are stakeholder views about the proposal that multi-year contracts entered into prior to the commencement of the Enhanced RERT (on 26 March 2020) would not be subject to the requirements of the enhanced RERT framework?

5.3 Length of derogation

The Victorian derogation proposal requests that multi-year RERT contracting be in place in Victoria from the 2019/20 summer until 30 June 2025. This would mean in effect that multi-year contracts entered into in 2025 would be in place through to 2028.

93 Ibid, p.10.

As discussed in chapter 3, the Victorian Government have sought this duration so that the multi-year RERT contracting is available to address the short-term reliability problem until the new market measures incorporated in the RRO which came into effect on 1 July 2019 are fully operational. The 2019 ESOO released in August was the first report that could be used under the RRO to forecast reliability gaps. Although the expected level of unserved energy (USE) in Victoria in 2019-20 exceeds the reliability standard, this summer does not fall within the time frames for the RRO to be triggered. This is because without a T-3 reliability instrument for the same period, a T-1 reliability instrument cannot be requested. As this is the first year the RRO is in effect, there are no T-3 reliability instruments in existence.

The Victorian derogation request also states that the proposed period is long enough to encompass the closure of the Liddell power station in 2022-23, "which represents the next significant danger period for Victorian supply reliability beyond the current forecast shortfall and the coming online of new generation".[94]

QUESTION 4: **LENGTH OF DEROGATION**

What are stakeholder views on the proposed expiration date for the derogation of 30 June 2025 ?

94 The Honourable Lily D'Ambrosio MP, Victorian jurisdictional derogation – RERT contracting, rule change request, pp 4-5..

6 PROCESS FOR THIS RULE CHANGE

6.1 Treatment as an urgent rule change

The Victorian Government has proposed that the derogation proposal (rule change request) be treated as urgent in accordance with s.96 of the NEL such that it could be processed on an expedited basis. This request has been made on the basis of the Victorian Government's view that there is an urgent need to increase the volume of RERT contracts to cover the peak summer demand period 2019-20. The Victorian Government is seeking this rule change prior to the summer peak demand period to enable AEMO to contract more emergency reserves, which the Victorian Government understand will be possible due to the greater certainty multi-year contracts (of up to three years in duration) provide to potential RERT providers.

The Commission considers that the derogation proposal should be subject to the expedited rule making process under s. 96 of the NEL on the grounds that it considers the rule change request to be urgent.[95] More specifically, the Commission considers that if the rule change request is not considered by December 2019, the effective operation and administration of the wholesale electricity market and the reliability of the national electricity system as it operates in the state of Victoria, could be prejudiced or threatened, as there may be high reliability risks for the Victorian market during summer 2019-20.

The decision has been informed by the Victorian Government's derogation proposal that the risk to reliability in terms of involuntary load shedding is a reasonable possibility over the 2019-20 summer. This view is based on the following:

- AEMO's forecasts set out in the 2019 ESOO that show a tightening demand and supply balance in Victoria and an increasing risk of involuntary load shedding in that state over summer 2019-20
- Given the derogation proposal proposes changes to enable AEMO to enter into multi-year RERT contracts to increase the volume of emergency reserves to cover the 2019-20 peak summer demand period, it would be appropriate to consider the request urgently in order to have rules (if made) prior to the end of the calendar year.

Rule changes that are considered to be urgent may be processed under an expedited (faster) process under which there is only one round of consultation and the AEMC is required to publish its final rule determination within eight weeks of commencing the rule change process.[96]

The Commission has decided to use an expedited process to consider this derogation proposal provided that it does not receive any valid requests not to use the expedited process by **7 November 2019**. To be valid, an objection should set out the reasons why the AEMC should not make a rule in accordance with the expedited process, and accordingly, that the rule change request is not a request for an "urgent rule" as defined in s.87 of the NEL.

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95 An 'urgent rule' is defined in section 87 of the NEL as "a rule relating to any matter or thing that, if not made as a matter of urgency, will result in that matter or thing imminently prejudicing or threatening: (a) the effective operation or administration of the wholesale exchange operated and administered by AEMO; or (b) the safety, security or reliability of the national electricity system"

96 The AEMC has published a notice under ss. 95 and 96 of the National Electricity Law to commence and assess this rule change request as an urgent rule.

6.2 Lodging a submission

The Commission invites requests not to make a rule under the expedited process and written submissions on this rule change proposal.

All enquiries on this project should be addressed to Kate Degen on (02) 8296 7812 or kate.degen@aemc.gov.au.

6.2.1 Lodging a request not to make a rule under an expedited process

Written requests not to make a rule under the expedited process in s. 96 of the NEL must include reasons for the request, and must be lodged with the Commission by 7 November 2019 online in accordance with the process specified below.

6.2.2 Lodging a submission to this rule change request

Written submissions on the rule change request must be lodged with Commission by 21 November 2019 online in accordance with the process specified below.

Where practicable, submissions should be prepared in accordance with the Commission's guidelines for making written submissions on rule change requests.[97] The Commission publishes all submissions on its website, subject to a claim of confidentiality.

6.2.3 Lodging online

Submissions, or requests not to make a rule under the expedited process, must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code ERC0283.

The request or submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

97 This guideline is available on the Commission's website www.aemc.gov.au.

ABBREVIATIONS

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Commission	See AEMC
ESOO	Electricity Statement of Opportunities
MCE	Ministerial Council on Energy
NEL	National Electricity Law
NEM	National Electricity Market
NER	National Electricity Rules
RERT	Reliability and Emergency Reserve Trader
RRO	Retailer Reliability Obligation
USE	Unserved energy

7 APPENDIX

7.1 Recent load shedding and use of the RERT

Prior to 2017, AEMO had only entered into RERT contracts three times and it had never been dispatched. This changed in 2017, when AEMO entered into a number of emergency reserve contracts. Since that time, AEMO has used the RERT a number of times, including November 2017, January 2018, and most recently in January 2019. This increase in use of the RERT reflects the changing system needs, including a growing proportion of variable renewable generation, an aging fleet of thermal generation, a tightening supply-demand balance, peakier demand and higher temperature peaks.

Below is a summary of the recent use of the RERT.

November 2017

On 30 November 2017, RERT contracts were procured and dispatched in Victoria starting at 3:30pm and finishing at 9:20pm that same evening. AEMO activated 32 MW from three reserve contracts. This was the first time the RERT had been used.[98]

January 2018

On 18 January 2018 at 5pm, AEMO informed the market that it had entered into a RERT contract for the following afternoon and evening. Following insufficient market response on 19 January, AEMO activated 130 MW from across eight reserve contracts in Victoria and 6.5 MW from two reserve contracts in South Australia. These contracts were deactivated as the large contingency event did not eventuate.[99]

January 2019

More recently load shedding and a RERT event occurred on 24 and 25 January 2019 in Victoria and South Australia, where approximately 375,000 householders were without power.[100] AEMO identified that the following factors contributed to the reliability issue:

- reductions in availability of electricity supply due to thermal inefficiencies
- unexpected equipment failures
- urgent maintenance activity and
- reduced generation capacity[101]

AEMO activated RERT contracts to reduce demand in Victoria and South Australia (South Australian contracts were only activated on 24 January). AEMO stated that:

- 1621 MWh of emergency reserves were dispatched on 24 Jan (Victoria and South Australia combined)

98 See http://aemo.com.au/Electricity/National-Electricity-Market-NEM/Security-and-reliability/Summeroperations-report/Summer-operations-report-2017-18

99 *Ibid*

100 AEMO, 2019 *Electricity Statement of Opportunities*, August 2019, page 72.

101 See https://www.aemo.com.au/-/media/Files/Electricity/NEM/Market_Notices_and_Events/Power_System_Incident_Reports/2019/Load-Shedding-in-VIC-on-24-and-25-January-2019.pdf

- 1472 MWh of emergency reserves were dispatched on 25 Jan (Victoria only).

The average cost of RERT for 24 and 25 January was around $10,000/MWh, with a total cost of $34.2 million (including compensation).

While the RERT reduced the amount of load shedding required, it was not enough to avoid the need to shed some load in Victoria to balance demand and supply. On 24 January 266 MW of load was shed and on 25 January 272 MW of load was shed, both in Victoria. AEMO noted that without RERT, it estimates that a further 1,252 MWh of load shedding would have been required.[102]

102 *Ibid.*