



Australian Energy Market Commission

CONSULTATION PAPER

National Electricity Amendment (Expiry of the Reliability and Emergency Reserve Trader) Rule 2012

Rule Proponent(s)
Reliability Panel

8 September 2011

**RULE
CHANGE**

Inquiries

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

E: aemc@aemc.gov.au

T: (02) 8296 7800

F: (02) 8296 7899

Reference: ERC0132

Citation

AEMC 2011, Expiry of the Reliability and Emergency Reserve Trader, Consultation Paper, 8 September 2011, Sydney

About the AEMC

The Council of Australian Governments, through its Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005. The AEMC has two principal functions. We make and amend the national electricity and gas rules, and we conduct independent reviews of the energy markets for the MCE.

This work is copyright. The Copyright Act 1968 permits fair dealing for study, research, news reporting, criticism and review. Selected passages, tables or diagrams may be reproduced for such purposes provided acknowledgement of the source is included.

Contents

1	Introduction	1
2	Background	2
2.1	The Reliability and Emergency Reserve Trader	2
2.2	Reliability Panel's review of the Reliability and Emergency Reserve Trader	2
2.3	Context of the Rule change request	3
3	Details of the Rule Change Request	4
4	Assessment Framework.....	6
5	Issues for Consultation.....	8
5.1	Safety net	8
5.2	Expiry date	8
5.3	Carbon price legislation.....	9
6	Lodging a Submission	10
6.1	Lodging a submission electronically.....	10
6.2	Lodging a submission by mail	10
A	Excerpt of AEMO's obligations under the Rules	11
	Abbreviations	12

1 Introduction

On 1 July 2011, the Reliability Panel (Proponent) submitted a Rule change request to the Australian Energy Market Commission (AEMC or Commission) in relation to its recommendation to allow the Reliability and Emergency Reserve Trader (RERT) to expire from the National Electricity Rules.

This Consultation Paper has been prepared by the staff of the AEMC to facilitate public consultation on the Rule change proposal and does not represent the views of the AEMC or any individual Commissioner of the AEMC.

This paper:

- sets out a summary of, and a background to, the Rule change request relating to the RERT mechanism;
- identifies a number of questions and issues to facilitate the consultation on this Rule change request; and
- outlines the process for making submissions.

2 Background

2.1 The Reliability and Emergency Reserve Trader

The RERT is a mechanism under the Rules that allows the Australian Energy Market Operator (AEMO) to intervene in the market to ensure reliability of supply and to maintain power system security. Rule 3.20 and more specifically clause 3.20.2 of the National Electricity Rules (NER or Rules), specifies AEMO's obligations in relation to the RERT.¹ That is, the RERT enables AEMO to contract for additional reserves up to nine months ahead of a period where reserves are projected to be insufficient to meet the relevant power system security and reliability standards. AEMO is also able to, where practicable, dispatch these additional reserves should an actual shortfall occur to maintain power system security. AEMO may contract for reserve capacity under the RERT for a range of timeframes, including:²

- at least ten weeks' notice of a reserve shortfall (long-notice RERT);
- between ten and one week's notice of a reserve shortfall (medium-notice RERT); and
- between seven days and three hours' notice of a reserve shortfall (short-notice RERT).

The RERT is coordinated and implemented by AEMO and allows:³

- AEMO to obtain capacity that may not otherwise be available to the market;
- parties who have non-market generation capacity to make themselves known to AEMO and to declare what price those parties seek to be paid; and
- individuals or groups of consumers to declare what remuneration they would seek to have their load curtailed, in excess of the saving in energy cost.

2.2 Reliability Panel's review of the Reliability and Emergency Reserve Trader

On 29 June 2010, the AEMC supplied the Reliability Panel with a terms of reference requesting the Reliability Panel to undertake a review of the RERT. The Reliability Panel was required to conduct its review in accordance with section 38 of the National Electricity Law (NEL), clause 8.8.3 (c) of the Rules and the National Electricity Objective (NEO). Furthermore, clause 3.20.9 of the Rules obliges the Reliability Panel to

¹ An excerpt of clause 3.20.2 is provided at Appendix A.

² For further information on the RERT guidelines published by the Reliability Panel, see www.aemc.gov.au/Panels-and-Committees/Reliability-Panel/Guidelines-and-standards.html.

³ Further information on AEMO's operational procedures regarding the RERT may be found at www.aemo.com.au/electricityops/0240-0022.pdf.

undertake a review of the RERT no later than one year before it is currently due to expire, that is, prior to 30 June 2011.

The terms of reference requested the Reliability Panel to:

- consider if the RERT mechanism is required to ensure that the reliability of supply in a region or regions meets the relevant power system security and reliability standards and where practicable, to maintain power system security;
- examine the potential and/or actual effectiveness of the RERT arrangements as specified in the Rules; and
- consider the NEO when it considered issues that arose in the review and when formulating associated recommendations.

The Reliability Panel published its final report on the RERT on 21 April 2011. The Reliability Panel recommended that the RERT should be extended by one year and expire on 30 June 2013 and that the requirement for a review of the RERT mechanism be removed from the Rules. These recommendations formed the basis of the Reliability Panel's Rule change request, as outlined below and further expanded with the Reliability Panel's rationale for those changes in Chapter 3.

2.3 Context of the Rule change request

On 1 July 2011, the Reliability Panel submitted a Rule change request entitled 'Expiry of the Reliability and Emergency Reserve Trader'.⁴

The Reliability Panel submitted this Rule change request to implement the recommendations arising from its review of the Reliability and Emergency Reserve Trader. The Rule change request from the Proponent proposes to:

- postpone the specified date for the expiry of the RERT by one year, from 30 June 2012 to 30 June 2013 as a transitional measure and allow the RERT to expire from the Rules on 30 June 2013; and
- remove from the Rules the requirement for a Reliability Panel initiated review of the RERT mechanism.

⁴ The Reliability Panel is a specialist panel established by the AEMC in accordance with section 38 of the National Electricity Law (NEL) and the NER and comprises industry and consumer representatives.

3 Details of the Rule Change Request

The Rule change request comprises two amendments to the Rules. To implement postponement of the expiry date of the RERT requires an amendment to clause 3.20.1, which contains the current sunset date of the RERT. Subsequently, to remove the obligation on the Reliability Panel to review the RERT mechanism requires the deletion of clause 3.20.9 from the Rules.

In its Rule change request the Proponent provides its rationale for the Rule change. A number of key points raised in the Rule change request are summarised as follows:

- In respect of extension of the specified date for the expiry of the RERT, the Reliability Panel recognises that there are stakeholders, particularly those who work within the demand side, whose core business may be affected. Therefore, the Reliability Panel was of the opinion the expiry of the RERT should be delayed by one year, in order to provide these market participants with adequate notice of the change.⁵ The Reliability Panel also notes that there is ongoing work by the Commission on the role of the demand side in the National Electricity Market (NEM). The Reliability Panel considers that extension of the RERT by one year would allow greater time for any recommendations from the Commission's work to be implemented in the NEM.⁶
- The Reliability Panel considers that the RERT should expire, as the NEM has shown to perform adequately and has delivered additional capacity, notwithstanding ongoing uncertainty in the market.⁷ Since the commencement of the NEM, and particularly since the introduction of the RERT, market performance has been sufficient to ensure the security and reliability of electricity supply.⁸ Furthermore, the outlook for reliability shows that there are sufficient reserves in most NEM regions for a number of years going forward.⁹
- The Reliability Panel seeks to remove the requirement to review the RERT from the Rules, as it considers there could be unintended consequences. First, if the sunset date of the RERT is extended by one year, the current Rules may be interpreted to mean that the Panel is required to undertake another review of the RERT to be completed by 30 June 2012.¹⁰ In response to this, the Reliability Panel considers that there is little value in undertaking another review of the RERT

⁵ Reliability Panel, Rule change proposal - Reliability and Emergency Reserve Trader, 1 July 2011, p. 4.

⁶ *ibid.* p. 5.

⁷ *ibid.* p. 4.

⁸ The Reliability Panel notes that there have only been two instances where the unserved energy (USE) has breached the Reliability Standard in a region over the period 2000/01 to 2009/10.

⁹ AEMO, 2011 Electricity Statement of Opportunities - Executive Briefing, p. 10. All NEM regions are expected to have sufficient reserves until 2014/15, with the exception of Queensland, which is expected to have a shortfall in 2013/14.

¹⁰ Reliability Panel, Rule change proposal - Reliability and Emergency Reserve Trader, 1 July 2011, p. 5.

within such a short period of time. Secondly, the Reliability Panel is of the opinion that removal of the requirement to review the RERT would lead to increased market certainty, which it considers is important for those stakeholders whose core business will be affected by the operation, or expiry, of the RERT.¹¹

The proponent's Rule change request includes a proposed Rule.¹²

11 *ibid.*

12 *ibid.* p. 19.

4 Assessment Framework

The Commission's assessment of this Rule change request must consider whether the proposed Rule will, or is likely to, contribute to the NEO as set out under section 7 of the NEL.

'National Electricity Objective -

The objective of this Law is 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.'

The Reliability Panel considers that its Rule change request that the RERT should expire will, or is likely to, contribute to achievement of the NEO in the following areas:¹³

- Efficient investment in electricity services;
- Efficient use of electricity services;
- Price of supply of electricity; and
- Reliability of the national electricity system.

The Reliability Panel contends that the existence of the RERT may be dampening investment signals. That is, with the expiry of the RERT there would be a greater incentive for those entities that operate under the RERT mechanism to participate directly within the NEM and therefore for that capacity to contract with retailers and intermediaries. Consequently, signals for investors may be clearer and lead to more efficient investment in electricity services.

The Reliability Panel also considers that the RERT operates akin to a secondary market removing capacity from the NEM. The expiration of the RERT would promote the efficient use of electricity services by allowing the market to allocate all available capacity as required.

Under the RERT, the cost of contracting capacity may be greater than the market price cap (due to availability and utilisation payments), which is difficult for retailers to hedge against. Therefore, the Reliability Panel considers that removal of the RERT would result in greater transparency with the market setting the price for the supply of electricity.

¹³ *ibid.* pp. 9-11.

According to the Reliability Panel, the ability of the RERT to address situations of supply shortfall is limited, as the RERT typically attracts a response that is relatively small given the magnitude of those events that may result in unserved energy. Thus, the Reliability Panel considers that expiry of the RERT would provide opportunities for the market to further develop arrangements that enable the efficient and effective provision of reserve capacity and thus facilitate efficient use of, and investment of, electricity services to enhance the reliability of the national electricity system.

Given the function of the RERT, the relevant aspect of the NEO appears to be the efficient operation and use of electricity services to promote the reliability, safety and security of the national electricity system for the long term interests of consumers of electricity. Therefore, an important component of the assessment framework is the incremental efficiency gain through having the RERT mechanism compared with not having the RERT.

5 Issues for Consultation

Taking into consideration the assessment framework and the potential requirements to implement the proposed Rule change, we have identified a number of issues for consultation that appear to be relevant to this Rule change request.

These issues outlined below are provided for guidance. Stakeholders are encouraged to comment on these issues as well as any other aspect of the Rule change request or this paper including the proposed assessment framework.

5.1 Safety net

During the Reliability Panel's review of the RERT mechanism, no stakeholder submissions provided support for the RERT. It is also understood within the market that the RERT has not been extensively used by AEMO in recent years. Various reasons have been cited in submissions for why stakeholders consider that the RERT should expire. The most commonly cited reason is that the RERT is a market distortion; however, stakeholders have not provided empirical evidence in support of that assertion. Nonetheless, it could be argued that the existence of the RERT, but with little use, means that any market distortion through its presence is likely to be limited, if it exists at all.

On the other hand, it may be argued that the RERT is essentially neutral, acting as a safety net for ensuring reliability of supply under the Rules and is only contentious if, or when, AEMO utilises it to contract for reserves. Furthermore, while the South Australian and Victorian Government's indicated little support for the RERT in their submissions to the Reliability Panel's review, they supported a safety net to be included in the Rules.

Question 1:

- (a) What market distortion is created by the RERT, and what evidence is there in support of that position?
- (b) What are the benefits of retaining the RERT, does the RERT in its current form provide a safety net benefit?

5.2 Expiry date

The current sunset date for the RERT has been in place since 1 July 2008 with the making of *National Electricity Amendment (NEM Reliability Settings: Information Safety*

Net and Directions) Rule 2008 No. 6.¹⁴ Therefore, it could be argued that stakeholders have had sufficient knowledge of the expected expiry date of the RERT.

Question 2:

- (a) Are stakeholders of the view that it is necessary to extend the expiry date of the RERT to 30 June 2013?
- (b) If so, why?

5.3 Carbon price legislation

Since the Reliability Panel submitted its Rule change request to the AEMC, the Commonwealth Government has announced that it intends to introduce a price on carbon from 1 July 2012. It is important to note that the size of any possible closure of large-scale base-load plant due to the introduction of a price on carbon would be significantly greater than any capacity that AEMO would be able to procure under the RERT mechanisms. However, this proposed legislation constitutes a significant policy change since submission of the Rule change request and we seek to ascertain any potential impacts of that legislation on the function of the RERT.

Question 3:

- (a) does the proposed legislation have any impacts relevant to existence of the RERT?
- (b) If so, what are they?

¹⁴ For further information, see www.aemc.gov.au/Electricity/Rule-changes/Completed/NEM-Reliability-Settings-Information-Safety-Net-and-Directions.html.

6 Lodging a Submission

The Commission has published a notice under section 95 of the NEL for this Rule change proposal inviting written submission. Submissions are to be lodged online or by mail by Thursday, 13 October 2011 in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on Rule change proposals.¹⁵ The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Electra Papas on (02) 8296 7800.

6.1 Lodging a submission electronically

Electronic submissions 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 ERC0132. The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within 3 business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

6.2 Lodging a submission by mail

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Or by Fax to (02) 8296 7899.

The envelope must be clearly marked with the project reference code: ERC0132.

Except in circumstances where the submission has been received electronically, upon receipt of the hardcopy submission the Commission will issue a confirmation letter.

If this confirmation letter is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

¹⁵ This guideline is available on the Commission's website.

A Excerpt of AEMO's obligations under the Rules

3.20.2 Reliability and emergency reserve trader

- (a) *AEMO* must take all reasonable actions to ensure reliability of *supply* and, where practicable, take all reasonable actions to maintain *power system security* by negotiating and entering into contracts to secure the availability of *reserves* under *reserve contracts* (*reliability and emergency reserve trader* or *RERT*) in accordance with:
- (1) this rule 3.20;
 - (2) where relevant:
 - (i) clauses 1.11, 3.8.1, 3.8.14, 3.9.3, 3.12, 3.12A.5, 3.15.6, 3.15.9, 4.8.5A and 4.8.5B; and
 - (ii) any other provision of the *Rules* necessary to exercise the *RERT*;
 - (3) the *RERT principles*; and
 - (4) the *RERT guidelines*.
- (b) *AEMO* must have regard to the following principles (*RERT principles*) in exercising the *RERT* under paragraph (a):
- (1) actions taken should 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.
- (c) In having regard to the *RERT principles*, *AEMO* must have regard where relevant to the *RERT guidelines*.

The *RERT guidelines* may be found on the AEMC's website at:

www.aemc.gov.au/Panels-and-Committees/Reliability-Panel/Guidelines-and-standards.html and the procedure that *AEMO* undertakes in exercising the *RERT* may be found at: www.aemo.com.au/electricityops/0240-0022.pdf

Abbreviations

AEMC	Australian Energy Market Commission
Commission	See AEMC
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
Rule	See NER
Proponent	Reliability Panel
RERT	Reliability and Emergency Reserve Trader
USE	unserved energy