



Extension of the Reliability and Emergency Reserve Trader

Publication of final rule determination and final rule

The Australian Energy Market Commission (AEMC) has made a rule to make the Reliability and Emergency Reserve Trader (RERT) arrangements a permanent feature of the Rules, thereby preserving its safety-net feature within the complement of permanent intervention mechanisms available to AEMO to manage power system reliability in the NEM.

The Reliability and Emergency Reserve Trader (RERT)

A key objective in the provision of electricity services in the National Electricity Market (NEM) is the reliable and secure supply of electricity to customers. A reliable power system is one that has a high likelihood of fully servicing the electricity needs of customers. An important determinant of reliability in the NEM is the reliability standard, which is the maximum allowable level of electricity at risk of not being supplied to consumers in any NEM region. In its management of power system reliability, the Australian Energy Market Operator (AEMO) can use any one of three reliability intervention mechanisms, of which the RERT is one.

The RERT allows AEMO to contract for reserves ahead of a period where reserves are projected to be insufficient to meet the reliability standard (known as a projected reserve shortfall). AEMO is able to dispatch these reserves to manage power system reliability and, where practicable, security. The RERT, or some form of power for the market operator to contract for reserves, has been a feature of the NEM since its commencement in December 1998.

The rule change request

The COAG Energy Council submitted a rule change request to extend the operation of the RERT from 30 June 2016 to 30 June 2019. There were no other changes sought to the scope or operation of the RERT.

Overview of the final Rule

The Commission has made a more preferable Rule, which the Commission is satisfied will, or is likely to, better contribute to the achievement of the NEO than the proposed rule. The key features of the Rule are as follows:

- the RERT's sunset clause will be omitted with effect from 23 June 2016. This means that the RERT arrangements will continue unless and until a rule change amends or omits them;
- the period allowed for AEMO to contract for reserves ahead of a projected reserve shortfall will be shortened to allow greater opportunity for a market response to address that shortfall. The timeframe will reduce from nine months to 10 weeks, from 1 November 2017. This minimises any market distortionary effects of the RERT's indefinite extension; and
- the Reliability Panel will be required to amend the RERT guidelines and AEMO will be required to amend the RERT procedures to reflect the changes to the RERT arrangements.

In order to avoid any doubt, the Rule provides that the changes do not affect any reserve contract entered into before 1 November 2017.

Changes made to the RERT arrangements will also assist in providing regulatory certainty to the market and to AEMO about the range of intervention tools available to manage reliability in the NEM

Commission's reasons

The Commission considers that the indefinite extension of the RERT is important because:

- uncertainty is likely to always be a feature of the NEM, with its consequential impact on supply side and demand side investment decisions. In recent times, this uncertainty has been associated with:
 - the extent and impact of changes in the generation mix associated with an increasing penetration of renewables in the NEM. The change in the generation mix, in particular the exit of conventional generation has occurred at a faster pace than the market has anticipated, especially in South Australia;
 - the implementation, uptake, and impact of demand side policies in the NEM; and
 - the mechanisms needed to achieve Australia's post-2020 carbon reduction targets, and the impact of these targets and mechanisms on generation capacity.

This ongoing uncertainty raises the likelihood of projected reserve shortfalls and the likelihood that the ensuing market responses to address these projected shortfalls may be insufficient; and

- the RERT is a more efficient mechanism than the other two existing reliability intervention mechanisms available to AEMO: reliability directions, and clause 4.8.9 instructions. The efficacy of directions is influenced by the physical and technical limits of plants (for example, the effectiveness of directions to wind generators to increase generation may be limited by the intermittent nature of that plant). In the context of an increasing penetration of intermittent renewable generation in the NEM, directions over such plant may be ineffective. Furthermore, there is an economic inefficiency associated with clause 4.8.9 instructions, as involuntary load shedding does not differentiate between customers who place a very high value on continuing supply and customers who place a lower value on continuing supply. In contrast, load curtailment under the RERT is on a contractual basis.

Changes made to the RERT arrangements will also assist in providing regulatory certainty to the market and to AEMO about the range of intervention tools available to manage reliability in the NEM. Making the RERT a permanent feature of the market provides AEMO and other market participants the opportunity to consider changes that may improve the operation of the RERT.

Taking into account the changes made to the RERT arrangements, the Commission considers that the likelihood and materiality of potential market distortions and costs created by the RERT are outweighed by the benefits of maintaining the RERT indefinitely.

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