

Extension of the Reliability and Emergency Reserve Trader

Stakeholder submissions invited on draft rule determination

The Australian Energy Market Commission (AEMC) has made a draft rule to preserve the safety net feature of the Reliability and Emergency Reserve Trader and complement the suite of permanent intervention tools available to manage reliability in the event that market responses are insufficient.

The Reliability and Emergency Reserve Trader (RERT)

The RERT allows the Australian Energy Market Operator (AEMO) to contract for reserves up to nine months ahead of a period where reserves are projected to be insufficient to meet the reliability standard. AEMO is able to dispatch these reserves to maintain power system reliability and, where practicable, security. The contracted reserves must not be otherwise available to the market and the costs of the reserve contracts are recovered from market customers, such as retailers.

Since the commencement of the National Electricity Market (NEM), the market operator has entered into reserve contracts on three occasions (all for Victoria and South Australia regions):

- 15 January 2014 to 17 January 2014 for 650MW for each of these three days;
- 16 January 2006 to 10 March 2006 for 375MW; and
- 31 January 2005 to 4 March 2005 for 84MW.

On none of these occasions have the contracted reserves been dispatched.

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.

The Commission's decision

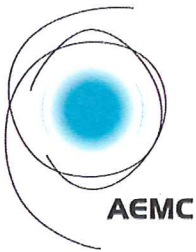
The Commission's draft determination is to make a more preferable Rule, which is intended to support the efficient operation and use of electricity services and to address the issues identified by the COAG Energy Council as part of its rule change request. The key features of the draft Rule are as follows:

- the RERT's sunset clause would be omitted with effect from 30 June 2016. This means that the RERT provisions in the National Electricity Rules (NER) would continue unless and until a rule change amends or omits the RERT provisions;
- the period allowed for the market operator, AEMO to contract for reserves ahead of a projected shortfall in electricity supply has been shortened to allow greater opportunity for market response. The timeframe would reduce from nine months to 10 weeks; and
- the Reliability Panel would be required to amend the RERT guidelines and AEMO would be required to amend the RERT procedures to reflect the changes to the RERT's provisions in the NER.

Why has the Commission made the draft rule?

In considering the issues raised in the rule change request, the Commission is satisfied that:

- market uncertainty is likely to always be a feature of the NEM, with its consequential impact on generation 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



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- generation mix, in particular the exit of conventional generation has occurred at a faster pace than the market has anticipated, especially in South Australia; 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 intervention mechanism than reliability directions or clause 4.8.9 instructions. The efficacy of reliability 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, reliability 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 voluntary basis.

The Commission considers that the draft Rule, a more preferable Rule will, or is likely to, better contribute to the achievement of the National Electricity Objective for the following reasons:

- the likelihood and materiality of potential market distortions and costs created by the RERT are outweighed by the benefits of maintaining the RERT indefinitely;
 - while the RERT may create the potential for market distortions, these distortions appear minimal and are even further reduced by the draft amendment to clause 3.20.3(d). Taking into account this amendment, on balance, the costs of the RERT are outweighed by its benefits; and
- the permanent retention of the RERT provides 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.

Submissions

The AEMC invites submissions on its draft rule determination, including the draft more preferable Rule, by 19 May 2016.

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