



Australian Energy Market Commission

CONSULTATION PAPER

National Electricity Amendment (Improved RERT Flexibility and Short-notice Reserve Contracts) Rule 2009

Rule Proponent
Reliability Panel

20 August 2009

This staff paper has been prepared to facilitate public consultation on the Rule change proposal and does not represent the views of the Commission or any individual Commissioner of the Australian Energy Market Commission.

**RULE
CHANGE**

Inquiries

The Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

E: aemc@aemc.gov.au

T: (02) 8296 7800

F: (02) 8296 7899

Citation

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About the AEMC

The Council of Australian Governments, through its Ministerial Council on Energy, established the Australian Energy Market Commission (AEMC) in July 2005 to be the Rule maker for national energy markets. The AEMC is currently responsible for Rules and policy advice covering the National Electricity Market. It is a statutory authority. Our key responsibilities are to consider Rule change proposals, conduct energy market reviews and provide policy advice to the Ministerial Council as requested, or on AEMC initiative.

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Introduction

Rule proposal

On 11 August 2009, the Reliability Panel submitted a Rule change proposal to the Australian Energy Market Commission (AEMC or Commission) seeking to amend the Reliability and Emergency Reserve Trader (RERT). The proposed amendments aim to facilitate AEMO contracting for reserves at short notice and clarifying that AEMO can use contracted reserves during system security events where practicable.

Request that the Rule be considered as an urgent Rule

The Reliability Panel has requested that the AEMC assess this Rule change proposal using an expedited process under section 96 of the National Electricity Law (NEL) as an urgent Rule.¹ The AEMC has agreed to the Reliability Panel's request. This means that the AEMC is required to publish a final Rule determination no later than six weeks after the publication of the section 95 notice² unless an objection to the expedited process is lodged, and is considered to be not misconceived or lacking in substance. If the expedited process is followed the AEMC must publish the final Rule determination no later than 1 October 2009.

As a consequence of the expedited process, the consultation timeframes and processes for the assessment of this Rule change proposal are different to the standard (non-expedited) Rule change process.³ These are described in the consultation section of this paper.

This consultation paper

This consultation paper has been prepared to facilitate public consultation on the Rule proposal. The paper does not represent the views of the Commission or any individual Commissioner.

In relation to the Rule change proposal, this consultation paper sets out:

- some background information to the Rule change proposal;
- the role of the RERT and how it currently operates;
- overview of the RERT arrangements;
- the Reliability Panel's proposed changes to the RERT;

¹ Reliability Panel Rule change proposal p.27.

² The Commission published the s95 notice on 20 August 2009.

³ Section 96 NEL.

- the operation of the RERT as described in the Reliability Panel's proposed interim amendments to the RERT guidelines including its interim amendments;
- some questions for consultation that we encourage stakeholders to consider when making their submissions; and
- an outline of the consultation timetable under the expedited assessment process.

Background to this Rule proposal

On 6 February 2009, the Ministerial Council on Energy indicated that the AEMC would review energy market frameworks in light of the impact on electricity supplies of an extreme heatwave in southern Australia in 29-31 January 2009.⁴ This followed a number of reliability incidents (and a system security incident) in Victoria and South Australia in late January 2009.

On 3 March 2009, the AEMC issued the Reliability Panel with the Terms of Reference (TOR) for a Review of the Operational Arrangements for the Reliability Standards.⁵ The TOR included a requirement for the Reliability Panel to consider the need and possible design for a short term version of the RERT that could be used in a critical emergency. The TOR also noted the desirability of implementing any appropriate changes (e.g. to Guidelines or by proposing Rule changes) in a timely way for the 2009/10 summer.

On 1 May 2009, the Reliability Panel published an Exposure Draft of this Rule proposal for consultation with stakeholders.⁶ The Reliability Panel received six submissions from stakeholders during that consultation.⁷ On 11 August 2009, the Reliability Panel submitted this Rule proposal to the AEMC.

Role of the RERT and how it currently operates

The Australian Energy Market Operator (AEMO) is able to intervene in the National Electricity Market (NEM) wholesale market processes where there is an identified shortfall of energy reserves (that is, there are insufficient reserves to meet the reliability standard)⁸ through use of the RERT. Under the RERT provisions, AEMO

⁴ MCE Communique, 6 February 2009.

⁵ See www.aemc.gov.au

⁶ AEMC Reliability Panel, *Exposure Draft, NEM Reliability Settings: Improved RERT Flexibility and Short-term Reserve Contracts*, 1 May 2009, Sydney.

⁷ Submissions were received from NEMMCO (now AEMO), Ergon Energy, Energy response, the NGF, Origin Energy and the Government of South Australia.

⁸ Clause 3.20.7 of the Rules. Furthermore, under the Rules the reliability standard is defined in the Power System Security and Reliability Standards and determined by the Panel in accordance with

can procure scheduled or unscheduled reserves (which may be generation or demand-side participation) up to nine months before a reserve shortfall is anticipated to occur.⁹ The costs of invoking the RERT are recovered from Market Customers in the regions for which the reserves were engaged.¹⁰

However, the Reliability Panel states that the practical aspects of the current tendering arrangements result in AEMO having to make a decision as to whether or not to procure reserves at least ten weeks before the anticipated reserve shortfall.¹¹

Other avenues for AEMO to intervene in the wholesale market process are its powers in the National Electricity Rules (Rules) to issue directions¹² and instructions¹³, but the Reliability Panel states that these intervention mechanisms operate in a timeframe of up to a few hours before AEMO considers that a shortfall may occur.¹⁴

Overview of RERT arrangements

The RERT arrangements consist of:

- provisions in the Rules;
- operational RERT guidelines to be published and amended from time to time by the Reliability Panel; and
- RERT procedures which are developed and amended from time to time by NEMMCO.

Amending the operation of the RERT in the ways proposed by the Reliability Panel will require amendments to all of these instruments. Amendments to the RERT guidelines and RERT procedures will be facilitated by the proposed amendments to the Rules including the transitional arrangements to be assessed by the AEMC. The AEMC does not assess amendments to the RERT guidelines or the RERT procedures.

clauses 8.8.1(a)(2) and 8.8.3. The current reliability standard is 0.002% unserved energy per annum and is specified in detail in the Reliability panel's Comprehensive Reliability Review.

⁹ Clause 3.20.7(a) of the Rules.

¹⁰ Clause 3.15.9 of the Rules.

¹¹ Reliability Panel Rule change proposal, p.5.

¹² Clause 4.8.9

¹³ Clause 4.8.9 of the Rules.

¹⁴ AEMO's decision to issue directions or instructions is triggered by a forecast or actual lack of reserve level 2 (LOR2) notice, Reliability Panel Rule change proposal, p. 13.

The Reliability Panel's Rule change proposal

In response to the TOR for its Review of Operational Arrangements for the Reliability Standard, the Reliability Panel has submitted a Rule change proposal to amend the RERT. The proposed amendments seek to increase the flexibility of the RERT arrangements, to allow for AEMO to enter into reserve contracts at short notice, and to provide for interim arrangements to allow the amended RERT to be operational for summer 2009/10.

Proposed Reliability Panel amendments

The Reliability Panel proposes that the existing RERT arrangements contained in the Rules be amended by:

- clarifying that the Reliability Panel is to include in the RERT Guidelines the process AEMO should undertake in contracting for reserves including the processes for long-notice, medium-notice and short-notice situations;
- clarifying that AEMO can negotiate reserve contracts at any time, thus allowing AEMO to form a RERT panel; and
- clarifying that AEMO can use contracted reserves for system security events where practicable.

Transitional arrangements – amended interim RERT guidelines and RERT procedures

Currently the Rules provide for the Reliability Panel to develop and publish RERT guidelines about specified matters regarding the RERT.¹⁵ The RERT guidelines may be amended from time to time following a process specified in the Rules and must be in place at all times after 30 November 2008.¹⁶ Furthermore, the Rules provide for AEMO to publish, and (where necessary) amend from time to time RERT procedures in accordance with the Rules consultation procedures.¹⁷

To allow for the amended RERT to be operational by summer 2009/10, the Reliability Panel's Rule change proposal has provided for transitional arrangements that:

- require the Reliability Panel to publish interim amendments to the RERT guidelines without being required to follow the process for amending the guidelines contained in the Rules;
- require the Reliability Panel to publish amendments to the RERT guidelines by 30 June 2010 in accordance with the processes provided for in the Rules ;

¹⁵ Rules clause 3.20.8.

¹⁶ Rules clause 3.20.8(b) and (c). The process to amend the RERT guidelines is contained in clauses 8.8.3(d)-(l) of the Rules.

¹⁷ Rules clause 3.20.7(e).

- require AEMO to publish interim amendments to the RERT procedures without being required to follow the Rules consultation procedures provided for in the Rules to amend the RERT procedures; and
- require AEMO to publish amendments to the RERT procedures by 30 November 2010 in accordance with the Rules consultation procedures provided for in the Rules.

Proposed operation of the RERT

The detailed amendments to the RERT, and the processes AEMO is to follow in short-notice, medium-notice and long-notice situations are to be prescribed in the interim amendments to the RERT guidelines. The introduction of these processes into the interim RERT guidelines are facilitated by this Rule change proposal.

The Reliability Panel has submitted a proposed RERT guideline incorporating its interim amendments as part of its Rule change proposal package, which provides an indication of the amended RERT processes. A summary of the key RERT processes as provided for in the proposed RERT guidelines incorporating the interim amendments, is contained in Appendix A to this consultation paper.

Consultation questions

The questions below are to facilitate consultation on this Rule change proposal. Stakeholders are encouraged to consider these questions when preparing their submissions on the Reliability Panel's Rule change proposal. We welcome comments from stakeholders on:

1. Whether it is appropriate for reserve contracts to be used for system security events where practicable?
2. Whether it is appropriate for the process the AEMO should undertake to contract for reserves under the short-notice, medium notice and long-notice RERT to be contained in the RERT guidelines (including the interim amendments), to be published by the Reliability Panel?
3. The impacts of any distortionary effects on the market of expanding the timeframes for AEMO to procure reserves?; and
4. Are the timeframes for publishing the interim amendments to the RERT guidelines and interim amendments to the RERT procedures adequate, (bearing in mind that ideally the new RERT arrangements are to be operational by summer 2009/10) ?

Consultation under the expedited process

In relation to this Rule change proposal, the Commission has published a notice under sections 95 and 96 of the NEL stating that this Rule change proposal will be assessed following an expedited process as it is an urgent Rule.

Under the expedited process, stakeholders have two weeks after publication of the notice under section 95 of the NEL to object to this Rule change proposal being assessed under the expedited process. Objections need to contain reasoning as to why the stakeholder considers that the Rule change proposal should not be expedited. Objections will be assessed by the Commission in accordance with section 96 of the NEL. Objections to the expedited assessment of this Rule change proposal must be lodged with the AEMC by 5pm (Australian Eastern Standard Time) on 3 September 2009.

The expedited process provides for a four week consultation process on the content of the Rule change proposal. Submissions on the content of the Reliability Panel's Rule change proposal are to be lodged with the AEMC by 5pm (Australian Eastern Standard Time) on 17 September 2009.

Submissions should be submitted, where practicable, in accordance with the Commission's guidelines for making written submissions on Rule change proposals. The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Nanda Naidu or Sacha Blumen on (02) 8296 7800.

Lodging a submission electronically

Comments must be lodged online via www.aemc.gov.au. The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic version of the electronic version of submission, the Commission will issue a confirmation email. If this confirmation email is not received within three business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

Lodging a submission by mail

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

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Or by Fax: (02) 8296 7899.

The envelope must be clearly marked with the project reference code: "ERC0094".

Except in circumstances where the submission has been submitted 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.

APPENDIX A – Operation and features of the long-notice, medium-notice and short-notice RERT

The processes for the AEMO to contract for reserves under the proposed new RERT arrangements are to be contained in the Reliability Panel's RERT guidelines. To allow the proposed amendments to come into effect for summer 2009/10 the Reliability Panel has proposed to publish interim amendments to the RERT guidelines. The Reliability Panel has submitted RERT Guidelines incorporating the proposed interim amendments as part of its Rule change proposal.

This appendix briefly summarises how the long-notice, medium-notice and short-notice RERT will operate and lists some of the features of each arrangement as they are stated in the proposed interim amendments to the RERT guidelines.¹⁸

Long-notice RERT – AEMO has at least ten weeks notice of a reserve shortfall

AEMO is expected to conduct a full tender process to procure reserve contracts if it has more than ten weeks notice of an anticipated reserve shortfall. The full tender process would include requesting responses from members of the RERT Panel and other potential reserve providers. This process also involves consultation between AEMO and representatives of affected jurisdictions prior to procuring reserve contracts.

Medium-notice RERT – AEMO has between ten and one weeks notice of a reserve shortfall

AEMO is expected to conduct a shortened tender process with only members of the RERT panel.

The RERT panel would consist of entities that have resolved in advance with AEMO some of the technical and legal issues that lengthen the time taken to negotiate reserve contracts under the current full tender process. Once reserve providers are members of the RERT panel, reserve contracts could be finalised more quickly than through the full tender process.

Features of the medium-notice RERT are:

- there would be no payments for membership of the RERT Panel;
- there would be consultation between AEMO and relevant jurisdictions prior to AEMO finalising the reserve contract;
- that AEMO is to select the optimal portfolio of reserve contracts from the reserve offers on the RERT Panel when procuring reserve; and

¹⁸Proposed Reliability and Emergency Trader (RERT) Guidelines including Interim Amendments, Reliability Panel Rule change proposal.

- Within one month after entering onto a contract for reserves, AEMO is to publish the name of the reserve provider, and the volume and timing of reserves procured.

Short-notice RERT – AEMO has between seven days and three hours notice

AEMO may procure reserve contracts from the members of the short-notice RERT Panel where AEMO has between seven days and three hours notice of a projected reserve shortfall. This is a separate panel to that described above for the medium-notice RERT, as it would be necessary for AEMO to have already been negotiating with potential reserve providers and to have provisionally agreed to terms and conditions, technical requirements and offer prices before entering short-notice reserve contracts.

Features of the short-notice RERT include:

- AEMO is to develop standardised short-notice reserve contracts covering a wide range of legal and technical issues. The Reliability Panel considers that in this timeframe there would be little room for variation of the standard contract;
- There would be no payment for being a member of the short-notice RERT panel;
- AEMO is to develop methodologies for selecting, using reasonable endeavours, an efficient portfolio of reserve contracts at short notice (to a minimum of three to four hours);
- Within one month after entering into a contract for reserves, AEMO is to publish the name of the reserve provider, and the volume and timing of reserves procured;
- Use of the short-notice RERT would be triggered in a similar way as AEMO's directions and instructions powers - by the publication of a lack of reserve level (LOR) 2 notice¹⁹; and
- Consultation arrangements with jurisdictions for the short-notice RERT would differ from those for the medium-notice RERT and long-notice RERT. Under the reduced timeframes for the short-notice RERT, it would not be possible to consult with jurisdictions in the same way as the medium-notice RERT and long-notice RERT.

¹⁹ Reliability Panel Rule change proposal, p.13.