INFORMATION

Expiry of the Reliability and Emergency Reserve Trader

Draft rule determination 15 December 2011

The Australian Energy Market Commission proposes to make a rule that would result in retention of the Reliability and Emergency Reserve Trader (RERT) for an additional four years beyond its current expiry date.

The RERT is a safety net mechanism for the market operator to procure additional reserves to help achieve a reliable and secure supply of electricity to customers. It is only used in emergency situations where ordinary market mechanisms are unlikely to deliver an adequate supply of electricity to meet the demand of customers.

Background

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 supply of electricity reduces the likelihood and frequency of loss of supply experienced by electricity customers. The RERT is a 'safety net' mechanism which is designed to allow the Australian Energy Market Operator (AEMO) to procure additional reserves to ensure reliability and security of supply.

AEMO's decision to invoke the RERT is guided by its forecasts of reserve capacity and energy adequacy for each NEM region. If AEMO's forecasts indicate that there is inadequate generation capacity to meet periods of high demand then AEMO may choose to enter into a tendering process to seek offers for additional reserves. If a load shedding event is likely, AEMO is then able to dispatch the additional reserves secured under the reserve contracts.

Suppliers of these additional reserves include embedded generators and large-scale industrial users of electricity. Typically, these types of entities do not participate in the primary market for reserves and can make their capacity available for AEMO to use in emergency situations.

To date, AEMO has entered into reserve contracts over the summer periods of 2005 and 2006. In both instances AEMO decided to not dispatch the additional reserves available under the reserve contracts.

The RERT is currently due to expire on 30 June 2012.

Reliability Panel's rule change request

On 1 July 2011 the Reliability Panel submitted a rule change request which proposed postponing the expiry of the RERT for one year to 30 June 2013, and removing the obligation on the Reliability Panel to review the RERT a year prior to its expiry.

The Commission intends to make a more preferable rule

The Commission has decided to postpone the expiry of the RERT for four years to 30 June 2016, and to remove the obligation on the Reliability Panel to review the RERT a year prior to its expiry.

In reaching its decision the Commission considered the following factors:

Market uncertainty – Ensuring a reliable supply in the NEM depends on ongoing investment in new generation capacity. Uncertainty about investment conditions, including the impacts of policies, can inhibit investment. It is possible that uncertainty regarding the introduction of climate change policies may have potentially delayed investment in generation capacity in some NEM regions. It may be a period of time before the market responds to new policy settings because generation investment requires substantial lead times for deployment. In addition, there may be ongoing market uncertainty in relation to the ongoing impacts of a carbon pricing regime.

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The Commission invites submissions on its draft determination by 2 February 2012

Market distortion and costs – Providing an alternative means for some entities to secure reserve contracts, outside of the competitive market for reserves, can potentially lead to a market distortion. However, given the infrequent use of the RERT it is very unlikely that entities would avoid the primary market for reserves in preference to potentially contracting with AEMO. On balance, any minimal market distortion created by the RERT is likely to be outweighed by the benefits it provides such as reducing the risk of load shedding events.

Market development and implementation issues – Substantial policy initiatives are currently in development that may have an impact on managing periods of high demand. Specifically, reducing the barriers to demand side participation will help to balance supply and demand in the market, which is an important means for minimising the risk of load shedding events.

The Commission considers that postponing the expiry of the RERT is a temporary measure primarily directed at accommodating a period of market uncertainty that may be a result of the transition to a carbon pricing regime and the introduction of demand side initiatives in the market. This period of market uncertainty is expected to have abated by 2016, and the Commission considers that another review of the RERT prior to its expiry is unnecessary. Removing the requirement for the Panel to review the RERT should also give the market greater certainty as to the status of the RERT.

Submissions

The Commission invites stakeholder submissions to its draft rule determination and draft rule. The closing date for submissions is **2 February 2012**.

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