

PROCEDURE FOR THE EXERCISE OF RELIABILITY AND EMERGENCY RESERVE TRADER

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1. INTRODUCTION

1.1. Purpose and scope

This is the Procedure for the Exercise of Reliability and Emergency Reserve made under clause 3.20.7(e) of the National Electricity Rules (**NER**) (**Procedure**). This Procedure has effect only for the purposes set out in the NER. The NER and the National Electricity Law (**NEL**) prevail over this Procedure to the extent of any inconsistency.

1.2. Definitions and interpretation

1.2.1. Glossary

The words, phrases and abbreviations set out below have the meanings set out opposite them when used in this Procedure.

Unless otherwise specified, terms defined in the NER have the same meanings in this Procedure. Those terms are intended to be identified in this Procedure by italicising them, but failure to italicise a defined term does not affect its meaning.

Term	Definition
AEMO Communication	An email communication that is forwarded by <i>AEMO</i> to a specified list of addressees who are representatives of <i>Registered Participants</i> .
LOR2	<i>Lack of reserve condition level 2</i>
EAAP	<i>Energy Adequacy Assessment Projection</i>
Medium Notice Reserve	<i>Reserve procured from RERT Panel Members in Medium Notice Situations.</i>
Medium Notice Situations	Situations where <i>AEMO</i> has between 7 days' and 10 weeks' notice of a projected shortfall in <i>reserves</i> .
NEL	<i>National Electricity Law</i>
NER	<i>National Electricity Rules</i>
Reliability Standard	The part of the <i>power system security and reliability standards</i> by that name published by the <i>Reliability Panel</i> .
RERT Panel	A panel of entities recruited by <i>AEMO</i> in accordance with the <i>RERT guidelines</i> that might be called upon to tender for and enter into a <i>reserve contract</i> in Medium Notice Situations and Short Notice Situations.
PASA	<i>Projected Assessment of System Adequacy</i>
Short Notice Reserve	<i>Reserve procured from RERT Panel Members in Short Notice Situations.</i>
Short Notice Situations	Situations where <i>AEMO</i> has between 3 hours' and 7 days' notice of a projected shortfall in <i>reserves</i> .

1.2.2. Interpretation

The following principles of interpretation apply to this Procedure unless otherwise expressly indicated:

- (a) This Procedure is subject to the principles of interpretation set out in Schedule 2 of the NEL.
- (b) References to time are references to Australian Eastern Standard Time.

1.3. Related documents

Reference	Title	Location
SO_OP_3717	Procedure for the Dispatch and Activation of Reserve Contracts	http://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Security-and-reliability/Power-system-operation
SO_OP_3707	Intervention, Direction and Clause 4.8.9 Instructions	http://www.aemo.com.au/Electricity/National-Electricity-Market-NEM/Security-and-reliability/Power-system-operation
	Intervention Pricing Methodology	http://www.aemo.com.au/-/media/Files/PDF/Intervention-Pricing-Methodology-October-2014.pdf

2. MEANING OF “EXERCISE”

Clause 3.20.7(e) of the NER requires this document to detail the procedures for the “exercise” of the *RERT* under clause 3.20.

AEMO takes this to mean that this Procedure must detail all the processes *AEMO* will undertake, from the moment a *reserve* shortfall has been forecast in one or more *regions*, through to the procurement and entry into *reserve contracts* and the *dispatch* of *scheduled reserve*, or *activation* of *unscheduled reserve*.

Section 3 of the *RERT guidelines* divides these activities into two stages.

1. Stage 1: when *AEMO* is determining whether to enter into contracts for the provision of additional *reserves* under clause 3.20.3.
2. Stage 2: when *AEMO* is considering whether to *dispatch scheduled reserves* under *scheduled reserve contracts* or *activate unscheduled reserves* under *unscheduled reserve contracts* under clause 3.20.7.

Stage 1 is covered by sections 5 to 10, and Stage 2 is covered by section 11.

3. USE OF RERT PANEL

Section 6 of the *RERT guidelines* indicates that *AEMO* should form a panel of entities that may be called upon to make reserve offers, and enter into, a *reserve contract* for Medium Notice Reserve and Short Notice Reserve (**RERT Panel**).

3.1. Operation of RERT Panel

Section 6.1 of the *RERT guidelines* details how the RERT Panel should be operated.

Once constituted, the RERT Panel will provide *AEMO* with a source of potential *reserve* that *AEMO* will be able to access for Medium Notice Reserve and Short Notice Reserve at any time.

Because of the complexity and length of time involved in assessing expressions of interest, recruitment for the RERT Panel will generally be conducted once a year, unless *AEMO* considers that there is a need to recruit more than once in a year. This appears to be an appropriate period between recruitments, as there is a requirement in sections 6.2 and 6.3 of the *RERT guidelines* on RERT Panel members that they provide *AEMO* with a 12-month projection of the availability of their *reserve*.

The details of RERT Panel membership will be confidential.

3.2. Recruitment of members of RERT Panel

Section 6.1 of the *RERT guidelines* requires *AEMO* to issue a request for expressions of interest in order to recruit members of the RERT Panel.

Although the recruitment for membership of the RERT Panel for both Medium Notice Situations and Short Notice Situations will occur concurrently, the terms of the request for expressions of interest for each will differ.

3.2.1. Requests for Expressions of Interest for RERT Panel members for Medium Notice Situations

Section 6.2 of the *RERT guidelines* describes some of the terms of the request for expressions of interest for Medium Notice Reserve. These requirements will be included in AEMO's request for expressions of interest documentation and proposed *reserve contract*, a copy of which will be made available with the request for expressions of interest.

3.2.2. Requests for expressions of interest for RERT Panel members for Short Notice Situations

Section 6.3 of the *RERT guidelines* states that the request for expressions of interest conditions for Medium Notice Situations apply to Short Notice Situations in addition to those described in section 6.3. These requirements will be included in AEMO's request for expressions of interest documentation and proposed *reserve contract*, a copy of which will be made available with the request for expressions of interest.

3.3. Ensuring offered reserve is not otherwise available to the market

The NER require AEMO to ensure offered *reserve* is not otherwise available to the *market*.¹ AEMO's request for expressions of interest will also require information to assist AEMO's assessment of the suitability of proposed RERT Panel members as providers of *reserve*.

Entities wishing to be members of the RERT Panel will need to:

- Provide written confirmation that any offered *reserve* involving the reduction of *load* is not subject to any demand side management, network support, or other similar contracts or arrangements; and
- Give AEMO their consent to contact their *retailer* and the *Network Service Provider* in whose *network* the facility they intend to use is located.

3.4. Conditions of membership of RERT Panel

The conditions of membership of the RERT Panel will be contained in a contract called a "RERT Panel Agreement" that will be entered into by RERT Panel members and AEMO. Section 6.1 of the *RERT guidelines* also prescribes some of the conditions of membership of the RERT Panel and these will be incorporated in that Agreement.

3.5. Retirement of RERT Panel members

Once on the RERT Panel, members may retire in one of two ways:

1. By terminating their RERT Panel Agreement upon giving AEMO at least 90 days' notice; or
2. At the conclusion of 12 months of the commencement of their RERT Panel Agreement, if the member fails to update the information required to be updated by that Agreement in accordance with that Agreement.

Provided they do not cover any period during which a *reserve contract* might be in place, RERT Panel members are free to enter into arrangements with other parties before the 90-day termination notice period has expired, provided that any service they offer will not be provided until after the RERT Panel Agreement has ended.

¹ See section 4.3 for a fuller discussion.

4. EVALUATION OF TENDERS

There are a number of requirements applicable to tenders that are common to tenders for the provision of *reserve*, regardless of whether they are received from RERT Panel members, or from any other party capable of providing the service.

4.1. Having regard to the RERT principles

Clause 3.20.2(b) of the NER requires *AEMO* to have regard to the *RERT principles* when exercising the *RERT*. There are two principles involved:

1. *AEMO*'s actions should be those that *AEMO* reasonably expects, acting reasonably, to have the least distortionary effect on the operation of the *market*; and
2. *AEMO*'s actions should aim to maximise the effectiveness of *reserve contracts* at the least cost to end use consumers of electricity.

4.1.1. *AEMO*'s actions should be those *AEMO* reasonably expects to have the least distortionary effect on the operation of the market

Section 5.1 of the *RERT guidelines* requires that, when exercising *RERT*, *AEMO* must take both a short-term and long-term view of its financial impact.

AEMO's actions will have both short-term impacts on *spot prices* and long-term impacts on investment signals, however, the requirement to consider how *AEMO* seeks offers, and contracts, for *reserve* is subject to a number of mandatory requirements imposed by the NER and the *RERT guidelines*. These affect how flexible *AEMO*'s arrangements can be.

AEMO will review the impact of these arrangements each time it concludes a round of tendering and contracting, to identify where these arrangements can be made more efficient.

The way in which *AEMO* sets the *spot price* during an *AEMO intervention event* is addressed in *AEMO*'s Intervention Pricing Methodology.

4.1.2. *AEMO*'s actions should aim to maximise the effectiveness of reserve contracts at the least cost to end use consumers of electricity

AEMO is required to balance the effectiveness of *reserve contracts* entered into, against the least cost to end-use consumers. Section 5.2 of the *RERT guidelines* provides further guidance on how *AEMO* should interpret this.

Relevant considerations include the following:

- *AEMO*'s costs in determining whether to procure *reserve* and operate the RERT Panel.
- The anticipated expenditures under proposed *reserve contracts* under a range of credible scenarios.
- The characteristics of the offered *reserve* by reference to its location, availability, or firmness, minimum and maximum time it can be *dispatched* or *activated*, and the length of notices required to be given for *activation* or *dispatch*.
- The duration of the projected capacity shortfall.
- The size of the projected capacity shortfall, in megawatts (MW).
- The likelihood of the proposed capacity shortfall being resolved.

4.2. Optimal portfolio

Having regard to the *RERT principles*, *AEMO* is expected by section 5.2 of the *RERT guidelines* to develop an optimal *reserve contract* portfolio. Where there is sufficient time, *AEMO* will procure *reserve*, by recruiting RERT Panel members with *reserve* that is sufficiently diverse to achieve this and from tenderers wishing to provide *reserve* under long term *reserve contracts*.

AEMO will evaluate all tenders received, between themselves and against all existing *reserve contracts*, to ensure *reserve* is procured at the least possible cost to the *market*. Where appropriate, *AEMO* will terminate existing *reserve contracts* in favour of entering into new, less costly, *reserve contracts*.

4.3. Ensuring offered reserve is not otherwise available to the market

Clause 3.20.3(h) and (j) of the NER requires AEMO to ensure that offered *reserve* is not otherwise available to the *market*. AEMO is required to reject tenders in the following circumstances:

- Where *dispatch offers* or *dispatch bids* have been submitted or AEMO considers it likely will be submitted in respect of the *reserve* the subject of the tender, or will otherwise be available for *dispatch* in the *trading intervals* to which the proposed *reserve contract* relates; and
- Where a tenderer offers *reserve* subject to deleting the provision in the proposed *reserve contract* that *reserve* will not otherwise be offered in the *market* for *trading intervals* to which the proposed *reserve contract* relates other than in accordance with that proposed *reserve contract*.

AEMO will investigate its own records to ascertain whether it is likely that *dispatch offers* or *dispatch bids* might be submitted in respect of any offered *scheduled reserve*, or might otherwise be available for *dispatch* in the *trading intervals* to which a proposed *reserve contract* relates.

4.4. Credibility of tenders

Section 8.1 of the *RERT guidelines* requires AEMO to assess the credibility of tenders.

Whether a tenderer can deliver the offered *reserve* will be assessed by reference to whether the tenderer owns the facilities to be used to deliver the offered *reserve*. If the tenderer does not own those facilities, evidence will be sought of the tenderer's right to offer the *reserve* and deliver it if required. A copy of a contract with the owner of the relevant facilities would usually be sufficient.

Another relevant criterion is previous experience; that is, whether a tenderer has previously been awarded a *reserve contract* or any other contract to provide *reserve*, such as a demand side contract, and whether they have delivered *reserve* successfully under that *reserve contract* or reduced *load* in accordance with that other contract.

AEMO will assess the credibility of tenders for Medium Notice Reserve and Short Notice Reserve as well as when evaluating any expressions of interest from potential RERT Panel members and other parties.

5. DETERMINING TO ENTER INTO RESERVE CONTRACTS

Clause 3.20.3(b) of the NER grants AEMO a discretion to enter into *reserve contracts*, a discretion that will be based on an assessment of the reliability of *supply* against the Reliability Standard², having regard to:

- The *RERT principles*; and
- The *RERT guidelines*.

In doing so, however, AEMO is also required to consult with persons nominated by affected *participating jurisdictions*.

5.1. Consultation with jurisdictions

Clause 3.20.3(c) and (f) of the NER require AEMO to consult with persons nominated by relevant *participating jurisdictions* in respect of the following:

- Whether to determine to enter into *reserve contracts* after consideration of the cost-effectiveness of exercising *RERT*.³
- To determine, in advance of entering into *reserve contracts*, the maximum average price threshold (in \$/MWh) that AEMO should pay to *dispatch* or *activate* Short Notice Reserve.⁴

² A copy of the Reliability Standard can be found at: [http://www.aemc.gov.au/Markets-Reviews-Advice/Review-of-the-Reliability-and-Emergency-Reserv-\(1\)](http://www.aemc.gov.au/Markets-Reviews-Advice/Review-of-the-Reliability-and-Emergency-Reserv-(1)).

³ See also sections 5.2 and 8.1 of the *RERT guidelines*.

⁴ See section 8.1 of the *RERT guidelines*.

- Agreeing in advance the cost-sharing arrangements between participating jurisdictions where *AEMO* will enter into *reserve contracts* for Short Notice Reserve.⁵

5.2. Publishing notice of intention to enter into reserve contracts

Clause 3.20.3(g) of the NER requires *AEMO* to *publish* notice of its intention to commence contract negotiations for the provision of additional *reserves*.

AEMO interprets this to mean that *AEMO* must *publish* a notice of its determination to issue an invitation to tender for the procurement of *reserve*, regardless of whether it is directed at RERT Panel members or otherwise.

Such a notice will be *published* on *AEMO*'s website and in an *AEMO* Communication. Where appropriate, *AEMO* may also *publish* a notice in a daily newspaper that is published in the *region* for which *reserve* is being sought.

5.3. Timing of entry into reserve contracts

Clause 3.20.3(d) of the NER prevents *AEMO* from entering into, or renegotiating, any *reserve contract* more than 10 weeks prior to the date *AEMO* reasonably expects that the *reserve* under that *reserve contract* may be required to ensure reliability of *supply* and, where practicable, to maintain *power system security*.

6. PROCURING RESERVE IN COMBINED REGIONS

AEMO is permitted by sections 8.1 and 8.2 of the *RERT guidelines* to call for *reserve* offers for *reserve* in *regions*, or combined *regions* where there is a forecast *reserve* shortfall.

The decision whether to combine *regions* for the purposes of procurement and entering into *reserve contracts* will be made by *AEMO* in its absolute discretion.

7. ENTRY INTO RESERVE CONTRACTS

7.1. Entry into and renegotiation of more than one reserve contract

Clause 3.20(a) and (e) of the NER enable *AEMO* to:

- Enter into *reserve contracts*; and
- Renegotiate the terms of existing *reserve contracts*

at any time in order to meet the requirement for *reserve*, in a manner consistent with the requirements imposed by the *RERT guidelines*.

7.2. Required provisions in reserve contracts

Some of the terms in *reserve contracts* are prescribed by the NER and the *RERT guidelines*:

- Clause 3.20.3(j) requires the *reserve contract* to specify that the *reserve* not be otherwise available to the *market*.
- Although the *RERT guidelines* only require *AEMO* to give consideration to including an early termination payment in a *reserve contract*, *AEMO* interprets this as being necessary to enable *AEMO* to adjust its portfolio of *reserve* following an assessment of whether any later offers of *reserve* would be of more benefit to end use consumers of electricity.

⁵ See section 8.1 of the *RERT guidelines*. Note also that clause 3.15.9 of the NER requires that *AEMO*'s costs associated with contracting for the provision of *reserves* be met by fees imposed on *Market Customers*.

8. PROCUREMENT OF RESERVE IN MEDIUM NOTICE SITUATIONS

8.1. Determining that there exists a reserve shortfall

As required by section 4.1(a) and 8.1 of the *RERT guidelines*, in considering whether to enter into *reserve contracts*, AEMO may take into account:

- The outcome of the *medium term PASA* (MT PASA) for periods of *low reserve*;
- The results of the *Energy Adequacy Assessment Projection* (EAAP) to identify any periods of projected *energy constraints*; and
- Any other information AEMO considers relevant.

Once a *low reserve condition* is declared under clause 4.8.4 of the NER, AEMO must consider how to address this through a range of options, including whether to procure *reserve*.

8.2. Determining to enter into reserve contracts

Reserve contracts in Medium Notice Situations will be entered into following an assessment of tenders from RERT Panel members to provide *reserve* to meet any forecast shortfall.

AEMO will determine whether to enter into *reserve contracts* consistent with its discretion in clause 3.20.3(b) of the NER.⁶

8.3. Evaluation of tenders

AEMO will follow section 4 of this Procedure when evaluating tenders from RERT Panel members for Medium Notice Situations.

8.3.1. Ensuring that Offered Reserve is not otherwise available to the Market

In addition to the requirements detailed in section 4.3 of this Procedure, the *RERT guidelines* impose additional obligations on AEMO where it is procuring Medium Notice Reserve:⁷

- Tenders must provide an undertaking that the offered *reserve* is not available to the *market* through any other arrangement.
- AEMO must make reasonable inquiries in the *market*. AEMO will require tenderers to provide AEMO a signed consent that enables AEMO to contact:
 - The *Network Service Provider* in whose *network* the facility the tenderer intends to use to provide the offered *reserve* is situated, to confirm whether the offered *reserve* is the subject of any *network support agreement* or other similar contracts or arrangements during the period for which AEMO is likely to need to *dispatch* or *activate reserve*; and
 - The tenderer's *retailer* to confirm whether the offered *reserve* is the subject of any demand side management or other similar contracts or arrangements during the period for which AEMO is seeking *reserve*.

AEMO will reject any tender that fails to meet these requirements.

8.3.2. Meeting commercial requirements

Section 8.1 of the *RERT guidelines* requires AEMO to assess whether the commercial requirements are met. These requirements include the following:

- The *reserve* offered for *dispatch* or *activation* must be at least 10MW;
- Appropriate *metering* must be installed, or if not installed at the time of tendering, will be installed before the *reserve contract* will commence;
- Single point of contact for *dispatch* or *activation* of *reserve*;
- Availability and reliability of offered *reserve*, including confidence in the validation of availability and reliability requirements;

⁶ See section 5 of this procedure.

⁷ See section 7.1 of the *RERT guidelines*.

- Nature and location of offered *reserve*;
- Ease with which offered *reserve* can be provided; and
- Minimal changes to AEMO's preferred form of *reserve contract*.

8.4. Continuous monitoring of forecast shortfall

Section 8.1 of the *RERT guidelines* requires that AEMO continue to monitor forecast shortfalls of *reserve*.

9. PROCUREMENT OF RESERVE IN SHORT NOTICE SITUATIONS

9.1. Determining that there exists a reserve shortfall

As required by sections 4.1(b) and 8.2 of the *RERT guidelines*, in considering whether to enter into *reserve contracts*, AEMO may monitor:

- The details of the outcome of the *short term PASA* and *pre-dispatch* processes; and
- Any other information that AEMO considers relevant, for periods of lack of *reserve condition level 2 (LOR2)*.

Once an LOR2 is declared under clause 4.8.4, AEMO must consider how to address this through a range of options, including whether to procure *reserve*.

9.2. Determining to enter into reserve contracts

Reserve contracts for Short Notice Reserve will be entered into following an assessment of *reserve* offers received from RERT Panel members to provide *reserve* to meet any forecast shortfall.

Section 6.1 of the *RERT guidelines* requires AEMO to *publish* a schedule of the requirements to all eligible members of the RERT Panel who can provide Short Notice Reserve, and request members to confirm, by a set deadline:

- The availability of their *reserve* for the period covered by the schedule (capacity and minimum/maximum usage times etc);
- The required enablement time; and
- Confirmation that the *reserve* is not already contracted for the period covered by the schedule.

Section 8.2 of the *RERT guidelines* requires AEMO to exclude tenders that are costlier than the maximum average price threshold approved by the respective *participating jurisdiction*.⁸

Finally, section 6.3 of the *RERT guidelines* permits AEMO to restrict eligible *reserve* offers to those from RERT Panel members that agree to participate in an expedited process and submitted complying *reserve* offers, including short notice enablement and usage prices.

The invitation to tender will be sent electronically to those RERT Panel members and the "schedule of requirements" referred to in section 6.1 of the *RERT guidelines* will form part of the invitation to tender.

9.3. Evaluation of tenders

AEMO will follow section 4 of this Procedure when evaluating tenders for Short Notice Reserve.

9.3.1. Ensuring that offered reserve is not otherwise available to the market

In addition to the requirements detailed in section 4.3 of this Procedure, the *RERT guidelines* impose additional obligations on AEMO where it is procuring Short Notice Reserve:⁹

- Tenderers must inform AEMO when the offered *reserve* is no longer available to the *market* as a result of another arrangement.

⁸ See section 5.1 of this Procedure.

⁹ See section 7.2 of the *RERT guidelines*.

- Prior to and after entering into *reserve contracts*, AEMO must confirm with the RERT Panel members that the *reserve* is not available to the *market* as a result of another arrangement.
- After entering into *reserve contracts*, AEMO should assess any available information as to whether the *reserve* is available to the *market* through any other arrangement.

Both the invitation to tender and *reserve contracts* will contain conditions that cover these requirements.

9.4. Continuous monitoring of forecast shortfall

Section 8.2 of the *RERT guidelines* requires that AEMO continue to monitor forecast shortfalls of *reserve*.

10. PUBLISHING INFORMATION ABOUT RERT

10.1. Publishing RERT Panel details

AEMO interprets section 6.1 of the *RERT guidelines* as requiring the *publication* of two things:

- The fact that AEMO has called for expressions of interest from persons wishing to join the RERT Panel; and
- When AEMO has issued requests for tender to RERT Panel members.

AEMO will *publish* this information on its website and in an AEMO Communication, or if there is insufficient time for either of these options, through a Market Notice.

10.2. Publishing of reserve contract details

Sections 8.1 and 8.2 of the *RERT guidelines* require AEMO to *publish*, within one month of entering into a new *reserve contract*:

- The name of each *reserve contract* counterparty; and
- The volume and timing of the *reserve* procured under each *reserve contract*.

AEMO will *publish* this information on its website and in an AEMO Communication.

11. DISPATCH OR ACTIVATION OF RESERVE

11.1. Relevant considerations

As required by section 4.2 of the *RERT guidelines*, in addition to the material AEMO is required to consider under section 4.1 of the *RERT guidelines*,¹⁰ to assess whether *reserve* will be required to be *dispatched* or *activated* to ensure reliability of *supply*, or to maintain *power system security*, AEMO will monitor:

- The outcome of the *short term PASA (ST PASA)*;
- The details of the *pre-dispatch schedule* in terms of the anticipated available *reserve*; and
- Any other information that AEMO considers relevant.

11.2. Dispatching reserve to address power system security events

Section 9 of the *RERT guidelines* permits AEMO to dispatch or activate reserve to address a power system security event.

11.3. Determining the latest time for dispatching or activating reserve

AEMO has *published* SO_OP_3717 - Procedure for the Dispatch and Activation of Reserve Contracts, which details how AEMO carries out this action. If it will be necessary for AEMO to issue *directions*,

¹⁰ See sections 8.1 and 9.1 of this Procedure for further details.

AEMO will do so in accordance with the Procedure SO_OP3707 – Intervention, Direction and Clause 4.8.9 Instructions and the *Rules*.

11.4. How AEMO will dispatch or activate reserve

Details on how AEMO *dispatches scheduled reserve* or *activates unscheduled reserve* are contained in SO_OP_3717 - Procedure for the Dispatch and Activation of Reserve Contracts.

A relevant consideration is section 5.2 of the *RERT guidelines*, which prescribes a priority of *dispatch* or *activation* in certain circumstances. Where AEMO has sufficient time to perform the necessary analysis, it should aim to maximise the least cost combination of *reserves* being *dispatched* or *activated* by selecting the combination of *reserve contracts* with the lowest incremental cost. Where this is not possible, AEMO should *dispatch* or *activate* Medium Notice Reserve ahead of contracting for further Short Notice Reserve.