# Notice of First Stage of Consultation

National Electricity Rules – Rule 8.9

## Supply Scarcity Procedures Consultation

Date of Notice: 21 Jan 2021

This notice informs all Registered Participants and interested parties (Consulted Persons) that AEMO is conducting a consultation on the procedures that sets out AEMO's approach to determining its choice of supply scarcity mechanism. A supply scarcity mechanism refers to any of the following:

* Exercising the RERT
* Issuing a direction in accordance with clause 4.8.9 of the NER
* Issuing a clause 4.8.9 instruction

This consultation is being conducted under clauses 3.8.14A and 11.129.2 of the National Electricity Rules (NER), in accordance with the Rules consultation requirements detailed in rule 8.9 of the NER.

#### Matter under Consultation

The matter for consultation is the Supply Scarcity Procedures which include details on the methodology AEMO will use and assumptions AEMO may make when chossing a supply scarcity mechanism under clause 3.8.14.

As required by clause 11.129.2 of the NER, on 22 October 2020 AEMO published an interim version of the Supply Scarcity Procedures as part of its Short Term Reserve Management operating procedure.[[1]](#footnote-1) To assist stakeholders with their submissions, a copy of the interim supply scarcity procedures is provided as an appendix of this notice.

#### The Consultation Process

The consultation process is outlined below. Dates are indicative only and subject to change.

| Process Stage | INDICATIVE Date |
| --- | --- |
| Closing date for submissions in response to this Notice | 1 Mar 2021 |
| Publication of Draft Report and Determination | 18 Mar 2021 |
| Closing date for submissions in response to the Draft Report | 2 Apr 2021 |
| Publication of Final Report and Determination | 29 Apr 2021 |

#### Invitation to Make Submissions

AEMO invites written submissions on the matter under consultation, including any alternative or additional proposals you consider may better meet the objectives of this consultation and the national electricity objective in section 7 of the National Electricity Law.

Please identify any parts of your submission that you wish to remain confidential, and explain why. AEMO may still publish that information if it does not consider it to be confidential, but will consult with you before doing so.

Please note that material identified as confidential may be given less weight in the decision-making process than material that is published.

#### Meetings

In your submission, you may request a meeting with AEMO to discuss the matter under consultation, stating why you consider a meeting is necessary or desirable.

If appropriate, meetings may be held jointly with other Consulted Persons. Subject to confidentiality restrictions, AEMO will generally make details of matters discussed at a meeting available to other Consulted Persons, and may publish them.

#### Closing Date and Time

Submissions in response to this Notice of First Stage of Rules Consultation should be sent by email to [ElectricityMarket.Monitoring@aemo.com.au](mailto:ElectricityMarket.Monitoring@aemo.com.au) to reach AEMO by 5.00pm (Melbourne time) on 1 Mar 2021.

All submissions must be forwarded in electronic format (both pdf and Word). Please send any queries about this consultation to the same email address.

Submissions received after the closing date and time will not be valid, and AEMO is not obliged to consider them. Any late submissions should explain the reason for lateness and the detriment to you if AEMO does not consider your submission.

#### Publication

All submissions will be published on AEMO’s website, other than confidential content.

1. - INTERIM SUPPLY SCARCITY PROCEDURES

This appendix sets out the interim supply scarcity procedures published under clause 11.129.2 of the NER, to describe AEMO’s approach to determining its choice of supply scarcity mechanism under clause 3.8.14A of the NER. Following consultation, these procedures will be finalised by 3 May 2021.

* 1. Supply scarcity mechanisms

A *supply scarcity mechanism* refers to any of the following:

* 1. exercising the *RERT*;
  2. issuing a *direction* in accordance with clause 4.8.9 of the NER; and
  3. issuing a *clause 4.8.9 instruction*.

If, after dispatching all *dispatch bids* and *dispatch offers*, AEMO determines additional actions are required to address conditions of *supply* scarcity[[2]](#footnote-2), AEMO must decide which *supply scarcity mechanism(s)* to use.

In making that decision, AEMO must use reasonable endeavours to choose the mechanism, or combination of mechanisms, that is effective in addressing the *supply scarcity* conditions while minimising the associated direct and indirect costs.

* 1. Methodology

This section describes the factors AEMO will take into account in evaluating both the costs and effectiveness of each *supply scarcity mechanism*, in comparison to others, or a combination of mechanisms.

* + 1. RERT

For *RERT*, the direct costs AEMO will consider include preactivation and activation costs payable under relevant *reserve contracts*,as well as potential compensation payable to *Affected Participants* or *Market Customers* under rule 3.12 of the NERas a consequence of exercising the *RERT*. AEMO will also have regard to any material distortionary effects due to the use of emergency *reserves*.

In terms of effectiveness, the selection of *RERT* as an appropriate *supply scarcity mechanism* will depend on the availability of *reserve contracts* for *dispatch* or *activation* that are likely to address the prevailing *supply* scarcity conditions, based on factors including:

* size of *reserve* blocks;
* length of *dispatch* or *activation* times;
* *dispatch* or *activation* constraints (for example, maximum number of days or consecutive days per week of *dispatch* or *activation*, maximum and/or minimum periods of *dispatch* or *activation*)
* historical performance of the *reserve*: and
* shutdown periods when the *reserve* blocks are not available.
  + 1. Directions

With respect to the cost of *directions*, AEMO will consider any cost estimates provided to AEMO by potential *Directed Participants* and account for the amount payable under the formula compensation mechanism in clause 3.15.7 of the NER by considering the minimum *energy* required under the most likely potential *direction(s)* (MW) x estimated *direction* duration (hrs) x the price below which are 90% of the *spot prices in the* relevant *region, for the 12 months preceeding the trading day in which the supply scarcity conditions have occured*. As with the *RERT*, AEMO will also have regard to potential compensation payable to *Affected Participants* or *Market Customers* and any material distortionary effects.

In terms of effectiveness, the selection of *directions* as an appropriate *supply scarcity mechanism* will depend on the availability for *direction* of *scheduled plant* or *market generation* that is likely to address the prevailing *supply* scarcity conditions, based on factors including:

* time taken to synchronise;
* recall times;
* minimum run times;
* network location;
* minimum generation or demand reduction levels;
* delivery risk and uncertainty; and
* fuel availability.
  + 1. Instructions

For *clause 4.8.9 instructions* for *load shedding*,the key cost consideration is the implied value of lost load when *load shedding* occurs. For this calculation, AEMO will use the energy-weighted average aggregate value of customer reliability (VCR) values (or equivalent) published by the *AER* for each *region*. AEMO will also have regard to any material distortionary effects.

The effectiveness of *clause 4.8.9 instructions* to address the *supply* scarcity condition will be considered having regard to all relevant factors, including the amount of *load* available to be shed at key *network* locations, the relative *load shedding* priorities and the application of the relevant *load shedding procedures*.

* + 1. Assumptions

The key assumptions in the methodology are the three cost metrics above, as some of these values are not easily determined prior to the use of the supply scarcity mechanism.

AEMO will assume all facilities will perform/deliver as anticipated (including in accordance with *performance standards* and *reserve contracts* as applicable).

1. Refer to Appendix of SO\_OP\_3703, available at: <https://aemo.com.au/-/media/files/electricity/nem/security_and_reliability/power_system_ops/procedures/so_op_3703---short-term-reserve-management.pdf?la=en> [↑](#footnote-ref-1)
2. Indicating conditions in which the available *supply* may become insufficient to securely meet demand for energy. This is different from the concept of ‘supply scarcity’ as defined in the *frequency operating standard*. [↑](#footnote-ref-2)