

# ENHANCEMENT TO THE RELIABILITY AND EMERGENCY RESERVE TRADER

DRAFT REPORT AND DETERMINATION

Published: **6 December 2019**





## **NOTICE OF SECOND STAGE CONSULTATION – ENHANCEMENT TO THE RELIABILITY AND RESERVE TRADER**

### **National Electricity Rules – Rule 8.9**

#### **Date of Notice: 6 December 2019**

This notice informs all Registered Participants and interested parties (Consulted Persons) that AEMO is commencing the second stage of its consultation on Enhancements to the Reliability and Emergency Reserve Trader.

This consultation is being conducted under clause 3.20.7(e) of the National Electricity Rules (NER), in accordance with the Rules consultation requirements detailed in rule 8.9 of the NER.

#### **Invitation to make Submissions**

AEMO invites written submissions on this Draft Report and Determination (Draft Report).

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.

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

#### **Closing Date and Time**

Submissions in response to this Notice of Second Stage of Rules Consultation should be sent by email to [hugh.ridgway@aemo.com.au](mailto:hugh.ridgway@aemo.com.au), to reach AEMO by 5.00pm (Melbourne time) on 17 January 2019.

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.

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## EXECUTIVE SUMMARY

The publication of this Draft Report and Determination (Draft Report) commences the second stage of the Rules consultation process conducted by AEMO to make changes to the:

- Procedure for the Exercise of Reliability and Emergency Reserve Trader; and
- Procedure for the Dispatch and Activation of Reserve Contracts

(collectively 'the Procedures') under the National Electricity Rules (NER).

The matter for consultation is the set of necessary updates to the Procedures as a result of the 'Enhancement to the Reliability and Emergency Reserve Trader' rule determination dated 2 May 2019 ([linked here](#)) and amendments to the RERT guidelines dated 25 July 2019 ([linked here](#)). A high-level summary of the changes to the Procedures is as follows:

- The Procedures have been combined into a single document titled 'Procedure for the Exercise of the Reliability and Emergency Reserve Trader'.
- Most of the content of the existing Procedure for the Exercise of Reliability and Emergency Reserve Trader is a repeat of the rules or RERT guidelines and has been deleted in the combined draft. Redundant content has also been removed from the Procedure of the Dispatch and Activation of Reserve Contracts.
- Provisions have been added to describe the methodologies required by new rule 3.20.7

Key issues raised during the first stage of consultation are

1. Whether the Procedures should explicitly give primacy to the ST PASA and MT PASA over the ESOO and EAAP.
2. Whether AEMO should only consider publicly available information in carrying out the RERT function.
3. Whether AEMO has met the requirement to adequately describe a "*methodology to be used by AEMO to determine the appropriate term of a reserve contract and the amount...*".
4. Whether the methodology for determining VCR values will consider jurisdictional load shedding schedules.

After considering the submissions received, AEMO's draft determination is to make the Procedure for the Exercise of Reliability and Emergency Reserve Trader in the form published with this Draft Report.



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## 1. STAKEHOLDER CONSULTATION PROCESS

As required by clause 3.20.7(e) of the NER, AEMO is consulting on the new Procedure for the Exercise of the Reliability and Emergency Reserve Trader (Procedures) in accordance with the Rules consultation process in rule 8.9.

AEMO's indicative timeline for this consultation is outlined below. Future dates may be adjusted depending on the number and complexity of issues raised in submissions.

Deliverable	Indicative* date
Notice of first stage consultation published	13 September 2019
First stage submissions closed	25 October 2019
Draft Report & Notice of second stage consultation published	6 December 2019
Submissions due on Draft Report	17 January 2020
Final Report published	28 February 2020

The publication of this Draft Report marks the commencement of the second stage of consultation.

Note that there is a glossary of terms used in this Draft Report at Appendix A.

## 2. BACKGROUND

### 2.1. NER requirements

Rule 3.20.7(e) - AEMO must develop, publish, and may amend from time to time, in accordance with the Rules consultation procedures, procedures for the exercise of the RERT under this rule 3.20 that consider the RERT principles and RERT guidelines. These procedures must include several matters, such as measures to be adopted in order to reduce the possibility that generating units or loads likely to be activated under unscheduled reserve contracts are otherwise engaged at the time the unscheduled reserve contracts are entered into by AEMO.

### 2.2. Context for this consultation

These changes are the necessary updates to the Procedures as a result of the 'Enhancement to the Reliability and Emergency Reserve Trader' rule determination dated 2 May 2019, together with the removal of redundant provisions in procedures.

### 2.3. First stage consultation

AEMO issued a Notice of First Stage Consultation on 13 September 2019.

AEMO received one written submission in the first stage of consultation. A copy of this submission, has been published on AEMO's website at: <https://www.aemo.com.au/Stakeholder-Consultation/Consultations/Enhancements-to-RERT-rule-change---Update-to-Procedures?Convenor=AEMO%20NEM>.



### 3. SUMMARY OF MATERIAL ISSUES

The key material issues arising from the proposal and raised by Consulted Persons are summarised in the following table:

No.	Issue	Raised by
1.	AEMO should base any RERT procurement and dispatch decision-making on the most up-to-date information available at the time a decision is made to commence the procurement process, execute, or activate a RERT contract. Therefore, Procedures should explicitly give primacy to the most up-to-date information which would generally include the PD/ST PASA for short-notice RERT procurement and RERT contract activation and MT PASA for medium - and long-notice RERT procurement over less current information such as the ESOO and EAAP.	ERM Power
2.	Where AEMO has indicated in the draft process that AEMO may “consider any other information that AEMO reasonably considers to be relevant” this ability should be limited only to information that is publicly available or that which has previously been communicated to the Market.	ERM Power
3.	AEMO has not met the requirement to adequately describe a “methodology to be used by AEMO to determine the appropriate term of a reserve contract and the amount of reserve to be contracted”.	ERM Power
4.	The methodology for determining average VCR values does not meet the requirements of the RERT Guidelines or the intent of rule change made under the Enhanced RERT rule change Final Determination. An alternative calculation methodology could consider the type of loads shed during defined USE historical load-shedding events as well as the jurisdictional load shedding schedule as set out in the RERT Guidelines	ERM Power

A detailed summary of issues raised by Consulted Persons in submissions together with AEMO’s responses, is contained in Appendix B.

### 4. DISCUSSION OF MATERIAL ISSUES

#### 4.1. Primacy of most recent information

##### 4.1.1. Issue summary and submissions

ERM Power stated that AEMO should base any RERT procurement and dispatch decision-making on the most up-to-date information available at the time a decision is made to commence the procurement process, sign, or activate a RERT contract. Therefore, Procedures should explicitly give primacy to the most up-to-date information which would generally include the PD/ST PASA for short-notice RERT procurement and RERT contract activation and MT PASA for medium- and long-notice RERT procurement over less current information such as the ESOO and EAAP.

##### 4.1.2. AEMO’s assessment

AEMO agrees that it should take account of the most up-to-date information available and understands from its discussions with ERM Power that the primary concern is that AEMO may in some cases base its decisions on out-dated information while ignoring more recent, relevant information. AEMO believes that the proposed amendment to the draft Procedures in section 5 address this concern.



The AEMC noted in their determination on the RERT enhancement rule that the NER appropriately allows AEMO significant discretion and flexibility as to how to operationalise the reliability standard. This framework allows AEMO to consider the full spectrum of uncertainties and risks that could influence reliability. For this reason, rather than giving primacy to specific instruments as the basis for determining RERT targets, AEMO prefers a simple and flexible requirement – that AEMO consider all relevant information available.

More specifically, the proposal that the MT PASA should be given primacy over the ESOO assumes that the MT PASA uses more up-to-date information than the ESOO. However, the ESOO is not only updated annually, but is also updated whenever new information is available that materially changes the reliability forecast, as per clause 3.13.3A(b) of the NER. Additionally, the MT PASA forecasts of USE can be heavily influenced by transient generator and network unavailability which can at times inflate USE estimates. For example, MT PASA USE forecast could be significantly higher than an ESOO forecast due to a period of unavailability bid into MT PASA by a generator during summer; however, this outage could be fully flexible based on short-term forecasts and would therefore be likely to be shifted if this caused additional risk of load shedding. It would be inappropriate to consider the influence of this outage on USE for the purpose of RERT procurement.

AEMO notes that the Reliability Standard Implementation Guidelines (RSIG) indicate (as highlighted in ERM Power's submission) that the MT PASA and not the ESOO is the primary instrument for assessing expected USE to inform the RERT function in the medium-notice and long-notice timeframes. This is not AEMO's current view. AEMO will be updating the RSIG soon to address this inconsistency.

#### **4.1.3. AEMO's conclusion**

AEMO has included an explicit requirement in the Procedures that it consider all relevant information available.

## **4.2. AEMO only consider publicly available information**

### **4.2.1. Issue summary and submissions**

ERM Power stated that, where AEMO has indicated in the draft process that AEMO may "consider any other information that AEMO reasonably considers to be relevant", this ability should be limited only to information that is publicly available or that which has previously been communicated to the Market.

### **4.2.2. AEMO's assessment**

AEMO agrees that transparency in the RERT process is important. AEMO also agrees that the most relevant information available should be used to inform decision making in the RERT process. In some circumstances these two principles conflict, such where AEMO is privy to confidential information that it cannot make publicly available. In these cases, AEMO takes the view that the ability for the market operator to make an informed decision is more important than transparency for market participants and is more likely to lead to better outcomes for consumers.



AEMO notes that such decisions are still subject to review by the Australian Energy Regulator (AER), to whom AEMO can disclose confidential information.

#### **4.2.3. AEMO's conclusion**

No change has been made to the draft Procedures in respect of this issue.

### **4.3. The draft Procedures do not meet the requirement described in rule 3.20.7(e)(2)**

#### **4.3.1. Issue summary and submissions**

ERM Power stated that AEMO has not met the requirement to adequately describe a “methodology to be used by AEMO to determine the appropriate term of a reserve contract and the amount of reserve to be contracted”.

#### **4.3.2. AEMO's assessment**

AEMO agrees with ERM Power.

#### **4.3.3. AEMO's conclusion**

AEMO has redrafted section 5 to include more detail around the decision-making process for determining quantity targets and term in the RERT procurement process.

### **4.4. The methodology for estimating VCRs does not meet the requirements of the RERT Guidelines**

#### **4.4.1. Issue summary and submissions**

ERM Power stated that the methodology for estimating average VCR values does not meet the requirements of the RERT Guidelines or the intent of rule change made under the Enhanced RERT rule change Final Determination. An alternative calculation methodology could consider the type of loads shed during defined USE historical load-shedding events as well as the jurisdictional load shedding schedule as set out in the RERT Guidelines.

#### **4.4.2. AEMO's assessment**

AEMO's preference is to use a simple and transparent methodology. Additional complexity should be avoided unless it will lead to materially more accurate outcomes. AEMO notes the following:

1. The process for determining general VCRs (which are to provide a basis for estimating VCRs to be used for the purpose of the RERT function) is itself currently under consultation by the AER. This makes it impossible to be much more specific than in the current draft.
2. There is not a statistically significant sample size of recent or relevant load shedding events that AEMO can use to develop a robust calculation of the VCR applicable for future load shedding events.
3. Considering the changing state of the national electricity market, previous load shedding events are not necessarily a good indicator of future load-shedding events. The size, scale, and duration of load shedding events will impact the type of load shed and the corresponding VCR.





Additionally, load shedding schedules can be revised, and actual load shed blocks used in an event will be dependent on conditions at the time.

4. The VCR estimation is a benchmark for assessing RERT costs that is to be predetermined and updated periodically. It cannot be, and is not intended to be, tailored for specific events. It is hard to see how jurisdictional load shedding schedules and factors such as specific locations within a region or time of day can be considered without making somewhat arbitrary assumptions about possible load shedding events in the future.

AEMO cannot see how to incorporate the factors referred to by ERM Power (as set out in the RERT Guidelines) into the VCR estimation methodology, and believes that attempting to do so would lead to false precision in the outcome.

#### **4.4.3. AEMO's conclusion**

No change has been made to the draft Procedures in respect of this issue.

## **5. OTHER MATTERS**

AEMO notes that substantial changes have been made to section 5 of the draft Procedures. Accordingly, AEMO has extended the time period for feedback to this draft report until 17 January 2020. AEMO welcomes feedback (in any form) from participants during the consultation period in respect of these changes.

## **6. DRAFT DETERMINATION**

Having considered the matters raised in submissions and at meetings, AEMO's draft determination is to make the Procedure for the Exercise of Reliability and Emergency Reserve Trader in the form of Attachment 1, in accordance with clause 8.9 of the NER.



## APPENDIX A. GLOSSARY

Term or acronym	Meaning
ST PASA	Short Term Projected Assessment of System Adequacy
MT PASA	Medium Term Projected Assessment of System Adequacy
ESOO	Electricity Statement of Opportunities
EAAP	Energy Adequacy Assessment Projection
USE	Unserved Energy
VCR	Value of Customer Reliability



## APPENDIX B. SUMMARY OF SUBMISSIONS AND AEMO RESPONSES

No.	Consulted person	Issue	AEMO response
1.	ERM Power	AEMO should base any RERT procurement and dispatch decision-making on the most up-to-date information available at the time a decision is made to commence the procurement process, execute or activate a RERT contract. Therefore, Procedures should explicitly give primacy to the most up-to-date information which would generally include the PD/ST PASA for short-notice RERT procurement and RERT contract activation and MT PASA for medium- and long-notice RERT procurement over less current information such as the ESOO and EAAP.	Refer to section 4.1
2.	ERM Power	Where AEMO has indicated in the draft process that AEMO may “consider any other information that AEMO reasonably considers to be relevant” this ability should be limited only to information that is publicly available or that which has previously been communicated to the Market.	Refer to section 4.2
3.	ERM Power	AEMO has not met the requirement to adequately describe a “methodology to be used by AEMO to determine the appropriate term of a reserve contract and the amount of reserve to be contracted”.	Refer to section 4.3
4.	ERM Power	The methodology for determining average VCR values does not meet the requirements of the RERT Guidelines or the intent of rule change made under the Enhanced RERT rule change Final Determination. An alternative calculation methodology could consider the type of loads shed during defined USE historical load-shedding events as well as the jurisdictional load shedding schedule as set out in the RERT Guidelines	Refer to section 4.4
5.	ERM Power	The Procedures should state that AEMO will issue a market notice upon either the pre-activation or activation of a reserves contract.	The NER already require AEMO to notify the market for these events. AEMO prefers not to restate the NER in its Procedures.
6.	ERM Power	The Procedures should state that RERT costs are the sum of availability payments, pre-activation payments, and usage payments.	Clause 3.20.2(b)(3) covers all amounts payable under a reserve contract. Accordingly, AEMO does not think this clarification is necessary. AEMO notes that even if the NER were ambiguous, the appropriate place for further clarification would be in the NER rather than the Procedures.



## **APPENDIX C. ATTACHMENT 1 – DRAFT PROCEDURE**

See link on consultation page