



ENERGY SECURITY BOARD
Amendments to the Interim
Reliability Reserve
Consultation paper

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List of Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
ESB	Energy Security Board
ESOO	Electricity Statement of Opportunities
JSR	Jurisdictional Strategic Reserve
NEL	National Electricity Rules
NEM	National Electricity Market
NEO	National Electricity Objective
P2025	Post-2025 Review
USE	Unserved Energy
VCR	Value of Customer Reliability

Executive summary

Reliability is both a crucial part of the energy market and an important consideration of the long-term interest of consumers. There is increasing uncertainty about reliability in the context of the transition to net zero, which is seeing the exit of large coal generators.

The Jurisdictional Strategic Reserve (JSR) was one of the short-term measures recommended by the Energy Security Board (ESB) as a practical action jurisdictional governments could take in the short-term to help manage their concerns about resource adequacy ahead of the development of an enduring capacity mechanism.

In response to the request from Energy Ministers, the ESB undertook further analysis which found that the concept of the JSR articulated in the Post-2025 (P2025) report can be operationalised under the current Reliability and Emergency Reserve Trade (RERT) framework, through the Australian Energy Market Operator's (AEMO) use of the short notice RERT Panel.

In considering how the existing short notice RERT panel could be leveraged to bolster RERT reserves in a particular region, the ESB identified another amendment that could be made to further facilitate back-up measures for reliability in the NEM. This relates to removing a restriction on entering into multi-year interim reliability reserve contracts as the expiry of the interim reliability reserves rule approaches.

A change to the interim reliability reserves rule is proposed to ensure AEMO can procure adequate volumes of emergency reserves to protect against load shedding, should a reliability gap occur in the interim period, prior to the longer-term resource adequacy reforms being implemented. It seeks to enable AEMO to enter into multi-year contracts of interim relation reserves in the later years of the rule, enabling any contracts to extend beyond the expiry of the rule. The proposed rule change does not remove the checks and balances that minimise the risk of over procurement. Nor does the rule change seek to extend the existence of the interim reliability measure i.e. it will still expire on 31 March 2025.

Both aspects, the short notice RERT panel and the proposed amendment to the interim reliability reserves, work in tandem to action the P2025 recommendation to develop a NEM wide jurisdictional strategic reserve.

This consultation paper seeks stakeholder feedback on the interim reliability reserves rule change and provides advice on how jurisdictions can, under the current rules, fund their own out-of-market resources that could join AEMO's short notice RERT panel.

The ESB requests submissions by 22 June 2022 and all submissions should be sent to info@esb.org.au. The proposed draft rule is attached.

1 Introduction

1.1 Energy Ministers accepted the Energy Security Board's recommendation for a Jurisdictional Strategic Reserve

The ESB recommended a JSR¹ under the resource adequacy workstream of its P2025 review. This review set out a suite of reforms to meet the needs of the significant transition that is currently underway in the electricity sector.²

The pathways for firm, flexible and affordable supply were recommended to manage both the orderly exit of old technologies (primarily ageing coal fired generation) and pave a way for new technologies. In particular, it was recommended that a capacity mechanism be developed alongside the energy only market to bring forward the right mix of firm, flexible and variable resources when they are needed.

In addition to longer term reforms, the ESB's recommendations included short-term measures to address reliability of the electricity system while the capacity mechanism is being developed. These aimed to:

- provide governments with tools to organise extra supply when deciding that they need more insurance to support the electricity system through the transition
- improve transparency to the market by requiring generators to provide more information about their availability and potential early closure.

The JSR was one of the short-term measures, which was recommended as a practical action jurisdictional governments could take in the short term to help manage their concerns about resource adequacy ahead of the development of an enduring capacity mechanism.

In the ESB's final advice it set out that a JSR would facilitate the procurement of any required reserves additional beyond the market reliability standard that jurisdictions consider necessary, in a manner that is targeted and least distortionary to current market arrangements. The jurisdiction would be responsible for determining the level of reserve that it considers appropriate and for establishing the reserve. The JSR would then become part of AEMO's RERT portfolio and would be activated as needed. Costs of the reserve, once activated, would be recovered in a manner consistent with the existing cost recovery arrangement for the current RERT. The fixed purchase and establishment costs of the strategic reserves would be met by the jurisdictions seeking the reserves. The ESB noted that the JSR would be implemented through a rule change process, allowing for consultation with stakeholders on the final design.

The ESB recommended this approach because it provided jurisdictions with immediate access to choose their own level of out-of-market reserves, which they consider would best address their reliability concerns. For instance, jurisdictions may be concerned about the adequacy of the emergency backup resources to address current and emerging risks in their region. The other key reason for the JSR approach was that it could address jurisdictions' concerns about reliability in the short-term, while allowing the more enduring proposed changes to the reliability framework to be progressed, including the Reliability Panel's review of the reliability standard and settings and the work on the capacity mechanism.

¹ [Post-2025 Final Report](#), ESB, July 2021, (p.19), Recommendation 1(a)(i).

² ESB, Post-2025 Market Design Final advice to Energy Ministers Part A, 27 July 2021, p. 19.

On 29 October 2021, Energy Ministers published a response to the ESB's recommendations, in which Ministers indicated they agreed with the ESB's recommendation for a JSR. The Ministers requested that the ESB prepare a rule change submission in consultation with senior officials.³

1.2 Jurisdictions can establish JSRs through existing RERT framework

In response to the request from Energy Ministers, the ESB undertook further analysis which found that the concept of the JSR articulated in the P2025 report can already be operationalised under the current RERT framework through AEMO's use of the short notice RERT Panel.

Information on how jurisdictional governments can, under the current rules, fund their own out-of-market resources through AEMO's short notice RERT panel is set out in Appendix A.

Using the current short notice RERT panel to facilitate a JSR has a number of benefits. It:

- provides an immediate avenue for jurisdictions to obtain more out-of-market emergency supplies to address reliability in their region as the electricity system rapidly transitions. This is because the current rules enable resources to be placed on AEMO's short notice RERT panel at any time, without the requirement of a forecast of a breach of a NEM wide reliability standard in the Electricity Statement of Opportunities (ESOO)
- utilises the existing RERT rules, which guard against market distortions and increasing costs for consumers; and there are no implementation costs to be passed on
- leverages AEMO's existing advisory functions to support jurisdictions in their consideration of whether a JSR is needed in their region and what resources would be suitable to support through a JSR.

In considering how the existing short notice RERT panel could be leveraged to bolster RERT reserves in a particular region, the ESB identified another amendment that could be made to further facilitate backup measures for reliability in the NEM. This related to restrictions on entering into multi-year interim reliability reserve contracts as the expiry of the interim reliability reserves rule approaches. These restrictions unduly limit the procurement options available to AEMO if a large reliability gap is forecast in the ESOP that could be most cost-effectively addressed through multi-year interim reliability reserve contracts.

This paper seeks stakeholder feedback on a proposed amendment to the interim reliability reserves rules.

1.3 An amendment is being progressed to the interim reliability reserves under the Ministerial rule making powers

The ESB is seeking stakeholder feedback on a rule change to progress under the Ministerial rule-making power (s90F) to the interim reliability reserve. Under this process, the ESB may make a recommendation to the Energy Ministers in certain circumstances, who may then recommend the South Australian Minister to make rules. The original interim reliability reserves were introduced via this process. More detail on this process is provided in Appendix B.

³ Energy Ministers, Summary of the final reform package and corresponding Energy Security Board recommendations, 29 October 2021, p. 1.

1.3.1 Background on the interim reliability reserves

The interim reliability reserve is one of several interim measures aimed at preserving reliability in the National Electricity Market (NEM) ahead of the P2025 market design project making more permanent recommendations and these being implemented.

The interim reliability reserve rule⁴ replaced long-term RERT following agreement and approval by energy ministers in August 2020. It is an additional out-of-market capacity reserve that has been established and implemented on a temporary basis, expiring 31 March 2025.

The interim reliability reserves are out-of-market reserves that AEMO can procure and use to avoid load shedding. They aim to help address reliability gaps that may occur between now and the expiry of the rule in 2025 by providing greater flexibility in procuring backup supplies. While they are a form of long notice RERT, interim reliability reserves differ in the following ways:

- The procurement trigger for interim reliability reserves is a forecast breach of the interim reliability measure in the ESOO report or ESOO update. This interim reliability measure was introduced by the Ministers in August 2020 to ensure that maximum expected unserved energy (USE) is no more than 0.0006% in any region in any financial year. This is different from long notice RERT which has the current reliability standard of 0.002% USE as the procurement trigger.
- The interim reliability reserve rules allow AEMO to enter into multi-year contracts with providers of emergency reserves,⁵ involving the payment of availability charges, where long notice RERT only allowed for single-year contracts. As described in Section 2.2.2 interim reliability reserves only allowed the procurement of multi-year contracts under certain circumstances to minimise the risk of over procurement, which would not be in the long-term interests of consumers.

The interim reliability reserves contracts have never been entered into, whether single or multi-year. This is because the procurement trigger has not been met. This is, a breach of the interim reliability measure has not been forecast to occur in the next 12 months in the ESOO (or ESOO update).

The interim reliability reserve rules included a requirement that by 1 July 2023, the Australian Energy Market Commission (AEMC) conduct a review of the⁶:

- procurement of the interim reliability reserve and
- the interim reliability measure.

The AEMC is due to commence its review of the interim reliability reserves later in 2022.

1.3.2 A change to the interim reliability reserves is proposed to address uncertainty about reliability in the short-term

A change to the interim reliability reserves rule is proposed to ensure AEMO can procure adequate volumes of emergency reserves to protect against load shedding, should a reliability gap occur in the interim period, prior to the longer-term resource adequacy reforms being implemented. It seeks to enable AEMO to enter into multi-year contracts of interim relation reserves in the later years of the rule, enabling any contracts to extend beyond the expiry of the rule. The proposed rule change does not remove the checks and balances that minimise the risk of over procurement. Nor does the rule

⁴ National Electricity Amendment (Interim reliability measure) Rule 2020.

⁵ National Electricity Rule (NER) clause 11.128.4.

⁶ NER clause 11.128.12(c).

change seek to extend the existence of the interim reliability measure i.e. it will still expire on 31 March 2025. Further details are set out in Section 2 of this consultation paper.

1.4 ESB is requesting feedback from interested stakeholders

The ESB invites comments from interested parties in response to the Amendments to the Interim Reliability Reserve Consultation Paper by 22 June 2022. Submissions will be published on the [Energy Minister's website](#) following a review for claims of confidentiality. All submissions should be sent to info@esb.org.au.

The ESB is undertaking this Rule change process in accordance with section 90F of the NEL. Details on this rule change process can be found in Appendix B.

Submission close date	22 June 2022
Lodgement details	Email to: info@esb.org.au
Naming of submission document	[Company name] response to Consultation on Draft Interim Reliability Reserve Rules.
Form of submission	Clearly indicate any confidentiality claims by noting “Confidential” in the document name and in the body of the email.
Late submissions	Late submissions will not be accepted.
Publication	Submissions will be published on the Energy Minister's website , following a review for claims of confidentiality.

2 Rationale for amending the interim reliability rule

2.1 The problem is that the rule may limit best utilisation of the interim reliability reserve

The interim reliability reserve rule currently prevents interim reliability reserve contracts from extending beyond the expiry of the interim reliability reserves rule on 31 March 2025.

This means that AEMO can only enter into:

- 3-year interim reliability reserve contracts, if triggered, up until March 2022.
- 2-year contracts of interim reliability reserves, if triggered, up until March 2023.

After that, only single-year contracting will be allowed.

There is a concern that this restriction may unduly limit the procurement options that are available to AEMO if a large reliability gap is forecast in the ESOO that could be most cost-effectively addressed through multi-year interim reliability reserve contracts.

There are also concerns about reliability uncertainty prior to the implementation of longer-term reforms, such as the capacity mechanism. In the increasingly rapid transition to net zero, it is possible that an ESOO update in the short to medium term could forecast a breach of the interim reliability measure, which could be difficult for AEMO to fill without access to multi-year contracting.

2.2 The proposed rule change supports increased flexibility of multi-contracts

The proposed rule change seeks to remove this restriction and improve the flexibility for AEMO to procuring interim reliability reserves over multiple years. This is to ensure AEMO has a range of procurement options available to address any forecast reliability gaps prior to the implementation of more enduring mechanisms.

Multi-year contracting can provide a means for procuring reserves more cost-effectively where upfront fixed costs can be spread over a longer duration. It may also promote a greater market response if multi-contracts are available beyond the 31 March 2025 expiry.

The safeguards outlined below, combined with the requirement to consult with the relevant jurisdictions, will help address the risk of unnecessary amounts of emergency reserves being procured.

2.2.1 Proposed amendment to the rule

The rule change proposes to remove the requirement for the term of a multi-year interim reliability reserve contract to expire before 31 March 2025. Once removed, AEMO will be able to enter into multi-year interim reliability contracts, if triggered, up until the expiry of the rule on 31 March 2025. This means that a multi-year interim reliability contract may potentially be in place until March 2028. The proposed draft rule is attached.

If the proposed amendment commences this year, this will mean that if there is a breach of the interim reliability measure in a region (forecast by AEMO in the ESOO report or ESOO update) later in 2022 up until the rule's expiry in 2025, AEMO will have additional procurement options, which could help to avoid load shedding or help to ensure that the interim reliability reserve contracts are more cost-effective. Multi-year contracting could prove to be an important tool for AEMO in the interim as the more enduring reforms to reliability such as the capacity mechanism are being developed.

2.2.2 Current safeguards will continue to exist

The maximum period AEMO will be allowed to enter a multi-year reserve contract for the interim reliability reserve is three years, and this will only be permitted when there is forecast interim reliability exceedance in at least two of the three years including in the first year.

In addition, where AEMO is considering entering into a multi-year reserve contract, AEMO must have regard to whether it is a more cost-effective option, compared to procuring single year contracts over the same period.

For multi-year contracts, the maximum volume that can be procured by AEMO in any financial year in any region to meet the interim reliability measure shall be:

- on an annual basis, no more than is reasonably necessary to address the largest interim reliability exceedance identified during the period for which the contract would apply, and
- with respect to the contract term, no more than reasonably necessary to secure reliability of supply in the relevant region.⁷

In addition to the safeguards that would remain in place relating to multi-year contracting, the safeguards that apply to interim reliability reserves more generally would also continue to exist if this amendment was made. The current safeguards ensure the interim reliability reserve is only used as a last resort. These out-of-market rules mirror those that currently apply to resources participating in the RERT and specify that AEMO:

- is required to consult on the expected costs for any reserve contracts entered for the interim reliability reserve with the relevant jurisdictions prior to the contracts being entered.⁸
- May only enter reserve contracts for the interim reliability reserve if there is a forecast interim reliability exceedance in the first financial year of the contract and the contract is no longer than three years in length.⁹
- Must not procure a contract for the interim reliability reserve if the exceedance is expected to occur within ten weeks of AEMO's forecast. In this case, AEMO must use medium and short notice RERT in accordance with the existing RERT guidelines.¹⁰
- Must also have regard to the RERT principles, which aim to minimise impacts on customer bills and market distortions. AEMO must also have regard to the potential impact on the interaction with the Retailer Reliability Obligation.¹¹
- Can only procure reserves under the interim reliability reserve for reserves that are out-of-market. Resources that have been scheduled in the last 12 months cannot participate in the interim reliability reserve. In addition, non-scheduled resources in the wholesale energy market, must not offer in resources under the interim reliability reserve, for the same dispatch intervals.¹²

⁷ For a single year reserve, the amount of reserve procured is to be no more than AEMO considers is reasonably necessary to address the interim reliability exceedance in that year for that region.

⁸ NER clause 11.128.4 of clauses 3.20.3 (d).

⁹ NER clause 11.128.4 (f).

¹⁰ NER clause 11.128.4 (f).

¹¹ NER clause 11.128.4 (g).

¹² NER clause 11.128.4 (g).

2.3 Consistency with the National Electricity Objective and Strategic Energy Plan

Under the National Electricity Law, the ESB may recommend rules to the Energy National Cabinet Reform Committee (Energy Ministers) if the following requirements are satisfied:¹³

- the Rules are in connection with energy security and reliability of the NEM or long-term planning for the NEM
- the ESB is satisfied that the Rules are consistent with the national electricity objective, and
- the ESB has undertaken consultation on the Rules in accordance with any requirements determined by the Energy Ministers.

The national electricity objective is “to promote efficient investment in, and efficient operation and use of, electricity services for the longer-term interests of consumers of electricity with respect to

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.”¹⁴

The ESB considers the rule change proposal is in connection with reliability of the NEM and is consistent with the NEO because it:

- **Contributes to reliability:** reliability is both a crucial part of the energy market and an important consideration of the long-term interest of consumers. There is increasing uncertainty about reliability in the context of the transition to net zero, which is seeing the exit of large coal generators. Multi-year contracts of RERT contribute to reliability as they provide important backup supply and an insurance against load shedding as the market continues its transition and as long-term reforms are progressing.
- **Minimises costs:** it is necessary to maintain reliability at a reasonable cost for customers. It is considered that this rule change will achieve this as AEMO will only be able to enter into a multi-year reserve contract when it is a more cost-effective option compared to procuring single year contracts over the same period. In addition, AEMO can only enter reserve contracts if there is a forecast breach of the interim reliability measure in the ESOO and the breach must occur in multiple years that the multi-year contract will cover. Allowing multi-year contracts expands the procurement options available to AEMO if a large reliability gap is forecast in the ESOO in the most practical.
- **Is a proportionate solution:** in addition to balancing reliability and costs, the rule change is also a proportionate solution in the energy transition. It is an amendment that increases the flexibility of the interim reliability reserve prior to more implementation of more enduring reforms. It also does not distort the operation of the market given the Rule continues to be temporary and existing RERT rules apply.¹⁵

¹³ Section 90F of the National Electricity Law.

¹⁴ Section 7 of the National Electricity Law.

¹⁵ AEMO can only enter contracts up until the expiry of the rule on 31 March 2025. In addition, AEMO can only procure reserves under the Interim Reliability Reserve for reserves that are out-of-market. Resources that have been scheduled in the last 12 months cannot participate in the Interim Reliability Reserve. Non-scheduled resources in the wholesale energy market must not offer in resources under the interim reliability reserve, for the same dispatch intervals. These out-of-market rules mirror those that currently apply to resources participating in the RERT.

In addition to the NEO, the ESB is also required to consider the Strategic Energy Plan (the Plan) when reviewing and assessing this rule change. The Plan provides a clear strategic focus for Ministers and clarity of direction to market bodies and market participants. It establishes the ESB's vision for the future of Australia's energy market and outlines five high-level outcomes:

1. Affordability
2. Security
3. Reliability
4. Open and competitive markets
5. Investment in network

The proposed amendment aligns with the Plan's key principles. It seeks to address increasingly uncertain reliability outcomes and maintains safeguards that avoid adverse impacts on affordability and minimise distortions to a competitive market.

As such, the ESB also considers it also meets the objectives of the Plan.

Appendix A Information on how jurisdictional governments can utilise the Jurisdictional Strategic Reserve

Consistent with the ESB P2025 report recommendation for a JSR and the Minister's acceptance of it, the ESB has set out the below information about how jurisdictions can support additional RERT resources, should a jurisdiction be interested in ensuring AEMO has access to additional out-of-market reserves in its region.

The JSR provides a way for jurisdictions to increase the amount of emergency backup supplies, over and above the out-of-market emergency reserves AEMO has been able to procure.

The below information explain how jurisdictions can leverage the existing short notice RERT panel to create a JSR in their region.

1. Overview of the existing short notice RERT panel

The short notice RERT Panel is a crucial tool for AEMO in avoiding load shedding. It provides AEMO with access to out-of-market backup resources which are ready and waiting and can be activated if reliability issues arise within the short notice timeframe.¹⁶ This is defined as between 3 hours to 7 days' notice of a projected reserve shortfall.

AEMO can set up a short notice RERT panel at any time so that resources are ready in case a reliability issue occurs in the short notice timeframe. This is important because under the RERT framework,¹⁷ AEMO can only enter into short notice RERT contracts where there is a forecast Lack of Reserve 2 condition (LOR2)¹⁸ in the short notice timeframe of less than 7 days. To ensure the resources are ready to go in this short timeframe, AEMO establishes a pre-agreed set of terms and conditions with short notice RERT panel resources. When the LOR2 event is forecast within the 7 days, AEMO can then enter into the contracts with these resources more readily as the terms and conditions of their reserve contract have already been negotiated.

Resources on the short notice RERT panel are not paid availability charges (i.e. charges that pay them to be 'available' – there and ready) that would be recoverable from customers. Instead, they are only paid if and when they are "triggered" following a forecast LOR2 within the short notice timeframe. Once activated, short notice RERT panel resources are paid the pre-agreed activation and or usage

¹⁶ The NER requires the Reliability Panel to publish the RERT Guidelines, which enables AEMO to set up a short notice RERT panel.

¹⁷ AEMO may enter into a reserve contract under clause 3.20.3 to ensure the reliability standard is met if it has made a declaration under clause 4.8.4 of a LOR or a low reserve condition. Guidance is provided by the Reliability Standards Implementation Guidelines, made under clause 3.9.3D. Under the interim reliability measure, where the ESOO forecasts that the interim reliability measure will not be met, clause 11.128.4 of the NER allows AEMO to enter long-term contracts for up to three years up until March 2022, two years up until March 2023 and a maximum of one year for the final year the interim rules are in place (31 March 2024).

¹⁸ A Lack of resource 2 (LOR2) is declared when reserve levels are lower than the single largest supply resource in a state. At this level, there is no impact to the power system, but supply could be disrupted if a large incident occurred. Once a forecast LOR 2 is declared, AEMO has the power to direct generators or activate the Reliability & Emergency Reserve Trader (RERT) mechanism to improve the supply-demand balance.

charges. These costs are then recovered from customers via the settlement arrangements specified under the Rules.¹⁹

2. How jurisdictions can establish JSRs through the short notice RERT panel

The JSR approach recommended by the ESB and accepted by Ministers is voluntary, allowing jurisdictions to opt-in and out based on their unique understanding of reliability in their region and views on how to promote reliability to their customers.

1. Short notice RERT panel preparation & JSR resources

If jurisdictions are interested in supporting more resources for AEMO to use at short notice to address reliability issues, they can seek AEMO's advice on:

- the amount of capacity they wish to procure to address the reliability issue, and
- the type of resources the jurisdiction is looking to support and whether that would be suitable for the short notice panel, particularly in terms of lead times, responsiveness, and duration.

AEMO can provide this advice to jurisdictions as part of its existing advisory functions. AEMO is in regular discussions with jurisdictions on a range of matters including ongoing reliability and security issues, and views to inform this could be incorporated.

If after seeking AEMO's advice, jurisdictions are interested in supporting additional backup resources for the short notice panel, they can consider how those resources would be funded.

Any JSR resources, that is, resources that are owned or financially supported by jurisdictions, can then respond to AEMO's annual expressions of interest process for reserve capacity to sit on the short notice RERT panel.

In responding to AEMO's short notice RERT panel expression of interest,²⁰ jurisdictions would need to provide the following information:

- the location of the services and available capacity
- the duration over which the services will be continuously available
- the notice period required before activation or dispatch
- the price at which the service would be available
- confirm that the resource has not been in-market within the past 12 months
- how likely it is that the service would be available if they were advised of a requirement with less than seven days' notice.

2. Short notice RERT panel activation & JSR resources

AEMO can only dispatch RERT reserves, including JSR capacity made available by jurisdictions, when triggered by a declaration (following a forecast or actual LOR2 or LOR3 declaration).²¹ If this trigger occurs, AEMO can enter into the pre-agreed short notice reserve contracts and activate the resources. AEMO must have regard to the RERT principles when exercising RERT (see Section 2.2.2).²² These

¹⁹ NER clause 3.15.9.

²⁰ Reliability Panel, Final RERT guidelines, 21 August 2020, p. 11.

²¹ See NER clause 3.20.3(f) which requires AEMO to have made a declaration under clause 4.8.4 for that region and the Reliability Standard Implementation Guidelines.

²² NER clause 3.20.2(b).

require AEMO to exercise the RERT powers in a way that minimises distortions to current short and long-term market incentives and to address the reliability issue at least cost to end-use consumers. JSR resources may be likely to be part of that mix as they are subsidised by the jurisdictions. This means they are likely to be able to respond for lower activation charges compared to other panel resources.

Resources on the panel are not usually under an obligation to respond to AEMO during a reliability event. They can decide whether it is in their commercial interests to be activated at the time of AEMO's request. As JSR resources are receiving financial support from jurisdictions, they will most likely have an obligation agreement with the jurisdictional government to respond to AEMO's request to activate. This may make JSR resources more "firm" or dependable in comparison to other reserves on the short notice panel.

3. Payment of JSR resources that are part of the short notice RERT resources

Fixed costs to support the availability of JSR resources to respond to reserve shortfalls will be paid for by jurisdictions. How jurisdictions determine to fund this is a matter for them. AEMO would pay the pre-agreed activation and or usage charges, where JSR resources are activated during a reliability event. These activation charges are recovered by AEMO from consumers, as per the settlement arrangements set out in the Rules.²³

This will ensure electricity consumers only pay for targeted interventions by the market operator to address reliability issues that may have otherwise led to load shedding.

3. There are checks and balances in the RERT framework that minimise the risks for consumers of using these resources

The RERT principles set out in the NER specify the matters AEMO must have regard to in exercising the RERT. These are:

- actions taken are to be those which AEMO reasonably expects to have the least distortionary effect on the operation of the market.
- Actions taken should aim to maximise the effectiveness of reserve contracts at the least cost to end-use consumers of electricity.
- The average amount payable by AEMO under reserve contracts for each MWh of reserves for a region should not exceed the estimated average value of customer reliability (VCR) for that region.

These principles, along with detailed reporting requirements, provide important checks and balances for minimising market distortions and increased costs to consumers from use of RERT resources. These RERT principles will also apply to JSR resources that are on the short notice RERT panel; their effect on AEMO's decisions in relation to JSR resources are outlined below.

4. Principle about minimising market distortions

AEMO must have regard to both the impact of its decisions to exercise the RERT on the short-term impact on spot prices and the long-term impact on investment signals. In determining the action it should take, AEMO must consider how it seeks offers and contracts for reserves.

²³ NER clause 3.15.9.

Requiring AEMO to take these matters into account aims to reduce the distortionary impacts of AEMO interventions in the market to respond to a projected shortfall in reserves. It encourages a market response to projected shortfalls in the future which would ideally be a cheaper outcome for consumers.

The distortionary effect of the RERT on market signals is also minimised by other rule requirements on AEMO that require it to ensure:

- reserves do not participate in the RERT if they have been in the wholesale market in the 12 months preceding the execution date for the reserve contract.
- Unscheduled reserves do not participate in both the wholesale market and in the RERT for the trading intervals specified in their contracts.²⁴

The Rules further aim to maximise the transparency of using the RERT by requiring AEMO to report on the total estimated payments it will make under reserve contracts and the volume in MWh of reserves dispatched or activated under those contracts, within five business days of dispatching or activating reserves.²⁵

In the JSR context, these checks and balances will help safeguard market incentives that minimise the distortionary effect of additional reserve generation that may be available to AEMO for use to avoid load shedding.

5. Principle about least cost actions to end-use consumers of electricity

When activating RERT, AEMO needs to consider what is the most optimal combination of resources. This means the least-cost combination that will still avoid load shedding. As AEMO must have regard to this principle, resources with very high activation charges are unlikely to be included in the least-cost combinations. JSR resources, having been subsidised by jurisdictional governments, are likely to be selected to be included in that least-cost combination as the activation charges are likely to be lower than other resources that are not subsidised. The inclusion of JSR resources on the short notice panel could therefore assist in lowering the activation charges that AEMO recovers from NEM consumers.

6. Principle about RERT costs not exceeding the estimated average VCR for that region

To have regard to this principle, AEMO uses the average VCR as estimated by the AER for a particular region as the guide for RERT costs. AEMO has the flexibility to procure over and above the level indicated by the VCR in that region but in doing so it must specify and report on both how it has made the assessment to procure above that capacity and what would have happened if it had not done so. These reporting requirements and others are specified in more detail in the next section.

In relation to JSR resources that are part of the short notice RERT, the assessment of the VCR would only apply to the variable component. Given the JSR resources would be receiving financial support from jurisdictions, the activation charges are more likely to be lower than the VCR.

²⁴ NER clauses 3.20.2(g)-(i).

²⁵ NER clause 3.20.6(a).

7. Reporting requirements on AEMO to maintain market transparency when exercising the RERT (including any JSR resources that form part of the RERT)

The Rules place reporting requirements on AEMO in relation to the RERT.²⁶ These requirements will also cover any JSR resources that are activated but would be limited to reporting on the costs borne by AEMO and not the fixed costs borne by the jurisdiction.

Where AEMO entered into contracts with JSR resources in the short notice timeframe, AEMO would need to report on:²⁷

- the basis on which AEMO had regard to the RERT principle regarding the estimated average VCR when entering into reserve contracts, and
- if the average amount paid exceeded the VCR in that region – why that occurred.

²⁶ NER clause 3.20.6.

²⁷ NER clause 3.20.6(d)(5).

Appendix B Feedback process

1. Legislative basis

The ESB is progressing this Rule change process in accordance with section 90F of the NEL. The ESB may recommend rules to the Energy Ministers if the following requirements are satisfied:

- the Rules are in connection with energy security and reliability of the NEM or long-term planning for the NEM
- the Rules are consistent with the national electricity objective, and
- there has been consultation on the Rules in accordance with any requirements determined by the Energy Ministers.

Any final Rules will be made by the South Australian Minister for Energy on the recommendation of the Energy Ministers.

2. ESB rule change process

1. The process outlined below relates to rule recommendations initiated by the Energy Ministers or within the ESB. Proponents of rule change requests are asked to submit their rule change proposal to the AEMC who is required to consider all rule changes proposed to it, subject to limited exceptions, under the national energy laws.
2. The ESB must notify the Energy Ministers that it intends to commence public consultation on a proposal to make a rule recommendation under the NEL which may include a forward notice of extended time for making the rule recommendation.
3. Within [10] business days following the date of the notification, the ESB must release a consultation paper that:
 - includes a draft of the proposed rule/s
 - describes the issues that the rule is intended to address and the rationale for the proposed solution
 - explains how the proposed rule is consistent with the NEO/NERO/NGO and with one or more of the high-level outcomes set out in the Strategic Energy plan
 - includes information on any other options considered, but not included for consultation together with an explanation of why there were not included
 - invites stakeholders to make written submissions on the proposal within the public consultation period.
4. The public consultation period should be for a minimum of four weeks from the date of release of the consultation paper.
5. The ESB may, but is not required to, undertake informal consultation during the consultation period, including stakeholder forums and meetings.
6. Following the close of the public consultation period the ESB must, in accordance with its terms of reference, vote on whether to make a rule recommendation to the Energy Ministers and on the form and contents of that recommendation.
7. Within [4] weeks following the close of the public consultation period, the ESB must:
 - make a rule recommendation to the Energy Ministers; or
 - notify the Energy Ministers that the ESB will not be making a rule recommendation in respect of the proposal; or
 - notify the Energy Ministers that it is extending the time for making a rule recommendation due to the complexity or extent of issues raised in submissions or a material change in circumstances. The extension of time must be no longer than [4] weeks unless the Chair of the Senior Committee of Officials otherwise agrees.

8. If the ESB makes a rule recommendation, the recommendation decision paper must include:
 - the final rule
 - details of the consultation conducted
 - an explanation of the issues that the rule is intended to address and the rationale for the proposed solution
 - information on the ESB's consideration of the costs and benefits associated with the proposed rule
 - a summary of submissions made and how those submissions have been taken into account in the final rule and supporting policy position
 - a description of how the proposed rule is consistent with the NEO/NERO/NGO and with one or more of the high-level outcomes set out in the Strategic Energy Plan
 - whether the ESB's decision to make the recommendation was unanimous
 - whether any member of the ESB was unable to participate in the decision due to a conflict of duty or interest
 - if the ESB's decision to make the recommendation was not unanimous then a brief statement of the member's reasons for not agreeing to the recommendation.
9. If the ESB decides to notify the Energy Ministers that it is not making a rule change recommendation in respect of a proposal that notice must include the ESB's reasons for that decision.

As soon as practicable after notifying the Energy Ministers under step 7 above, and with the agreement of the Chair of the Senior Committee of Officials, the ESB must publish the documents provided to the Energy Ministers on its website.

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