



COAG
Energy Council

ENERGY SECURITY BOARD
National Energy Guarantee
TECHNICAL WORKING PAPER

Procurer of Last Resort

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Executive Summary

- The Procurer of Last Resort is the 'safety net' for the reliability mechanism by enabling AEMO to use the Reliability and Emergency Reserve Trader (RERT) mechanism to ensure that adequate resources are available to meet demand when there is an expected shortfall.
- The AEMC is currently considering two rule change requests from AEMO. The rules governing the RERT framework will provide the mechanism for the procurement of reserves. Consultation on the RERT framework will occur through the existing AEMC rule change request on enhancements to the RERT, taking into account the requirements of the Guarantee.

1 Introduction

On 20 April 2018, the Energy Security Board (ESB) presented the COAG Energy Council with a high-level design proposal for the National Energy Guarantee (the Guarantee). The COAG Energy Council agreed that the ESB progress the detailed design of the Guarantee for determination by the Council at its August 2018 meeting.

As part of the development process, the ESB convened Technical Working Groups to advise on certain detailed design elements of the Guarantee. The Technical Working Groups were comprised of a broad range of stakeholders with relevant expertise from more than 30 organisations.

The purpose of this paper is to outline the role of the Procurer of Last Resort function under the Guarantee focussing on the interactions with the existing and proposed Reliability and Emergency Reserve Trader (RERT) arrangements.

These detailed design issues were considered by the Contracts Technical Working Group.

They are critical to the effective operation of the reliability requirement for several reasons:

- While enhanced forecasting processes and contracting obligations on retailers and other liable entities are designed to ensure a market response to any forecast reliability gap, the Procurer of Last Resort acts as a final ‘safety net’ to ensure the Reliability Standard is met.
- Exercise of the Procurer of Last Resort function effectively transfers the procurement role for addressing the remaining reliability gap from market participants to AEMO.

This paper provides additional detail and context to the [Draft Detailed Design Consultation Paper](#). Interested parties are encouraged to lodge a submission to the consultation by **13 July 2018** for consideration by the ESB prior to the publication of the final design of the Guarantee.

2 Overview of High-Level Design

The Procurer of Last Resort is the 'safety net' mechanism in the event that the market fails to deliver adequate resources to meet the reliability standard.

The ESB agreed it would operate as follows:

- If a material gap in reserves persists **three years** out from the period in which it was forecast in AEMO's Electricity Statement of Opportunities (ESOO) and is confirmed by the independent entity responsible for reviewing its assessment, the reliability obligation would be triggered. Liable entities may then be expected to demonstrate future compliance with the requirement by securing sufficient qualifying contracts to cover their share of system peak demand.
- If the market response is insufficient and a material gap persists **one year out**, AEMO would procure the necessary resources through its **Procurer of Last Resort** function. Resources procured through the Procurer of Last Resort would be held out-of-market, consistent with the RERT.
- **Cost recovery** of resources procured through the Procurer of Last Resort would be contingent upon the actual peak demand that eventuates and the degree to which liable parties (retailers and large users) have complied with their obligations.

As a further safety net, if, at any time, AEMO and/or a relevant state government considered that circumstances in a particular jurisdiction require action to ensure the ongoing reliability of the electricity system, then either AEMO and/or the relevant state government could make an urgent rule change request to the AEMC that would be processed via an expedited six-week process. If accepted, the rule change could enable AEMO to commence its Procurer of Last Resort function earlier than one year before the forecast reliability gap given the extenuating circumstances in that jurisdiction at that time.

3 Interaction between the Procurer of Last Resort and the RERT

The Procurer of Last Resort provides a 'safety net' mechanism. If the market has not responded sufficiently to the triggering of the obligation at T-3 years and there remains a reliability gap at T-1, the reliability obligation will be triggered and liable entities will be required to demonstrate compliance through qualifying contracts. At this point in time AEMO will be able to access the RERT framework to procure the required resources to address the reliability gap.

Currently, AEMO is only able to procure resources up to 10 weeks ahead of a forecast reliability gap. It has put forward a rule change request to extend the window for procurement of these resources to nine months (a reinstatement of the 'long notice' RERT which was in place until November 2017), along with a rule change for an 'enhanced RERT' or 'strategic reserve' which proposes a number of enhancements to the RERT such as standardisation of RERT contracts.

Hence, the implementation of the Procurer of Last Resort safety net will require that the rule change processes take into account the design requirement for long notice RERT to be available to AEMO at T-1.

The high-level design considered that the cost of the Procurer of Last Resort would be recovered from liable entities according to the degree of non-compliance unless the safe harbour provisions were in force.

This approach to cost recovery would create a difference with the cost recovery approach for the existing short-term RERT. There is also a timing issue for determining non-compliance under the obligation given that it requires the 20 week metering revisions to flow through and sufficient time for the AER to assess this against the liable entity's contract position at T-1.

The Compliance and Penalties TWG paper has proposed that a liable entity found to be non-compliant would be charged a predetermined proportionate cost per MW of non-compliance to contribute to the cost incurred by consumers as a result of the Procurer of Last Resort costs.

Preferred approach

- The Procurer of Last Resort function is implemented through AEMO being able to access the RERT framework at time T-1.
- The cost recovery process for Procurer of Last Resort is intended to be aligned with RERT cost recovery and the cost of non-compliance is treated separately. The cost of non-compliance will be based on a non-compliant liable entity being charged a predetermined proportionate cost – based on its MW contribution to the shortfall multiplied by a contribution cost per MW.

A Abbreviations and defined terms

AEMC or Commission	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
COAG	Council of Australian Governments
ESOO	Electricity Statement of Opportunities
ESB	Energy Security Board
Guarantee	National Energy Guarantee
MW	Megawatt
RERT	Reliability and Emergency Reserve Trader

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