PROCEDURE FOR THE EXERCISE OF RELIABILITY AND EMERGENCY RESERVE TRADER

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<th>Version</th>
<th>Effective date</th>
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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.

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

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<th>Reference</th>
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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. 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 the 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.

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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 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 Standard, 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.
- 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.

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

4 See section 8.1 of the RERT guidelines.
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.

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:

- 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;

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6 See section 5 of this procedure.
7 See section 7.1 of the RERT guidelines.
PROCEDURE FOR THE EXERCISE OF RELIABILITY AND EMERGENCY RESERVE TRADER

- 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.

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\(^8\) 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, 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,

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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.