

17 December 2018

Mr John Pierce  
Chair  
Australian Energy Market Commission

10 Eagle Street  
Brisbane QLD 4122  
T 07 3347 3100

By electronic submission

Dear Mr Pierce

### **Requests for Rules – Market Intervention Pricing and Compensation**

AEMO submits the four attached proposals requesting the AEMC to make Rules under section 91 of the National Electricity Rules, relating to market intervention pricing and compensation. The rules relate to:

- Threshold for participant compensation following market intervention
- Alignment of intervention compensation and settlements timetables
- Regional reference node test following activation of the reliability and emergency reserve trader
- Deadline for additional compensation claims following market intervention

AEMO requests the AEMC consider making these Rules as proposed.

Any queries concerning these changes should be direction to Brian Nelson on 02 9239 9132 or [brian.nelson@aemo.com.au](mailto:brian.nelson@aemo.com.au).

Yours sincerely



Peter Geers  
**Executive Group Manager Markets**

Attachments:

1. Amended intervention compensation threshold
2. Alignment of compensation and settlement timetables
3. RRN test for RERT
4. Deadlines for compensation claims

# ELECTRICITY RULE CHANGE PROPOSAL

DEADLINES FOR ADDITIONAL COMPENSATION CLAIMS  
FOLLOWING MARKET INTERVENTION

**November 2018**





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## 1. SUMMARY

AEMO requests the AEMC to consider a proposal to alter deadline for additional compensation claims by Affected Participants and Market Customers following a market intervention, and to apply the same deadline to claims by Directed Participants.

The frequency of interventions has increased in the last two years, with directions lasting on average 3 days and up to 22 consecutive days for one direction in April 2018. This has led to the identification of anomalies and inefficiencies in the compensation process that AEMO considers should be addressed. This rule change request relates to deadlines for compensation claims that AEMO has developed in consultation with stakeholders.

Once AEMO initially notifies an Affected Participant or Market Customer of the compensation that has been determined following a market intervention<sup>1</sup>, the NER provide seven business days for the relevant participant to lodge a claim for additional compensation. Directions have been more complex in the last two years, involving multiple, overlapping and extended interventions, and this may be insufficient time for the participant to calculate the merits of claiming additional compensation.

Conversely, the NER do not set a deadline for additional compensation claims by Directed Participants, leaving this to be specified by AEMO in the intervention settlement timetable. AEMO must finalise all compensation and associated recovery calculations relating to a single intervention event or series of related events within the same overall timeframe.

To address these issues, AEMO proposes a consistent deadline of 15 business days from the time of notification for all additional compensation claims to be submitted to AEMO. AEMO considers this would improve the operation of the market by unifying the compensation deadlines that apply for claims relating to the same set of circumstances and providing a realistic and certain timeframe for submission.

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<sup>1</sup> This occurs when the final statement under clause 3.15.15 for the billing week at the start of the AEMO intervention event is issued.



## 2. STATEMENT OF ISSUE

### 2.1 Background

#### 2.1.1 Current framework

AEMO intervention events occur when AEMO issues a direction (in respect of scheduled plant or a market generating unit) or exercises the Reliability and Emergency Reserve Trader (RERT).

The Final Report of the Reliability Frameworks Review described two objectives of the intervention compensation framework: ensuring that participants are not out of pocket as a result of an intervention and minimising market distortions.<sup>2</sup>

Where an AEMO intervention event occurs:

- AEMO must set the dispatch price and ancillary service prices for an intervention price dispatch interval at the value which AEMO, in its reasonable opinion, considers would have applied had the intervention not occurred;<sup>3</sup>
- A Directed Participant, or a Market Customer in respect of scheduled load, is entitled to formula-based compensation,<sup>4</sup> and a Directed Participant may claim additional compensation if that amount was insufficient to cover its direct net costs and lost revenue;<sup>5</sup> and
- An Affected Participant is entitled to receive from, or required to pay to, AEMO an amount that puts it in the position that it would have been in had the intervention not occurred, and may submit a claim for additional compensation if it considers that its entitlement or liability should be redetermined.<sup>6</sup>

Once AEMO initially notifies an Affected Participant or Market Customer of the compensation that has been determined following a market intervention, the NER provide seven business days for the relevant participant to lodge a claim if it considers that its entitlement should be redetermined, specifying the amount of the difference claimed.<sup>7</sup>

Although Directed Participants are also permitted to make additional compensation claims,<sup>8</sup> the NER do not specify the deadline for submitting claims in that case, leaving this to be set by AEMO in the intervention settlement timetable. To date, AEMO has set a seven-day limit for Directed Participant claims, for consistency with the deadline in clause 3.12.2(f). The NER require the intervention settlement timetable to provide for all compensation and associated recovery calculations relating to a single intervention event or series of related events to be finalised within the same overall timeframe. The proposed rule would codify what AEMO would do in practice.

#### 2.1.2 Changing nature of interventions

In the last two years, the number of directions has increased from less than ten in 2016, to 29 in 2017 and nearly 163 so far in 2018 (as at 7 December). Figures 1 and 2 below show the growth in the number and duration of interventions.

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<sup>2</sup> See page 104 of the Final Report, available at <https://www.aemc.gov.au/markets-reviews-advice/reliability-frameworks-review>.

<sup>3</sup> Clause 3.9.3(b) of the NER.

<sup>4</sup> Clauses 3.15.7 and 3.15.7A of the NER.

<sup>5</sup> Clause 3.15.7B of the NER.

<sup>6</sup> Clause 3.12.2(f) of the NER.

<sup>7</sup> Clauses 3.12.2(b), 3.12.2(i) and 3.15.7B(a4) of the NER.

<sup>8</sup> Clause 3.15.7B(a) of the NER.



Figure 1: Number of interventions and causes by calendar year

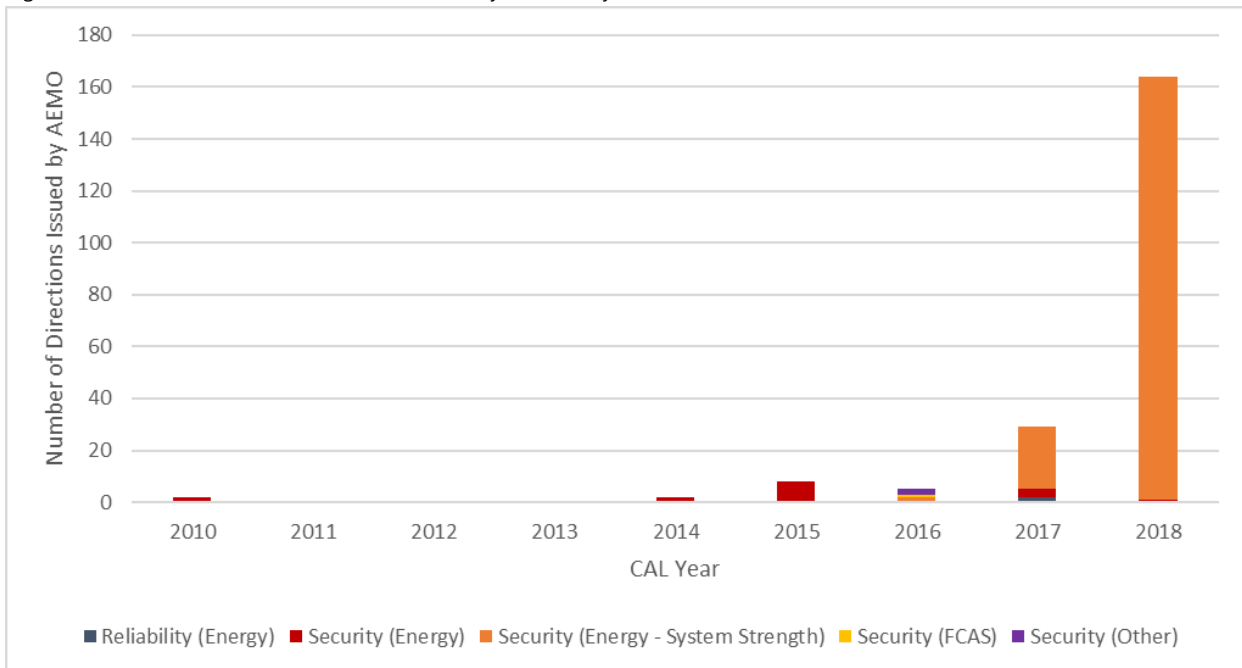
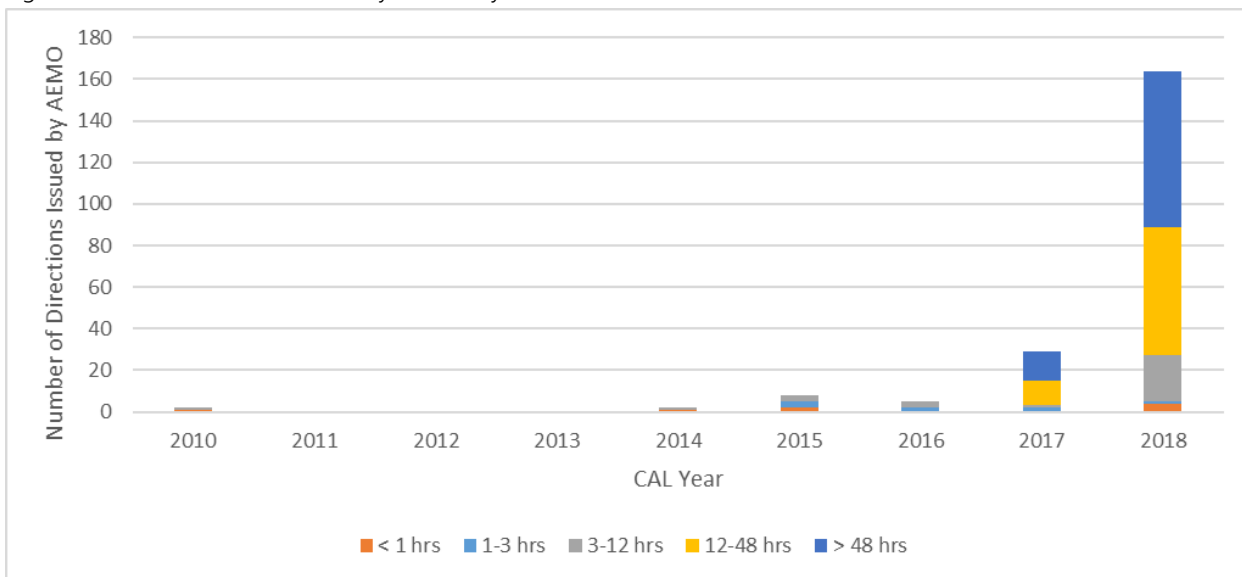


Figure 2: Duration of interventions by calendar year



### 2.1.3 Intervention Pricing Working Group

As was explained in the Final Report of the AEMC’s Reliability Frameworks Review,<sup>9</sup> the increased frequency and duration of interventions have led to the identification of several anomalies and inefficiencies in the intervention pricing and compensation processes that AEMO considers should be addressed. In June 2017, AEMO engaged consultants (SW Advisory and Endgame Economics) to undertake a comprehensive review of the intervention pricing and compensation process. The consultants’ final report<sup>10</sup> (produced in October

<sup>9</sup> See section 6.10 of the Final Report, available at <https://www.aemc.gov.au/markets-reviews-advice/reliability-frameworks-review>.

<sup>10</sup> The consultant report ('Intervention Pricing Final Report') is included in the IPWG Meeting 1 – Meeting Pack, available at <https://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Other-meetings/Intervention-Pricing-Working-Group>.



2017) outlined recommendations for improvements to the compensation process as well as alternative methodologies for intervention pricing.

To seek industry feedback on the recommended alternative approaches for the Intervention Pricing Methodology<sup>11</sup>, AEMO established the Intervention Pricing Working Group (IPWG).<sup>12</sup> The IPWG was open to all interested parties in the energy industry and consisted of representatives from 14 organisations, including thermal and renewable generators, settlement residue unit holders and the AEMC. It met on five occasions between November 2017 and May 2018.

In addition to agreeing on changes to the Intervention Pricing Methodology,<sup>13</sup> the IPWG also agreed that various rule changes should be proposed to amend elements of the intervention pricing and compensation mechanisms. This rule change request is one of a number of requests (being submitted together) relating to intervention pricing and compensation that AEMO has developed in consultation with stakeholders.

## 2.2 Nature and scope of issue(s) to be addressed

Given the increasing complexity of extended directions, AEMO considers that seven days may be insufficient time for a participant to calculate the merits of claiming additional compensation or may lead to administrative inefficiency for each participant to maintain the capability to respond in this short timeframe.

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<sup>11</sup> The Intervention Pricing Methodology is developed in accordance with clause 3.9.3(e) of the NER and the Rules consultation procedure.

<sup>12</sup> IPWG meeting papers and minutes are available at <https://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Other-meetings/Intervention-Pricing-Working-Group>.

<sup>13</sup> Consultation on the agreed changes to the Intervention Pricing Methodology was recently completed. Details of this consultation process are available at <http://aemo.com.au/Stakeholder-Consultation/Consultations/Intervention-Pricing-Methodology-Consultation?Convenor=AEMO%20NEM>.



## 3. PROPOSED RULE

### 3.1 Description of the proposed Rule

AEMO proposes that clause 3.12.2(f) of the NER be amended by replacing “7 business days” with “15 business days”, and that clause 3.15.7B(a) be amended to insert a 15 business day limit for claims for additional compensation by Directed Participants.

The proposed draft rule also corrects a cross-referencing error in clause 3.15.7B(a)(2) and removes redundant drafting in clause 3.12.2(f).

### 3.2 How the proposal will address the issues

The proposed Rule would provide participants with more time to assess the impact of intervention events before deciding whether to lodge a claim for additional compensation. This can reduce the administrative overhead for participants to maintain the capability to respond in short timeframes to events that may have high impact on financial returns.

The proposed Rule would reduce the time for AEMO to assess a claim and determine final compensation to approximately 13 weeks. AEMO considers that this time is sufficient to assess claims and determine final compensation amounts.

### 3.3 Stakeholder engagement

This proposed extension to the deadline for additional compensation claims was proposed by IPWG members and unanimously agreed at Meeting 4 (held on 22 March 2018).<sup>14</sup>

The final recommendations of the IPWG, including the recommendation to submit this rule change request, were also presented to Meeting 32 of AEMO’s National Electricity Market Wholesale Consultative Forum.<sup>15</sup>

### 3.4 AEMO procedure changes

This proposed change to the deadline for additional compensation claims would require minor updates to the formulation of AEMO’s intervention settlement timetables, which are published individually for each AEMO intervention event (or series of related interventions). No other changes are envisaged to AEMO’s procedures and guidelines that are established and maintained under the NER.

### 3.5 Transitional matters

AEMO could apply this proposed Rule immediately following approval, so does not consider any transitional provisions are required.

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<sup>14</sup> See page 12 of the minutes from Meeting 4 of the IPWG. These are in the meeting pack for Meeting 5 of the IPWG, which is available at <https://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Other-meetings/Intervention-Pricing-Working-Group>. See also page 3 of the document “4.1 IPWG Rule Change Proposals – Meeting 5.pdf” in the meeting pack for Meeting 5.

<sup>15</sup> The meeting pack and draft minutes for Meeting 32 are available at <https://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Wholesale-meetings/NEM-Wholesale-Consultative-Forum>.





## 4. HOW THE PROPOSED RULE CONTRIBUTES TO THE NATIONAL ELECTRICITY OBJECTIVE

As explained in earlier sections, the proposed Rule has the potential to reduce administrative costs, which are ultimately borne by end customers. This promotes the National Electricity Objective by maintaining the efficient operation of electricity services for the long term interests of consumers with respect to price of supply.



## 5. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE

The proposed Rule increases certainty of the process for intervention compensation claims and has the potential to reduce ongoing administrative costs for market participants.

There should be no costs to market participants to implement the proposed Rule if it is adopted. AEMO will only face nominal implementation costs to adjust the intervention settlement timetable.

## 6. DRAFT RULE

This draft is based on version 113 of the National Electricity Rules, therefore does not incorporate the *National Electricity Amendment (Participant compensation following market suspension) Rule 2018*.

### 3.12.2 Affected Participants and Market Customers entitlements to compensation in relation to AEMO intervention

...

- (f) Subject to paragraphs (h) and (i), within ~~15~~ 7 *business days* of receipt of the notice referred to in paragraph (c) an *Affected Participant* or *Market Customer* may make a written submission to *AEMO* in accordance with paragraph (g) claiming that the amount set out in the notice is greater than, ~~or~~ or less than, ~~or equal to~~ its entitlement pursuant to paragraph (a)(1) as an *Affected Participant* or paragraph (a)(2) as a *Market Customer*, as the case may be.

...

### 3.15.7B Claim for additional compensation by Directed Participants

- (a) Subject to clauses 3.15.7B(a1) and 3.15.7B(a4), a *Directed Participant* entitled to compensation pursuant to clause 3.15.7 or clause 3.15.7A may, within 15 business days of receipt of the advice referred to in clause 3.15.7(e) or 3.15.7A(f) ~~in accordance with the intervention settlement timetable~~, make a written submission to *AEMO* claiming an amount equal to the sum of:

...

- (2) the amount notified to that *Directed Participant* pursuant to clause 3.15.7 ~~(e)~~ (e) or 3.15.7A(f); less

...