



Application of the Regional Reference Node Test to the RERT

Draft determination

The Australian Energy Market Commission has today made a more preferable draft rule to amend a provision of the national electricity rules (NER) which determines whether AEMO should implement "intervention pricing" when it intervenes in the market by issuing a direction. The more preferable draft rule will extend the application of this provision, known as the regional reference node (RRN) test, to the reliability and emergency reserve trader (RERT) and clarifies the circumstances in which intervention pricing should and should not apply.

Background

The interventions framework in the NER provides AEMO with the tools to intervene in the market for reliability purposes (e.g. in the event of a breach of the reliability standard) or for power system security purposes (e.g. to maintain system strength or voltage). The interventions framework - the system's "safety net" - includes the RERT, directions and instructions. The interventions framework has always been available to AEMO as a last resort to keep the lights on.

When AEMO intervenes in the market, it is required to compensate both market participants who were directed and those affected by the direction. AEMO also implements intervention pricing, a practice designed to minimise market distortion by preserving the price signals the market would have seen but for the intervention. The increased use of directions and intervention pricing in South Australia to maintain adequate system strength has important implications for wholesale electricity prices, both in South Australia and across the NEM. It affects market signals to investors and the energy and compensation costs faced by consumers.

Low system strength has emerged as an issue in South Australia as the generation mix in that region shifts from one dominated by synchronous generators to one with a growing proportion of asynchronous renewable generation and this has implications for power system security.

Intervention pricing determines the price at which the market clears during an AEMO intervention event. Before AEMO implements intervention pricing in connection with a direction, it must form a reasonable opinion as to whether the (RRN test is met. The RRN test asks if directing a plant at the RRN would have avoided the need for the direction actually issued. If the answer is no, AEMO does not apply intervention pricing. In other words, there is no case to preserve scarcity price signals where a direction is issued to resolve a localised issue in an area of the network that is remote from the RRN.

Currently, intervention pricing is applied whenever the RERT is activated, regardless of whether there is value in a scarcity price signal at the RRN. Also, the wording of the current RRN is unclear and has proved difficult to apply in practice. AEMO's rule change request seeks to extend the reach of the test to encompass the RERT and to amend the test to improve clarity.

Overview of draft determination

The Commission's draft rule determination is to make a more preferable rule which extends the application of the RRN test to the RERT and changes the wording of the test

to clarify the circumstances in which intervention pricing is to apply. In particular, the draft rule:

- clarifies that intervention pricing should apply where an intervention responds to a region wide scarcity of a market traded commodity.
- clarifies the circumstances in which a localised deficiency of a market traded commodity should trigger intervention pricing.
- clarifies that intervention pricing should not apply in circumstances where the reason for the intervention is to obtain a service that is not traded in the market.
- clarifies the approach to be adopted when multiple intervention events coincide.

In order to reduce market distortion and costs to consumers associated with intervention pricing, the Commission has made a draft determination to remove the application of intervention pricing where an intervention is intended to address a shortfall of a service that is not traded in the market (system strength, inertia, etc). This is because, in such cases, there is no relevant market price signal to preserve and applying intervention pricing can increase rather than reduce market distortion.

The Commission considers that the test for when intervention pricing should apply must consider the nature of the service that is being obtained by the intervention, not just whether the issue being addressed is region-wide or localised. For example, the recent directions in South Australia have been issued by AEMO for the purposes of obtaining system strength. However, the application of intervention pricing in these instances has the effect of maintaining a scarcity signal for energy. This may encourage new entrants to invest in additional capacity, regardless of whether those investments support or undermine system strength.

The Commission has also clarified the test to make clear the circumstances in which a localised deficiency of a market traded commodity will and will not trigger intervention pricing. In accordance with the revised wording of the test, intervention pricing will apply where a localised deficiency occurs in a part of the region that contains the RRN but will not apply if the localised deficiency occurs in a part of the region which, due to a network or other constraint, does not include the RRN.

The more preferable draft rule also extends the reach of the test to encompass the RERT as well as directions. This would have the effect of limiting the use of intervention pricing, consistent with the current use of the test in respect of directions.

The AEMC invites submissions on the draft rule determination, including a more preferable draft rule, by 26 September 2019.

Related work

This rule change is part of a package of requests related to the interventions and compensation frameworks that are triggered when AEMO intervenes in the market. The AEMC has made draft determinations with respect to this rule change request and the *Threshold for participant compensation following market intervention* rule change request. These draft determinations accompany the AEMC's final report on its *Investigation into intervention mechanisms in the NEM*. The final report includes a number of recommendations on changes to the interventions and compensation framework.

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15 August 2019