

19 September 2019

Mr John Pierce
Chairman
Australian Energy Market Commission
By electronic rule change lodgement

10 Eagle Street
Brisbane QLD 4122
T 07 3347 3100

Dear Mr Pierce

Requests for Four (4) Rule Changes Related to Market Intervention Pricing and Compensation

AEMO submits the four (4) attached rule change proposals requesting the AEMC to make Rules under section 91 of the National Electricity Law. The rules relate to:

- Affected Participant compensation for scheduled loads;
- Additional compensation for FCAS revenue losses;
- RERT cost recover for Affected Participants; and
- Removal of additional compensation for other services directions.

AEMO requests the AEMC consider making these Rules as proposed. Any queries concerning these changes should be directed to Kevin Ly, Group Manager - Regulation on Kevin.Ly@aemo.com.au.

Yours sincerely



Peter Geers
Executive Group Manager, Strategy and Markets

cc: Attachments-

1. Affected Participant compensation for scheduled loads
2. Additional compensation for FCAS revenue losses
3. RERT cost recover for Affected Participants
4. Removal of additional compensation for other services directions

AFFECTED PARTICIPANT COMPENSATION FOR SCHEDULED LOADS

1. RELEVANT BACKGROUND

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 RERT.

The Final Report of the Reliability Frameworks Review described two objectives of the intervention pricing and compensation framework: ensuring that participants are not out of pocket as a result of an intervention and minimising market distortions.¹

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;²
- A Directed Participant, or a Market Customer in respect of scheduled load, is entitled to formula-based compensation,³ and may claim additional compensation if that amount was insufficient to cover its direct net costs and lost revenue;⁴ and
- An Affected Participant (including Eligible Persons) 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.⁵

During 2017, AEMO convened the Intervention Pricing Working Group to discuss ways of improving the intervention pricing methodology. It was identified that clause 3.12.2(a)(2) of the NER currently does not meet the objective of ensuring that scheduled loads as Market Customers are not out of pocket as a result of intervention due to the formula in the NER for calculation of Affected Participant compensation.

1.2 Nature and scope of issue to be addressed

Currently, there is relatively little scheduled load in the NEM at present, but this is likely to change as batteries and pumped hydro becomes more prevalent in the future as shown in figure 1:

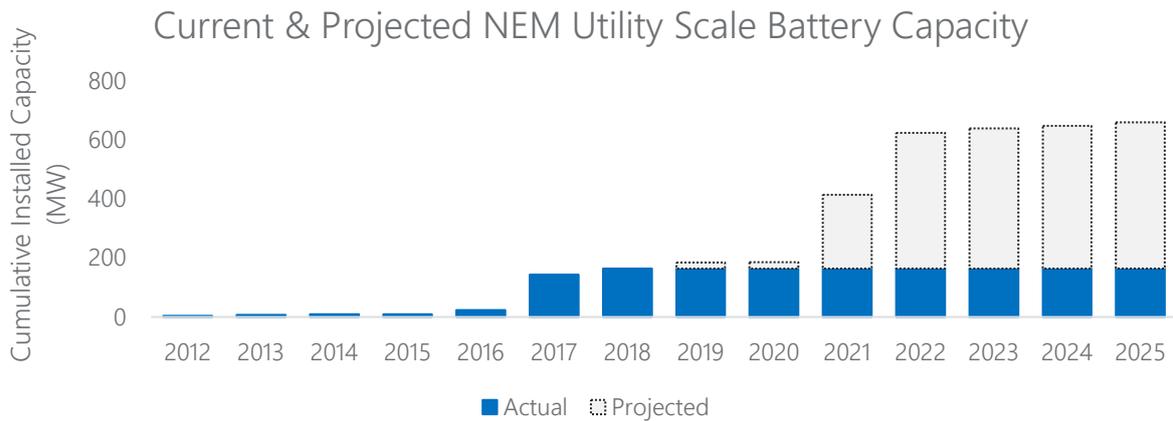
¹ See page 104 of the Final Report, available at <https://www.aemc.gov.au/markets-reviews-advice/reliability-frameworks-review>.

² Clause 3.9.3(b) of the NER.

³ Clauses 3.15.7 and 3.15.7A of the NER.

⁴ Clause 3.15.7B of the NER.

⁵ Clause 3.12.2(f) of the NER.



Source: BNEF Bloomberg New Energy Outlook 2018

Figure 1: Current and Projected NEM Utility Scale Battery Capacity

Already to date, AEMO has seen an increase in the amount of Affected Participant compensation (see Figure 2) as a result of the increase in directions required in the NEM, especially in South Australia, where there is utility scale battery load.

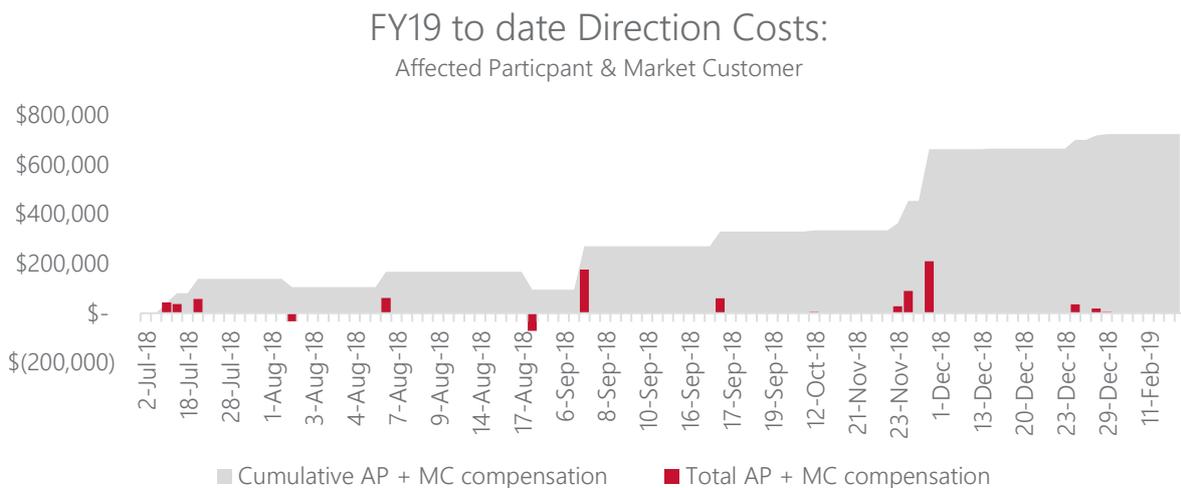


Figure 2: Financial Year 2019 Directions Costs

The future quantum of directions are uncertain and dependent on many factors outside of AEMO’s control. However, affected participants should be appropriately compensated when there is a scheduled load direction.

2. STATEMENT OF ISSUE

2.1 Current Rules

Based on Version 121 of the National Electricity Rules, Affected Participant compensation relating to the bid price for market customers is as follows:

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

(a) In respect of each intervention price trading interval:

(1) ---

(2) a Market Customer, other than a Market Customer which was the subject of any direction that constituted the AEMO intervention event, is entitled, in respect of one or more of its scheduled loads, to receive an amount calculated by applying the following formula:

DC = $((RRP \times LF) - BidP) \times QD$ where:

DC (in dollars) is the amount the Market Customer is entitled to receive in respect of that scheduled load for the relevant intervention price trading interval;

RRP (in dollars per MWh) is the regional reference price in the relevant intervention price trading interval determined in accordance with clause 3.9.3;

LF where the scheduled load's connection point is a transmission connection point, is the relevant intra-regional loss factor at that connection point or where the scheduled load's connection point is a distribution network connection point, is the product of the distribution loss factor at that connection point multiplied by the relevant intra-regional loss factor at the transmission connection point to which it is assigned;

BidP (in dollars per MWh) is the price of the highest priced price band specified in a dispatch bid for the scheduled load in the relevant intervention price trading interval;

QD (in MWh) is the difference between the amount of electricity consumed by the scheduled load during the relevant intervention price trading interval determined from the metering data and the amount of electricity which AEMO reasonably determines would have been consumed by the scheduled load if the AEMO intervention event had not occurred, provided that if **DC** is negative for the relevant intervention price trading interval, then the adjustment that the Market Customer is entitled to claim in respect of that scheduled load for that intervention price trading interval is zero.

2.2 Issues with the current Rule

This Rule requires AEMO to calculate Affected Participant compensation for scheduled loads based on the Market Customer's highest priced price band.

This Rule appears to not achieve the outcome of the intent in which it was originally written, leading to potential under-compensation of a Market Customer, should the intervention price (**RRP**) be lower than or equal to their highest priced price band (**BidP**).

AEMO has not observed instances of compensation for scheduled loads being affected by this rule. This may be due to clause 3.12.2(a)(2) that requires Market Customers are entitled to receive compensation but are not required to pay any amounts to AEMO.

3. HOW THE PROPOSAL WILL ADDRESS THE ISSUES

The potential to under-compensate a participant following an intervention will be largely eliminated by applying the change in the definition of the term **BidP** from the value of the highest priced band specified in a dispatch bid for the scheduled load, to the value the highest priced band the scheduled load is dispatched from.

AEMO acknowledges that the proposed changes may increase the quantity of compensation payable by market customers and ultimately by consumers. However, AEMO considers that efficient incentives for market participants to support the reliability and security of the power system are in the long-term

interests of consumers. Further, AEMO considers that the proposed changes strike a fair balance between the interests of market participants and consumers.

This proposed Rule will not increase AEMO's administrative costs. The work involved in calculating compensation is independent of both the threshold and the period to which the threshold applies.

4. PROPOSED RULE

4.1 Description of the proposed Rule

The rule change would amend clause 3.12.2(a)(2) of the NER; specifically, changing the term of **BidP** in the formula for calculating Affected Participant compensation for a schedule load (Market customer), from *the price of the highest priced price band specified in a dispatch bid* to *the highest priced band the scheduled load is dispatched from*. The change will avoid the described issue (see section 3.2).

4.2 Transitional Matters

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

5. HOW THE PROPOSED RULE CONTRIBUTES TO THE NATIONAL ELECTRICITY OBJECTIVE (NEO)

AEMO considers that the proposed changes strike a fair balance between the interests of market participants and consumers in respect of the cost of electricity.

These outcomes directly promote the National Electricity Objective by maintaining the efficient operation of electricity services for the long-term interests of consumers with respect to price and security of supply.

6. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE

The proposed Rule would deliver the following benefits:

- increased certainty for participants that they will be fairly compensated for actions that support the reliability and security of the power system; and
- removal of any incentive for participants to avoid or minimise financial losses that may accrue due to interventions, potentially in ways that compromise AEMO's ability to manage the power system.

There are no implementation costs to AEMO or market participants to implement the proposed Rule if it is adopted.

The expected impact on compensation payments from the proposed rule is dependent on the extent, and timing of future directions. It is thus difficult to predict the impact of the rule, although given the relative minimal capacity of scheduled loads currently within the NEM, the impact is likely comparatively minimal.

7. DRAFT RULE

This draft is based on version 121 of the National Electricity Rules.

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

(a) In respect of each intervention price trading interval:

- (1) ...
- (2) a Market Customer, other than a Market Customer which was the subject of any direction that constituted the AEMO intervention event, is entitled, in respect of one or more of its scheduled loads, to receive an amount calculated by applying the following formula:

$$DC = ((RRP \times LF) - BidP) \times QD$$

where:

DC (in dollars) is the amount the Market Customer is entitled to receive in respect of that scheduled load for the relevant intervention price trading interval;

RRP (in dollars per MWh) is the regional reference price in the relevant intervention price trading interval determined in accordance with clause 3.9.3;

LF where the scheduled load's connection point is a transmission connection point, is the relevant intra-regional loss factor at that connection point or where the scheduled load's connection point is a distribution network connection point, is the product of the distribution loss factor at that connection point multiplied by the relevant intra-regional loss factor at the transmission connection point to which it is assigned;

BidP (in dollars per MWh) is the price of the highest priced band the scheduled load is dispatched from~~highest priced price band specified in a dispatch bid~~ for the scheduled load in the relevant intervention price trading interval;

QD (in MWh) is the difference between the amount of electricity consumed by the scheduled load during the relevant intervention price trading interval determined from the metering data and the amount of electricity which AEMO reasonably determines would have been consumed by the scheduled load if the AEMO intervention event had not occurred, provided that if DC is negative for the relevant intervention price trading interval, then the adjustment that the Market Customer is entitled to claim in respect of that scheduled load for that intervention price trading interval is zero.

Note

Where two intra-regional loss factors are determined for a transmission network connection point under clause 3.6.2(b)(2), AEMO will determine the relevant intra-regional loss factor for use under this clause in accordance with the procedure determined under clause 3.6.2(d1).