

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

ADDITIONAL COMPENSATION FOR FCAS LOSSES

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.

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;
- 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.

Clause 3.12.2(j) of the NER currently assumes that Affected Participants are compensated, taking into account the following:

- Direct costs incurred, including:
 - Fuel costs
 - Incremental maintenance costs
 - Incremental manning costs
- The published regional reference price

The Intervention Pricing Working Group (IPWG) identified that this clause currently excludes FCAS prices from the items listed.

1.2 Nature and scope of issue to be addressed

In recent years frequency control has become more important and FCAS costs have been generally been increasing on quarter by quarter basis (see Figure 1 below). This has occurred at the same time as AEMO has been required to intervene more often in the market and so compensation for lost FCAS revenue for directed participants is increasingly likely to become material, meaning the current compensation rules are unlikely to meet the objectives outlined in section 1.1 above.

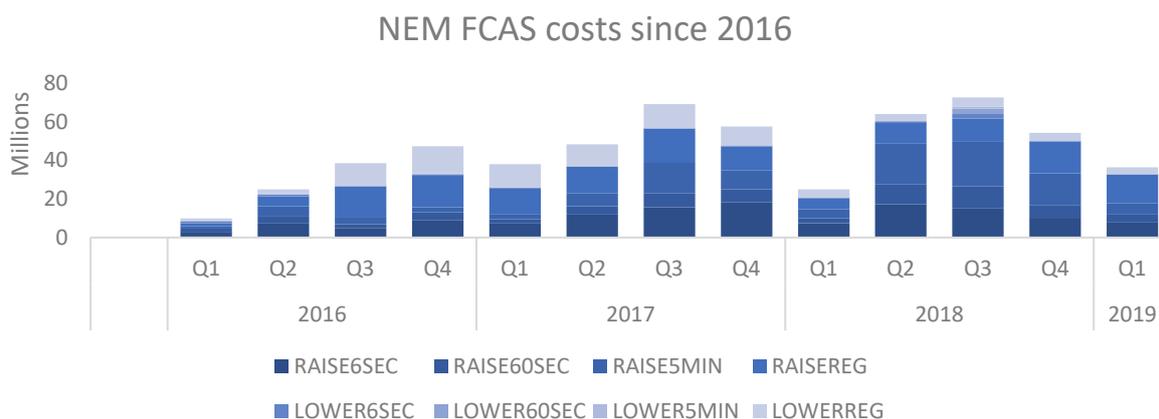


Figure 1: NEM FCAS costs since 2016

1.3 Current Rules

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

Clause 3.12.2(a)(1) states that Affected Participant compensation shall consider solely the items listed in Clause 3.12.2(j):

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

(j) In determining the amount for the purposes of paragraph (a)(1), the following must, as appropriate, be taken into account:

(1) the direct costs incurred or avoided by the Affected Participant in respect of that scheduled generating unit or scheduled network service, as the case may be, as a result of the AEMO intervention event including:

(i) fuel costs in connection with the scheduled generating unit or scheduled network service;

(ii) incremental maintenance costs in connection with the scheduled generating unit or scheduled network service; and

(iii) incremental manning costs in connection with the scheduled generating unit or scheduled network service;

(2) any amounts which the Affected Participant is entitled to receive under clauses 3.15.6 and 3.15.6A; and

(3) the regional reference price published pursuant to clause 3.13.4(m).

1.4 Issues with the current Rule

The clause 3.12.2(j) above, specifies that energy prices can be considered in determining additional compensation but does not specify FCAS prices, only the regional reference price under Clause 3.12.2 (j)(3).

This issue was noted in an independent expert determination in relation to directions issued on 1 December 2016.¹ The claim for Affected Participant compensation for market ancillary services lost revenue was rejected as a result of this issue. AEMO is not otherwise aware of this issue occurring.

2. HOW THE PROPOSAL WILL ADDRESS THE ISSUES

2.1 How the proposal will address the issues

To address this issue, AEMO proposes to include FCAS prices amongst other compensable factors to be considered in determining additional compensation in a non-restrictive fashion under Clause 3.12.2(j) (see 6. Draft Rule)

By including an additional clause that specifically references FCAS prices (see: 6. Draft Rule), AEMO considers that the proposed:

- 1) achieves a fairer outcome for Affected Participants that may be negatively impacted by FCAS costs, and
- 2) fulfils an unanimously supported agreement and outcome of the IPWG.

3. PROPOSED RULE

3.1 Description of the proposed Rule

AEMO proposes to include FCAS prices as an additional clause amongst other compensable factors to be considered in determining additional compensation in a non-restrictive fashion under Clause 3.12.2(j) (see 6. Draft Rule)

3.2 Transitional Matters

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

4. 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.

¹ Synergies Economic Consulting Pty Ltd. *Final report on compensation related to directions that occurred on 1 December 2016*. Jun 2017.
<https://aemo.com.au/Electricity/National-Electricity-Market-NEM/Market-notice-and-events/Market-event-reports/Direction-to-SA-and-VIC-generators-on-01-Dec-2016>

5. 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.

6. 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) ...

(j) In determining the amount for the purposes of paragraph (a)(1), the following must, as appropriate, be taken into account:

(1) the direct costs incurred or avoided by the Affected Participant in respect of that scheduled generating unit or scheduled network service, as the case may be, as a result of the AEMO intervention event including:

(i) fuel costs in connection with the scheduled generating unit or scheduled network service;

(ii) incremental maintenance costs in connection with the scheduled generating unit or scheduled network service; and

(iii) incremental manning costs in connection with the scheduled generating unit or scheduled network service;

(2) any amounts which the Affected Participant is entitled to receive under clauses 3.15.6 and 3.15.6A; and

(3) the regional reference price published pursuant to clause 3.13.4(m).

(4) Ancillary Service price published pursuant to clause 3.13.4(l).