

Introduction

The Energy Users Association of Australia (EUAA) is the peak body representing Australian energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and expect to see all parts of the energy supply chain making their contribution to the National Electricity Objective.

This submission covers the following proposed rule changes:

- ERC0284 – Compensation for participants affected by intervention events
- ERC0287 – Compensation following directions for services other than energy and market ancillary services
- ERC0289 – Changes to intervention mechanisms
- ERC0291 – Removal of intervention hierarchy

Our responses to these rule change requests will focus on delivering the least cost outcomes for energy users.

ERC0284 – Compensation for participants affected by intervention events.

Our understanding of this proposed rule change is that affected participants will be able to lodge an additional compensation claim if they incur FCAS loss due to an AEMO intervention but would not require them to repay revenue to AEMO if they earn more FCAS revenue due to the intervention. This appears to create an asymmetry between compensation for energy and FCAS, and is likely to increase compensation costs to consumers and other participants.

With FCAS services likely to play an increasing role in the NEM and therefore the cost to consumers is likely to increase over time we would not be in favor of a situation where an asymmetry between “overs” and “unders” exists and believe that a “net” approach to compensation should be applied.

Therefore, it would be preferable that FCAS is treated in the same way as energy – including it in the automatic calculation of compensation and adopting a two way approach to compensation rather than the proposed one way (additional claim) approach. This would align the rule change with the compensation principle of leaving the affected participant in the position it would have been in but for the intervention.

Regarding scheduled loads. As they are dispatched differently as a result of an intervention event, we are in favour of AEMO’s request that seeks to change the definition of BidP as the current definition may result in participants being under-compensated in certain circumstances. This would also align the rule change with the compensation principle of leaving the affected participant in the position it would have been in but for the intervention.

Hopefully, as FCAS markets mature and new markets evolve to ensure system strength (i.e. inertia), the number and impact of AEMO interventions, and by default the compensation payable to affected participants, will decrease significantly.

ERC0287 – Compensation following directions for services other than energy and market ancillary services.

Our understanding of this rule change request is that AEMO considers the current two-step process to result in an unnecessary delay in finalising compensation. It proposes an alternative one-step process, where the Fair Payment Price (FPP) and additional compensation can be determined at the same time, improving the administrative efficiency of the compensation process. It also proposes to enable AEMO, rather than an independent expert, to deal with some claims in house.

We are in favour of greater efficiency in this process, and are not opposed to AEMO dealing with some claims in-house but would note that this should be accompanied by an appropriate level of transparency so that consumers have confidence that they are only paying for the benefits delivered and that the procurement of services has been done on a least cost basis.

ERC0289 – Changes to intervention mechanisms

It is our understanding that this draft rule removes the mandatory restrictions framework which will address the current difficulty in accurately estimating demand reduction, which in turn increases the risk of delivering unintended pricing outcomes and increased costs to consumers. By removing the framework, it will allow the market to operate normally and, as we understand it, will deliver more efficient price outcomes and avoid higher costs to consumers.

We also understand this rule change will remove the obligation for AEMO to counteract during an intervention and will help reduce costs to consumers while clarifying the basis for affected participant compensation cost recovery following activation of RERT, thus providing greater certainty by formalising the basis on which AEMO currently apportions and recovers these costs.

We are advised this rule formalises AEMO's current practice so will not change costs to consumers.

Given these rule changes are designed to help AEMO minimise the costs associated with an intervention, we are fully supportive.

ERC0291 – Removal of intervention hierarchy

Currently the National Electricity Rules require that, in times of "supply scarcity", after dispatching all valid bids and offers, AEMO must use reasonable endeavours to first activate or dispatch the RERT and then, if necessary, issue either directions or instructions. We understand that AEMO considers that the existing clause does not allow them the greatest flexibility to intervene in a way that minimises expected costs. AEMO also considers the existing hierarchy limits its ability to intervene in a way that maximises anticipated effectiveness by reducing the number of options available to AEMO.

Our understanding is that this proposed rule removes the existing hierarchy of interventions requirement to use RERT prior to directing or instructing and replaces it with a more flexible requirement for AEMO to select the intervention mechanism, or combination of intervention mechanisms, that are effective at addressing the need to intervene while also minimising direct and indirect costs.

The draft rule also applies transparency and accountability requirements to cover the additional discretion provided to AEMO on the choice of intervention mechanisms, requires AEMO to develop, consult on, and publish procedures setting out its method and assumptions in selecting effective interventions that minimise the direct and indirect costs and extends existing reporting obligations to cover the basis on which AEMO determined the mechanisms to be used.

Given this rule change is designed to provide greater flexibility to AEMO to achieve least cost outcomes, we are fully supportive of it.

While we recognise the additional transparency and reporting requirements on AEMO, there is no mechanism to actually review AEMO's market interventions. In the interests of building consumer understanding of and confidence in the actions taken by AEMO, we also recommend an addition to the draft rule to require an annual AER review of AEMO market interventions. We also believe this to be a sound approach to market governance.

This would include an annual AER review of all market interventions undertaken and all market intervention reports issued by AEMO over the year to determine that:

- AEMO has fully complied with the rules with regards to market interventions, and
- AEMO market reports meet the appropriate transparency and accountability requirements

To this end, we support the wording proposed for clause 3.12B in the ERM Power submission.

Kind regards



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Chief Executive Officer