



Compensation for market participants affected by intervention events

Draft determination and rule

The Australian Energy Market Commission (Commission) has published a draft determination and rule which changes the way that compensation is calculated when market participants are dispatched differently as a result of an AEMO intervention event which triggers intervention pricing. Submissions are due on 5 November 2020.

The Commission's draft determination

The Commission has determined to make a more preferable draft rule that includes frequency control ancillary services (FCAS), in addition to energy, in the compensation framework applicable to "affected participants" which are dispatched differently as a result of an intervention event that triggers intervention pricing.

The draft rule incorporates FCAS into the automatic process of calculating compensation. This means that affected participants will not need to lodge a claim, and that FCAS compensation – like energy – will be a two-way process: affected participants will both receive compensation where they are worse off with respect to FCAS revenue and be required to repay gains where they are better off with respect to FCAS revenue. This approach is consistent with the objective of affected participant compensation – which is to put the participant in the position it would have been in had the intervention event not occurred.

The draft rule also amends the framework for compensating market customers with scheduled loads where these are dispatched differently as a result of an intervention event which triggers intervention pricing. This is designed to address the potential for scheduled loads to be under or over-compensated under the current framework.

The draft rule amends the formula used to calculate compensation payable to scheduled loads when intervention pricing impacts how much they pay for energy. The revised formula adopts a volume-weighted approach to calculating compensation so that the quantum of compensation is not impacted by a scheduled load's bidding strategy. The draft rule retains the current one-way approach to compensation with respect to energy costs. Adopting a two-way approach, consistent with the approach to affected participant compensation, would not be appropriate for scheduled loads' energy costs given the way they are dispatched in the national electricity market.

The draft rule also includes FCAS in the scheduled load compensation framework to provide consistency with the proposed approach to affected participant compensation. The Commission notes that generators and loads are dispatched in the same way with respect to FCAS and, as such, a two-way approach to FCAS compensation is appropriate for scheduled loads, consistent with the approach to affected participants.

Importantly, these changes increase consistency between the compensation frameworks applicable to large scale batteries and pumped hydro units, which are registered as both scheduled generators and scheduled loads.

The Commission considers that the draft rule is in the long-term interests of consumers as it provides an appropriate allocation of risk and helps support the ongoing viability of participants providing frequency services to the market. Such services are increasingly important as the generation fleet transitions. The draft rule also improves the consistency, transparency and predictability of compensation processes.

The rule change requests

On 19 September 2019, AEMO lodged two rule change requests relating to the framework for compensating participants affected by intervention events (set out in clause 3.12.2 of the national electricity rules - NER).

The first of the AEMO rule change requests concerned the compensation payable to scheduled generators if they are dispatched differently due to an intervention event. The AEMO rule change request sought to allow participants to be compensated if they incur losses related to market ancillary services (i.e. FCAS).

The second rule change request related to scheduled loads which are dispatched differently as a result of an intervention event. Compensation for scheduled loads is calculated in accordance with a formula which includes as an input the price of the highest priced band specified in a dispatch bid – known as “BidP”. AEMO’s rule change request sought to change the definition of BidP as the current definition could result in participants being under-compensated where they are dispatched differently due to an intervention.

The Commission determined that these two rule change requests should be consolidated since they relate to the same clause in the NER. On 11 June 2020, the AEMC initiated the two rule change requests from AEMO and published a consultation paper. Ten submissions were received in response to the consultation paper and these have informed the development of the draft determination and draft rule.

Background

Intervention mechanisms are tools available to AEMO in circumstances where the market response has been inadequate to maintain a reliable and secure power system, or in response to unexpected events. Broadly speaking, intervention mechanisms include the reliability and emergency reserve trader (RERT), directions and instructions. An “AEMO intervention event” comprises the RERT and directions but not instructions.

When the purpose of an AEMO intervention event is to address a shortage of energy or FCAS, AEMO is required to implement “intervention pricing” (a practice designed to preserve scarcity price signals that would otherwise be muted as a result of the intervention event). When intervention pricing is triggered, AEMO is also required to pay compensation to those participants dispatched differently as a result of the intervention.

This has been the case since December 2019, when the Commission made a number of final determinations on rules relating to intervention pricing and compensation for market participants affected by interventions. As a result of these changes, intervention pricing and compensation for affected participants are no longer triggered in connection with system security interventions (e.g. system strength directions) and only apply when interventions are to address a shortage of energy or FCAS. Such interventions are infrequent: while there have been more than 400 system strength directions issued in the period since April 2017, the RERT has been activated on nine occasions, and there have been around ten directions for energy and FCAS in the past ten years.

Next steps

The Commission seeks feedback from stakeholders on the draft rule and determination, including implementation timing and transitional provisions. Submissions on the draft determination and draft rule close on **5 November 2020** via the AEMC website.

For information contact:

Director, **Owen Pascoe** 02 8296 7856

Senior Adviser, **Katy Brady** 02 8296 0634

Media: Media and Content Manager, Kellie Bisset 0438 490 041

24 September 2020