



Compensation for market participants affected by intervention events

Directions paper published for Compensation rule change

The Australian Energy Market Commission (AEMC or the Commission) invites stakeholder submissions in response to the directions paper on the *Compensation for market participants affected by intervention events* (Compensation) rule change. The paper seeks stakeholder feedback on this rule change, in light of issues raised by the Australian Energy Market Operator (AEMO) in its submission to the draft determination.

As the issues raised by AEMO relate primarily to batteries in their capacity as scheduled loads, the directions paper has been released alongside the draft rule for the *Integrating energy storage systems into the NEM* (Integrating storage) rule change and discusses the interactions between the two rule changes.

Background to the rule change

When AEMO intervenes in the market by activating the Reliability and Emergency Reserve Trader (RERT) or issuing a direction, two kinds of compensation may be payable: one is directed participant compensation (only relevant to directions) and one is compensation for participants affected by (or dispatched differently as a result of) the RERT or a direction.

The Compensation rule change concerns the second type of compensation. It is a consolidation of two rule change requests received from AEMO on 19 September 2019, relating to clause 3.12.2 of the National Electricity Rules (the Rules).

The first request sought to allow participants to lodge a claim where they suffer losses related to frequency control ancillary service (FCAS) enablement. The second concerned the formula for compensation payable to market customers with scheduled loads, which could result in these participants being under-compensated after intervention events which trigger intervention pricing.

A consultation paper was published in June 2020, and a draft determination and more preferable draft rule were published in September 2020. The draft rule:

1. Incorporated FCAS into the automatic process for calculating compensation for both affected participants and market customers with scheduled loads
2. Introduced a volume weighted approach to calculating the input BidP for the compensation formula for market customers with scheduled loads
3. Retained the one-way approach to compensating market customers with scheduled loads, and
4. Adopted a target based approach to calculating compensation for both affected participants and market customers with scheduled loads.

Stakeholders generally supported the draft rule proposed. AEMO, however, raised an important issue within its submission relating to point four as it applies to batteries, which warranted a re-assessment of the approach in the draft rule for calculating compensation.

Batteries in the NEM may not follow their 5-minute dispatch targets

Batteries in the NEM can change from discharging (generating) to charging (consuming) in very short timeframes. As such, they are well suited to provide frequency response services and are a significant provider of regulation FCAS (delivered via the automatic generation control system).

AEMO, in its submission to the draft determination, noted that there can be significant deviations of batteries from their five-minute energy target (specifically in their capacity as scheduled loads), with units actually generating rather than consuming on some occasions. On further investigation, some of the largest deviations corresponded with instances where the units were providing regulation FCAS.

The behaviours identified by AEMO raised the following question relating to the draft rule: Is it appropriate to calculate compensation based on actual performance/meter data (as per the current approach in clause 3.12.2) rather than solely based on energy targets (as per the draft rule)?

Finalising the approach in the draft rule

The Commission has developed three options to finalise the approach to calculating compensation for affected participants and market customers with scheduled loads:

1. A target based approach (as in the draft rule)
2. An approach for calculating compensation based on actual generation/consumption, similar to the existing approach in clause 3.12.2 with some additional clarifications. This is the Commission's preferred option.
3. A bespoke claims approach to calculating compensation, where all affected participants and market customers with scheduled loads would have to lodge a claim in order to receive compensation.

The Commission invites stakeholder feedback on the three options.

The objective of the compensation framework may also need clarification

In response to a minor issue raised by AEMO in its submission to the draft determination, the Commission is also considering adding a new, overarching paragraph to clause 3.12.2, which would clarify the objective of the compensation framework as applied to both affected participants and market customers with scheduled loads. Currently, the intent of the framework is only specified with respect to affected participants.

The Commission invites stakeholder feedback on the need to clarify the objective of the framework and the proposed approach.

The Integrating storage draft rule has been considered when thinking about compensating bi-directional units

AEMO's submission to the draft determination raised an important consideration with respect to compensating units that can both generate and consume (particularly batteries) and determining which compensation framework (affected participant or market customer with scheduled load) to apply in each trading interval.

The Rules do not currently specify exactly what happens in these complex circumstances (regardless of whether the bi-directional unit is registered under two dispatchable unit identifiers (DUIDs), as is the case for batteries in the NEM currently, or a single DUID, as is proposed in the draft Integrating storage rule). As such, the Commission invites stakeholder feedback on the extent to which the considerations relating to compensation for bi-directional units should be specified in the Rules.

Consultation on the directions paper

Written submissions to the directions paper are due on **26 August 2021**. Submissions will inform the approach to the final determination, which is scheduled to be published by November 2021.

For information contact:

Adviser, **Emily Banks** +61 2 8296 0677

Director, **Sebastien Henry** +61 2 8296 7833

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

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