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Ms Anna Collyer
Chair, Australian Energy Market Commission

By electronic submission

Dear Ms Collyer

Rule change proposal – Remove Unaccounted For Energy from RRO Liable Load Calculation

AEMO is requesting a rule change to remove the unaccounted for energy (UFE) term when determining liable load under the Retail Reliability Obligation (RRO). The current rule assesses the liable load in each trading interval that is subject to compliance based on a liable entity's adjusted gross energy (AGE). However, when global settlements commences on 1st May 2022 the definition of AGE will change to incorporate an allocation of UFE. Given that there is uncertainty as to the degree and variability of UFE this will create additional difficulties for a liable entity in managing its compliance with the RRO.

The rule change proposes to remove the UFE term to give liable entities greater certainty as to the position they need to manage, which will reduce their cost of compliance. Given the UFE term is expected to be small this will not impact the efficacy of the RRO.

A rule can be considered non-controversial if it is unlikely to have a significant effect on the National Electricity Market. AEMO considers that this rule change proposal meets this criteria and hence request that the AEMC consider the proposed rule as an expedited rule.

Any questions on this Rule change proposal should be directed to Kevin Ly, Group Manager - Regulation kevin.ly@aemo.com.au.

Yours sincerely

Tony Chappel
Chief External Affairs Officer

Attachment: Rule change proposal

ELECTRICITY RULE CHANGE PROPOSAL

REMOVE UNACCOUNTED FOR ENERGY FROM RRO LIABLE LOAD CALCULATION

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NEW SOUTH WALES QUEENSLAND SOUTH AUSTRALIA VICTORIA AUSTRALIAN CAPITAL TERRITORY TASMANIA WESTERN AUSTRALIA

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1. SUMMARY

AEMO is requesting a rule change to remove the unaccounted for energy (UFE) term when determining liable load under the Retail Reliability Obligation (RRO). The current rule assesses the liable load in each trading interval that is subject to compliance based on a liable entity's adjusted gross energy (AGE). However, when global settlements commences on 1st May 2022 the definition of AGE will change to incorporate an allocation of UFE. Given that there is uncertainty as to the degree and variability of UFE this will create additional difficulties for a liable entity in managing its compliance with the RRO. Hence, it is proposed to remove the UFE term to give liable entities greater certainty as to the position they need to manage to which will reduce their cost of compliance. Given the UFE term is expected to be small this will not impact the efficacy of the RRO.

2. DESCRIPTION OF THE RULE

The proposed rule changes the definition of adjusted gross energy in the liable load calculation to a new term "adjusted metered energy" specific to this clause 4A.F.3 which is identical to the current definition of adjusted gross energy but will not change once global settlements comes into force.

2.1 Expedited Rule Change Request

AEMO requests the AEMC to consider the proposed rule as an expedited "non-controversial rule". A rule can be considered non-controversial if it is unlikely to have a significant effect on the national electricity market. AEMO considers this is the case for the following reasons:

- This rule relates to a period post the introduction of global settlements in 2022 so there are no existing or imminent impacts on any market participants.
- This rule will make it easier for liable entities to manage their compliance position by removing a source of uncertainty in the calculation that they are unable to quantify or control.
- There are no costs involved in implementing this rule. In fact, it will be less costly to implement this rule than without the change, once global settlements commence.
- The rule will not impact the efficacy of the RRO given that the quantum of UFE across the market is expected to be small and will not impact contracting decisions of liable entities.

3. STATEMENT OF ISSUE

3.1 Issue with the current Rule

The key issue with the current rule is that the UFE term introduces a source of variability and uncertainty into the calculation of liable load that liable entities (i.e. market customers and opt-in customers) are unable to quantify or manage in advance. This is particularly an issue for the RRO liable load calculation as a small change in liable load can make the difference between a liable entity being deemed to be compliant or non-compliant. Given that the Procurer of Last Resort (POLR) mechanism of the RRO allocates RERT costs to non-compliant entities based on the degree of their non-compliance it can also make a difference to their allocated costs.

A second issue is that the determination of the liable load adds back the "measured actual demand response". However, this term is not adjusted by UFE in the rules so there is an inconsistency in the calculation with one term being adjusted and another term not being adjusted.

3.2 Potential impact on other rules and procedures

There are a range of cost recovery mechanisms in the NEM that use AGE. However, it is not proposed to change any of these calculations as the impact of UFE on these is confined to the quantum of costs rather than as a determinant of non-compliance.

AEMO's POLR Cost Procedures describe the calculation of liable load and will require amendment if this rule is made, to reflect the exclusion of UFE.

3.3 How the proposal will address the issues

The proposed rule changes the definition of adjusted gross energy in the liable load calculation to a new term "adjusted metered energy" specific to this clause 4A.F.3 which is identical to the current definition of adjusted gross energy but will not change once the UFE framework comes into force. The new term is defined at the beginning of clause 4A.F.3(b).

The proposed rule also suggests some minor grammatical changes to the sub-paragraphs of clause 4A.F.3(b) for clarity and consistency between them.

3.4 How the Proposed Rule Contributes to the National Electricity Objective (NEO)

The NEO is to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to -

(a) price, quality, safety, reliability and security of supply of electricity; and

(b) the reliability, safety and security of the national electricity system.

The proposed rule will make it easier for liable entities to manage their compliance position and so will reduce their cost of compliance.

4. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE

AEMO expects the proposed rule will be less costly for AEMO to implement as it will not require AEMO to source UFE data for the calculation.

Liable entities will be able to better anticipate their contract position requirements to reduce over-contracting or non-compliance risk.

5. PROPOSED RULE

4A.F.3 Share of one-in-two year peak demand forecast

(a) For the purposes of section 14R(2) of the *National Electricity Law*, a liable entity's share of the one-in-two year peak demand forecast for a compliance TI ("**liable share**") is calculated as follows:

$$LS = \left(\frac{LL}{HAPD}\right) x\ OITPDF$$

where:

LL	=	the liable entity's liable load as determined under paragraph (b) (in MW);
HAPD	=	the highest adjusted peak demand occurring in a compliance TI in the relevant *reliability gap period* where adjusted peak demand is determined under paragraph (d) (in MW);
OITPDF	=	the one-in-two year peak demand forecast (in MW),

except that if OITPDF/HAPD > one, then it is taken to be equal to one.

Note

Section 14R(2) of the *National Electricity Law* states –

The liable entity must comply with the obligation that the liable entity's net contract position for the *trading interval* is not less than the liable entity's share of the one-in-two year peak demand forecast for the *trading interval* determined in accordance with the *Rules*.

Section 14R(2) is a reliability obligation civil penalty.

(b) A liable entity's liable load for a compliance TI is calculated as follows:

(1A) to determine the quantities in sub-paragraphs (1) and (2), the **adjusted metered energy** for a *connection point* for a compliance TI is an amount equal to:

ME x DLF

where:

ME is the amount of electrical *energy*, expressed in MWh, flowing at the *connection point* in the *trading interval*, as recorded in the *metering data* in respect of that *connection point* and that *trading interval* (expressed as a positive value where the flow is towards the *transmission network connection point* to which the *connection point* is assigned and negative value where the flow is in the other direction); and

DLF is the *distribution loss factor* applicable at that *connection point*;

(1) if the liable entity is a *Market Customer*, determine the aggregate of the ~~*adjusted gross energy*~~ adjusted metered energy for each *connection point* for which it is *financially responsible* for the compliance TI (less any adjusted metered energy ~~*adjusted gross energy*~~ allocated to a prescribed opt-in customer at one of those *connection points*) based on the relevant *routine revised statements* for the *billing periods* relating to the *reliability gap period* given approximately 30 weeks after the relevant *billing period*;

(2) if the liable entity is not a *Market Customer*, determine the aggregate of the adjusted metered energy ~~*adjusted gross energy*~~ for each

connection point for which it is registered as an opt-in customer (or part thereof if it is a prescribed opt-in customer registered for a portion of the *load* at that *connection point*) based on the relevant *routine revised statements* provided to the relevant *Market Customer* for the *connection points* for the *billing periods* relating to the *reliability gap period* given approximately 30 weeks after the relevant *billing period*;

(3) adjust the quantity in sub-paragraph (1) or (2) (as applicable) ~~is to be adjusted~~ by adding the liable entity's measured actual demand response under a qualifying contract at each *connection point* for which it is *financially responsible* for the compliance TI, or registered if an opt-in customer, multiplied by the *distribution loss factor* for that *connection point*;

(4) adjust the quantities in sub-paragraphs (1), (2) and (3) (as applicable) ~~are to be adjusted~~ for *intra-regional loss factors* at the *transmission network connection point* to which the *connection point* is assigned; and

(5) multiply the final quantity ~~is to be multiplied~~ by the number of *trading intervals* in an hour,

in each case, as determined in accordance with the *PoLR cost procedures*. To avoid doubt, a liable entity's demand is not to be adjusted for what its demand would have been but for *unserved energy* during a compliance TI.

(c) For a liable entity that is a *Market Customer*, a liable entity's liable load relates to the *connection points* for which that liable entity is *financially responsible* for a compliance TI and those *connection points* do not need to be the same *connection points* referred to in clause 4A.D.2.

(d) The adjusted peak demand for a compliance TI is the actual demand for the *region* in that compliance TI as determined under clause 4A.A.4(b) adjusted for the measured actual demand response of all liable entities during that compliance TI as determined in accordance with the *PoLR cost procedures*.