



Australian Energy Market Commission

**Rule Determination**

**National Electricity Amendment (Clarification  
of Market Information Requirements for Market  
Ancillary Services) Rule 2008**

Rule Proponent(s)  
NEMMCO

27 November 2008

Signed: .....

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For and on behalf of  
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## **Citation**

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## **About the AEMC**

The Council of Australian Governments, through its Ministerial Council on Energy, established the Australian Energy Market Commission (AEMC) in July 2005 to be the Rule maker for national energy markets. The AEMC is currently responsible for Rules and policy advice covering the National Electricity Market. It is a statutory authority. Our key responsibilities are to consider Rule change proposals, conduct energy market reviews and provide policy advice to the Ministerial Council as requested, or on AEMC initiative.

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## Abbreviations

AEMC	Australian Energy Market Commission
Commission	see AEMC
MCE	Ministerial Council on Energy
NEL	National Electricity Law
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company
NEO	National Electricity Objective
Rules	National Electricity Rules
FCAS	Frequency Control Ancillary Services
MAS	Market Ancillary Services

## Summary

On 29 September 2008, the Australian Energy Market Commission (Commission) received a Rule change proposal in relation to Market Ancillary Services from NEMMCO entitled “Clarification of Market Information Requirements for Market Ancillary Services”. This Rule change proposal aims to align the National Electricity Rules (Rules) for Market Ancillary Services (MAS) with NEMMCO’s current practices and as a result improve the operation of the market.

The Commission published the Rule change proposal in accordance with sections 95 and 96 of the National Electricity Law (NEL). NEMMCO requested that the Rule change proposal be expedited under section 96 of the NEL as it considered the proposed Rule to be non-controversial. The Commission agreed to expedite the Rule making process as it considered that the proposed Rule with amendments would be unlikely to have a significant effect on the National Electricity Market (NEM), subject to any written objections to the expedited process. The period for written objections closed on 30 October 2008 and written submissions closed on 13 November 2008. There were no written objections or submissions to the Rule change proposal.

The Commission is satisfied that the proposed Rule will promote the National Electricity Objective (NEO) and has determined to make a Rule under sections 102 and 103 of the NEL. The Commission considers the proposed Rule with amendments will satisfy the NEO as it:

- will align the Rule to NEMMCO’s improved Frequency Control Ancillary Services (FCAS)<sup>1</sup> information requirements and current practices, which is consistent with good regulatory practice of increased efficiency in Rules
- will improve the operation and clarity of the Rule, which is consistent with fostering transparency and thus aiding efficient investment

In coming to this decision, the Commission has considered the Rule Change Proposal and its requirements under the NEL.

In light of the considerations above this Commission has approved NEMMCO’s proposed Rule changes.

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<sup>1</sup> The NEMMCO Rule change proposal refers to FCAS. The Commission notes that the services referred to as FCAS are defined in the Rules as MAS. In order to maintain consistency between this Rule Determination and the NEMMCO Rule change proposal, the Commission will refer to market ancillary services as FCAS, but notes that this only reflects the current definition of market ancillary service in the Rules. The Commission notes that the introduction of additional market ancillary services in the future (by way of a Rule change) could occur, which could affect the interchangeability of the terms FCAS and MAS.

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# 1 NEMMCO's Rule change proposal

On 29 September 2008, the Commission received a Rule change request from NEMMCO entitled Clarification of Market Information Requirements for Market Ancillary Services (Rule Change Proposal).

## 1.1 Summary of the Rule change proposal

The proposed Rule change seeks to modify clause 3.13.4A(a) of the Rules, which outlines NEMMCO's obligations in relation to FCAS.

NEMMCO considered the proposed Rule change to be non-controversial because in its view, the proposed Rule would be unlikely to have a significant effect on the NEM. NEMMCO therefore requested that the Commission makes the Rules using an expedited consultation process, under s.96 of the NEL.

## 1.2 Background

In order to maintain power system security NEMMCO must control system frequency. To do this, NEMMCO acquires FCAS from market participants. FCAS is allocated to meet the standards set by the Reliability Panel and implemented using constraint equations that specify global and local requirements. The dispatch algorithm finds the optimal balance between low cost energy production and the cost of providing FCAS.

NEMMCO raised two arguments for amending clause 3.13.4A(a) of the Rules which specifically deals with FCAS:

- since the FCAS market started NEMMCO has changed its process of acquiring FCAS. A major change is that NEMMCO now provides Market Participants with details of FCAS constraint equations through the constraint library, which allows them to form their own view on future FCAS requirements. NEMMCO suggests that the obligations in clause 3.13.4A are consistent with NEMMCO's former process of acquiring FCAS, rather than reflecting the requirements of the current process.
- under the current arrangements, the forecasting of FACS requirements depends on detailed information, such as forecast loading of generating units and forecast interconnector flows. NEMMCO suggested that this information is only available in the pre-dispatch timeframe. NEMMCO states that since the Rules do not place a corresponding requirement on Market Participants to provide NEMMCO with up-to-date bid and offer information beyond the pre-dispatch timeframe it is not possible to produce a weekly forecast. Consequently, NEMMCO has been unable to fulfil this requirement.

Given these issues NEMMCO submits that clause 3.13.4A(a) should be modified to align NEMMCO's information requirements and current practices with the substance of the current process, as well as to enable NEMMCO to fulfil this requirement.

### 1.3 NEMMCO's Rule change proposal

NEMMCO proposes that clause 3.13.4A(a) be amended as follows:

(a) *NEMMCO* must each day week, in accordance with the *timetable*, publish a forecast of the requirements for each type of *market ancillary service* for each *region* for each trading interval during the period described in clause 3.8.20(a)~~the following week~~.

### 1.4 Consultation on NEMMCO's proposal

The consultation process for this Rule change request is illustrated in Table 1.

**Table 1: Determination process for the Rule change proposal**

Date	Determination process
16 October 2008	The Commission commenced the Rule determination process by publishing a notice under s.95 and s.96 of the NEL.
30 October 2008	Closing date for objections to the expedited process.
13 November 2008	Close of consultation.
27 November 2008	Final Rule determination.

On 16 October 2008, the Commission published a notice under s.95 of the NEL advising of its intention to commence the Rule Change Proposal.

The Commission agreed that the Rule Change Proposal appeared to be a request for a non-controversial Rule and accordingly, intended to expedite the Rule Change Proposal under s.96 of the NEL, subject to any written objections. The Commission took the view that the Rule Change Proposal should be expedited as the it was unlikely to have a significant effect on the NEM.

The closing date for written objections was 30 October 2008. None were received by this date.

The closing date for submissions was 13 November 2008. None were received by this date.

## 2 Methodology for making the final Rule determination

### 2.1 Determination

Under s.102 of the NEL the Commission makes this final Rule determination. Under s.103 of the NEL the Commission makes the Rule Change Proposal (*Clarification of Market Information Requirements for Market Ancillary Services*) Rule 2008 No 13 (Rule as Made). The Rule to be made is in Appendix 2 of this determination.

The Rule commences operation on 1 January 2009.

### 2.2 Commission's considerations

This determination sets out the Commission's reasons for making the final Rule. The Commission has taken into account:

1. the Commission's powers under the NEL to make the Rule (see section 2.3);
2. the proponent's Rule change proposal and proposed Rule ; and
3. the Commission's analysis as to the ways in which the Rule will or is likely to contribute to the promotion of the national electricity objective (NEO) so that it satisfies the statutory Rule making test (see section 2.4).

For the reasons set out in section 2.4 below the Rule as made satisfies the Rule making test.

### 2.3 The Commission's power to make the Rule

The Commission is satisfied that the final Rule falls within the subject matters for which the Commission may make Rules, as set out in section 34 of the NEL.

The final Rule relates specifically to item 34(1) of the NEL, which states that:

"...the AEMC, in accordance with this Law and the Regulations, may make Rules, to be known, collectively, as the "National Electricity Rules", for or with respect to—

(a) regulating—

....

- (ii) the operation of the national electricity system for the purposes of the safety, security and reliability of that system;"

The proposed Rule relates to *publishing timelines* associated with MAS. This relates to the operation of the NEM and the activities of persons participating in the NEM or involved in its operation.

## **2.4 Assessment of the proposed Rule: the Rule making test and the national electricity objective (NEO)**

### **2.4.1 General**

The Rule making test requires the Commission to be satisfied that a Rule that it proposes to make will contribute to the NEO.

The test requires the Commission to consider the implications of the proposed new Rule, for efficient investment in, and efficient operation and use of, electricity services, in respect of:

- (a) price, quality, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the NEM,

which impact on the long term interests of end users of electricity.

The NEL also requires the Commission to have regard to any MCE statements of policy principles in applying the Rule making test. The Commission notes that currently, there are no relevant MCE statements of policy principles for this proposal.

### **2.4.2 NEMMCO's Rule change proposal**

#### **Promotion of the NEO**

In its Rule change proposal NEMMCO outlines how its Rule would meet the NEO, and considers overall that the proposed Rule would promote efficiency.

By making a minor amendment to the FCAS forecasting obligation, NEMMCO believes that:

- (a) good regulatory practice would be achieved by bringing the requirement into alignment with what occurs in practice;
- (b) the clarity and consistency of clause 3.13.4A(a) would be improved, and thus improve the efficiency of the Rule; and
- (c) the change fosters an environment of efficient investment and efficient use of electricity services.

#### **Expected benefits and costs**

NEMMCO does not expect that any party would be adversely affected by the proposed Rule as it merely clarifies a long standing practice within the NEM; for the same reason, NEMMCO does not expect that there will be any associated costs.

### **2.4.3 The Commission's test of the NEO**

The Commission notes that NEMMCO has improved its procedure for acquiring FCAS by providing information to Market Participants and allowing them to form their own view on FCAS requirements which has led to NEMMCO increasing its efficiency in terms of FCAS acquisition. The Commission believes NEMMCO's current procedure is in line with good regulatory practice by fostering efficiency where possible.

The Commission also notes the limitations on NEMMCO to comply with the Rule at present due to NEMMCO relying on Market Participants to provide up to date bid and offer information beyond the pre-dispatch timeframe, which they are not compelled to do under the Rules. The Commission believes the Rule change will improve the clarity and operation of the Rule, thus improving transparency which in turn aids efficient investment.

Based on the considerations above the Commission considers that the Rule change proposed by NEMMCO meets the NEO.

### **2.5 Differences between the Proposed Rule and the Final Rule**

The Commission has adopted all of NEMMCO's proposed Rule changes.

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## **A Commission's Analysis of the Proposed Rule**

In this Appendix the Commission addresses the issues that were raised in NEMMCO's Rule change proposal and submissions.

### **NEMMCO's Rule proposal**

NEMMCO's Rule change proposal suggests amendments to clause 3.13.4A(a) due to the following issues:

- the obligations in clause 3.13.4A are not consistent with NEMMCO's current process; and
- due to the Rules not placing a requirement on Market Participants to provide NEMMCO with up-to-date bid and offer information beyond the pre-dispatch timeframe it is not possible to produce a weekly forecast as required currently under the Rule.

Given these issues NEMMCO submits that clause 3.13.4A(a) be modified to ensure NEMMCO's requirement is consistent with the current process, and also to enable NEMMCO to fulfil this requirement.

### **The Commission's consideration and reasoning**

Consistent with the Commission's considerations outlined in section 2.4.3 (The Commission's test of the NEO), namely:

- alignment of the Rule to NEMMCO's improved FCAS information requirements and current practices, which is consistent with good regulatory practice of increased efficiency in Rules; and
- improvement in the operation and clarity of the Rule, which is consistent with fostering transparency and thus aiding efficient investment

The Commission considers that the Rule change proposed by NEMMCO should be implemented.

An alternative outcome of this Rule change proposal could be a requirement on market participants to provide information to NEMMCO which would enable requirements under the current clause 3.13.4A(a) to be met.

In the absence of submissions from market participants supporting this outcome the Commission did not consider this outcome.

### **The Commission's finding in relation to this issue**

In summary the Commission accepts NEMMCO's Rule change proposal:

Clause 3.13.4A

(a) NEMMCO must each ~~day~~ ~~week~~, in accordance with the *timetable*, *publish* a forecast of the requirements for each type of *market ancillary service* for each *region* for each trading interval during the period described in clause 3.8.20(a)~~the following week~~.