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4 January 2011

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

FROM THE OFFICE OF THE  
CHIEF EXECUTIVE OFFICER

Level 22  
530 Collins Street  
Melbourne VIC 3000

Postal Address:  
GPO Box 2008  
Melbourne VIC 3001

T 1300 858724  
F 03 9609 8010

By online submission

*John,*  
Dear Mr Pierce

### **National Electricity Rules - Application and Operation of Administered Price Periods**

AEMO requests the AEMC to consider making a Rule change under section 91 of the National Electricity Law. The proposed Rule would clarify the application and operation of administered price periods (APP) and would remove the process for imposing an APP to the next trading day. AEMO also proposes to extend the maximum timeframe in which AEMO is required to include compensation payable due to the application of an administered price cap, market price cap or market floor price in a Market Participant's preliminary and final statements.

The Rule change proposal includes a statement of the issues concerning the National Electricity Rules, a description and drafting of the proposed Rule, an explanation of how the proposed Rule contributes to the achievement of the national electricity objective, and its expected benefits and costs.

AEMO would be pleased if you could have these matters considered by the AEMC. For further details, please do not hesitate to contact Terry Grimwade on 03 9609 8520.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'M. Zema'.

Matt Zema  
Managing Director and Chief Executive Officer

Attached: Rule change proposal – EM 2010/002

#319644



## NATIONAL ELECTRICITY RULE CHANGE PROPOSAL – EM 2010/002

### 1 Summary

AEMO requests a Rule to clarify the application and operation of administered price periods (APP). AEMO considers that ambiguity in these clauses could lead to different interpretations over the application of the administered price cap (APC) and administered floor price (AFP) involving material amounts of money.

This request is the result of AEMO analysing clauses 3.14.1 and 3.14.2 of the National Electricity Rules (NER) that concern the calculation of the cumulative price threshold (CPT) and the application of the APC and AFP. From this analysis, AEMO made some procedural changes to improve the APP process. The proposed Rule addresses issues of clarity and process that AEMO could not address procedurally.

AEMO proposes to clarify the application of the APC to market ancillary services. The current APP provisions apply to the 30-minute spot prices, even though ancillary services are settled every five minutes. AEMO also proposes to remove the process for imposing an APP to the next trading day. This process, which relies on AEMO determining that an APP is likely to occur on the next business day and is subject to the consent of the AER, is unnecessary and difficult to implement. AEMO is also seeking to extend the maximum timeframe in which AEMO includes compensation payable by, or to, Market Participants in preliminary and final statements.

### 2 Statement of Issues

#### 2.1 Commencement of an APP for market ancillary services

##### 2.1.1 Current requirements

Under clause 3.14.2(c)(1A) of the NER a trading interval is to be an APP in a region where:

...the sum of the *ancillary service price* for a *market ancillary service* in the previous 2016 *dispatch intervals*, calculated as if this clause did not apply, exceeds 6 times the *cumulative price threshold*;

In accordance with clause 3.9.2A, ancillary service prices are determined only for dispatch intervals.

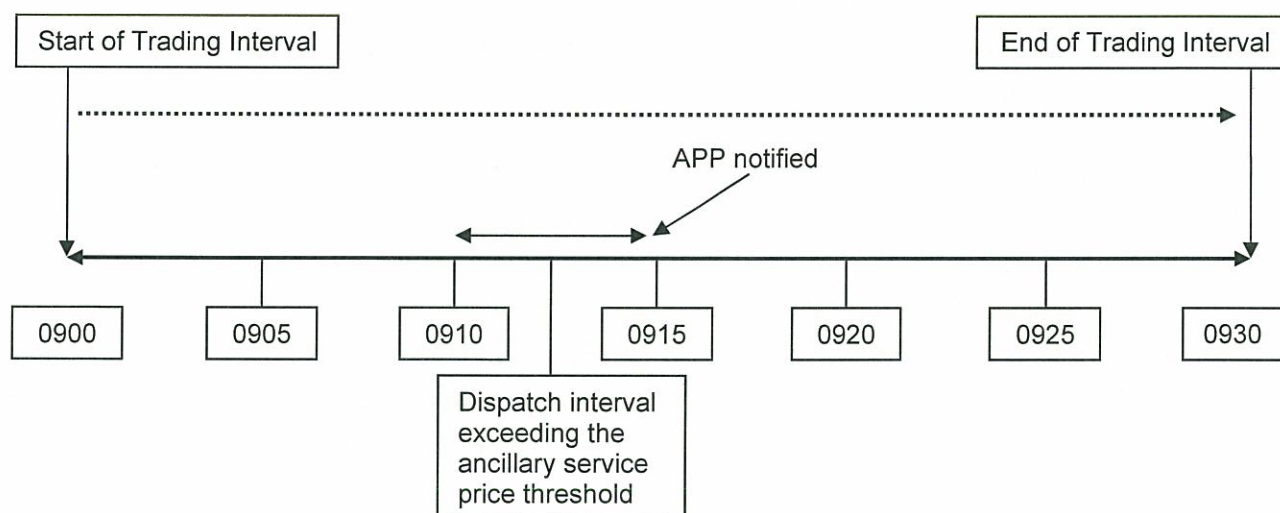


### 2.1.2 Issues

AEMO considers that clause 3.14.2(c)(1A) of the NER is unclear about the precise time that AEMO is to commence an APP for a market ancillary service. This clause indicates that a trading interval is an APP where the sum of an uncapped ancillary service price exceeds six times the CPT over 2016 dispatch intervals (“ancillary service price CPT threshold”). Because ancillary service prices are determined for five-minute periods, the ancillary service price CPT threshold can be exceeded part-way through a trading interval, however, the clause does not specify whether the commencement of an APP for market ancillary services applies in the current trading interval (for the next dispatch interval) or the next trading interval.

It does not appear reasonable that once the ancillary service price CPT threshold has been exceeded that an APP should only be applied from the next trading interval. To illustrate this, refer to Figure 1. If the dispatch interval ending at 0915 hrs is the one that exceeds the ancillary service price CPT threshold in the trading interval ending at 0930 hrs, should an APP commence for the dispatch interval ending 0920 hrs or the trading interval ending 1000 hrs?

Figure 1: Illustration of an APP occurring part-way through a trading interval



AEMO's current operating procedure indicates that an APP triggered by a market ancillary service would commence in the dispatch interval that follows the dispatch interval that exceeded the ancillary service price CPT threshold. In Figure 1, AEMO would commence the APP at the dispatch interval ending at 0920 hrs.<sup>1</sup> AEMO considers that its procedure is consistent with the intent of the administered price provisions and the amendments for the inclusion of market ancillary services in 2001 did not adequately consider the practical application of this clause.

Where an ancillary service price exceeds the ancillary service price CPT threshold, the NER should make it clear that the APP commences immediately following the dispatch interval that exceeded the ancillary service price CPT threshold. This would provide certainty for Registered Participants and AEMO.

<sup>1</sup> Circumstances have not arisen where AEMO needed to consider whether clause 3.14.2(c)(1A) of the NER should be exercised.



## 2.2 Application of the APC and AFP to ancillary service prices

### 2.2.1 Current requirements

Where an APP has been triggered, clauses 3.14.2(d1) and (d2) of the NER require AEMO to set dispatch prices and market ancillary service prices as follows:

- (d1) If, within an *administered price period* triggered because of clauses 3.14.2(c)(1), (2) or (3) in relation to *energy*, the *dispatch price* for the *region* identified in clause 3.14.2(c) calculated as if this clause 3.14.2(d1) did not apply:
  - (1) exceeds the *administered price cap*, then *AEMO* must set the *dispatch price* to the *administered price cap*; or
  - (2) is less than the *administered floor price*, *AEMO* must set the *dispatch price* to the *administered floor price*.
- (d2) If within an *administered price period* an *ancillary service price* for a *market ancillary service* for the *region* identified in clause 3.14.2(c) calculated as if this clause 3.14.2(d2) did not apply exceeds the *administered price cap*, then *AEMO* must set that *ancillary service price* to the *administered price cap*.

### 2.2.2 Issues

AEMO has experienced difficulties interpreting clause 3.14.2(d2) of the NER.

AEMO had understood that if an APP was triggered because the ancillary service price CPT threshold was exceeded, clause 3.14.2(d2) required AEMO to limit that market ancillary price only. Upon closer analysis of these provisions, AEMO now considers that this interpretation resulted in an inconsistent approach to the application of the APC and AFP depending on whether it was triggered by spot prices or by a market ancillary service price. For example, where an APP is triggered by spot prices, dispatch prices and all market ancillary service prices would be capped, but where a market ancillary service price triggered an APP, only that market ancillary service price would be capped.

To test its interpretation of these clauses, AEMO reviewed the Code Change Panel's report and authorisation application on Regional Pricing of Ancillary Services, and the Australian Competition and Consumer Commission's (ACCC) subsequent authorisation determination.<sup>2,3</sup> The National Electricity Code Administrator (NECA) proposed that all dispatch and ancillary services prices would be capped, regardless of the trigger. The ACCC determined that the market would not benefit from capping spot prices by an APP triggered by a market ancillary service.<sup>4</sup> Given this, the ACCC imposed an authorisation condition that market ancillary service prices would not trigger an APC in the energy market (but would do so for market ancillary services) and the drafting of clause

<sup>2</sup> For further information on the Code Change Panel report refer to:  
<http://www.neca.com.au/TheCodec3a4.html?CategoryID=34&SubCategoryID=83&ItemID=1243>.

<sup>3</sup> For further information on the authorisation application and the ACCC's determination refer to:  
<http://www.accc.gov.au/content/index.phtml/itemId/744632/fromItemId/401858>.

<sup>4</sup> ACCC, *Determination – Regional Pricing of Ancillary Services*, p. 16.



3.14.2 was to be amended to reflect this change.<sup>5</sup> Note that the ACCC did not comment on whether an APC would apply to the individual market ancillary service.

AEMO considers that the existing drafting of clause 3.14.2(d1) has contributed to difficulties in understanding the application of this clause. In particular, if this clause is interpreted literally and in isolation of clause 3.14.2(d1) or extrinsic material, it is reasonable to conclude that AEMO must only "...set that ancillary service price to the administered price cap," however, on closer analysis it now appears clear that it should be interpreted as follows:

1. Clause 3.14.2(d1) - where an APP is triggered for energy, that is, by clauses 3.14.2(c)(1), (2) or (3), and the dispatch price exceeds the APC or is less than the AFP, the dispatch price must be limited to the APC or AFP (as the case requires).
2. Clause 3.14.2(d2) - where an APP is triggered for energy or market ancillary services, that is, by any of the triggers in clause 3.14.2(c), any market ancillary service price that exceeds the CPT must be limited to the APC.

Given this interpretation, AEMO concluded that clause 3.14.2(d2) results in all market ancillary prices being limited by the APC during an APP. Hence, AEMO amended its operating procedure and notified the market of this change on 5 August 2010.<sup>6</sup>

Nonetheless, and given that this drafting has resulted in confusion over the correct interpretation, AEMO proposes that the drafting of these clauses be amended to remove ambiguity and reflect the policy intent.

## **2.3 The Imposition of an administered price period in advance**

### **2.3.1 The necessity of imposing an APP in advance**

Under clause 3.14.2(c)(3) of the NER, AEMO has discretion to, and with the AER's consent, extend an APP imposed on one trading day into the next if it forms the opinion that one or more trading intervals in the next business day will be an APP.

AEMO has considered the purpose, necessity, and drafting of clause 3.14.2(c)(3) of the NER and regards this clause as unnecessary. AEMO understands that the purpose of this clause was to reduce the risk that an APP implemented on one trading day would be closed at the start of the next trading day only to be re-applied shortly thereafter. In the absence of clause 3.14.2(c)(3) of the NER, an APP would not continue from one trading day to the next. However, if high dispatch prices or ancillary service prices continued or recurred, then this could again trigger an APP under clauses 3.14.2(c)(1) or (c)(1A).

At the time these clauses were drafted there were concerns about whether application of the APC would fluctuate between trading days and whether this would create confusion and market uncertainty. This has not been experienced in the National Electricity Market (NEM) and appears

<sup>5</sup> Ibid. pp. 19 – 20.

<sup>6</sup> AEMO Communications No. 410, NEM Review of Operation of Administered Price Provisions.



unlikely to occur in the future. To date, the NEM has had four APPs.<sup>7</sup> All were triggered by high dispatch prices and AEMO has not continued an APP under 3.14.2(c)(3) of the NER. Further, an APP has never recurred shortly after the closing of an APP.

AEMO also considers it is inappropriate for AEMO and the AER to have discretion to impose an APP for a future period, based on an assessment of projected future price outcomes. Potentially, both organisations would need to consider a range of factors in exercising this discretion, none of which are detailed in the NER, and this could create market uncertainty and inconsistent outcomes. This particularly applies if price outcomes were being considered for the next business day because these prices are beyond the pre-dispatch outlook period. Nonetheless, even where pre-dispatch prices are available, these are subject to change for a number of potential reasons that are difficult to predict.

Therefore, given the low probability of an event of this nature, combined with the current rule relying on AEMO and the AER to exercise discretion based on a speculative forward estimate of prices in subsequent trading intervals, rather than on actual prices, AEMO proposes that clause 3.14.2(c) of the NER be deleted on the basis that it is of limited and questionable benefit.

### **2.3.2 Drafting issues of clause 3.14.2(c)(3)**

If, after considering AEMO's proposal in 2.3.1, the AEMC was to decide that there is merit in retaining a rule that enables an APP to be continued into the next trading day, based on forecasts of future trading interval prices, then AEMO contends that clause 3.14.2(c)(3) requires redrafting to achieve this intended outcome.

It is AEMO's view that the current drafting of clause 3.14.2(c)(3) does not fulfil this intent because it relies on AEMO's opinion of likely prices during the "next business day".

The reference to the "next business day" appears to be an error because it does not require AEMO to take a view on the remainder of the current trading day, which is most relevant if an APP should be continued, this is demonstrated by the illustration in Appendix 1. Hence, it is possible that an APP would continue to fluctuate in the current business day, which would appear to defeat the purpose of the clause. Furthermore, AEMO and the AER would need to speculate on likely high prices on the next business day, for which there will be no pre-dispatch schedule available.

Therefore, if the clause is to be retained, rather than referring to the next business day it should refer to prices in the current trading day.

AEMO also considers that the current clause does not provide Market Participants with a transparent or predictable approach regarding how AEMO and the AER would determine whether an APP should be continued. Further, it does not provide effective guidance to AEMO and the AER to achieve the policy intent. As such, if the clause is retained, the reference to "AEMO's opinion" should be replaced with an objective test limited to and based on projected pricing outcomes in the pre-dispatch timeframe.

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<sup>7</sup> These occurred on 17 March 2008 – South Australia; 29 Jan 2009 – Victoria /South Australia; 16 June 2009 -Tasmania; and 13 Nov 2009 – South Australia.



AEMO notes that while this option would eliminate the speculative decision-making currently required of AEMO and the AER, it would still involve the potential implementation of an APP based on prices in pre-dispatch schedule, which are only forecasts, relying on numerous inputs that can change.<sup>8</sup> This solution may increase the risk of Generators making bids that are influenced by the knowledge that these can indirectly affect the decision as to whether an APP is removed, which could result in a misleading pre-dispatch schedule being published. Nonetheless, should clause 3.14.2(c)(3) be retained, AEMO proposes that the following changes be made to address some of the issues discussed above:

- Replace “in AEMO’s opinion” with “the *pre-dispatch schedule* indicates”.
- Replace “next *business day*” with “current *trading day*”.
- Remove all words after “the next *business day* will be an *administered price period*”.

## **2.4 Extending the time allowed for AEMO to settle compensation for an APC, MPC or MFP**

### **2.4.1 Current requirements**

Clause 3.15.10(c) of the NER allows AEMO 15 business days to include compensation amounts awarded for an APC, market price cap (MPC) and market floor price (MFP)<sup>9</sup> in the preliminary and final statements of relevant Market Participants. The 15 business days commences from the time the AEMC notifies AEMO of the compensation amount payable under clause 3.14.6. In accordance with AEMO’s obligations under clauses 3.15.14 and 3.15.15, the maximum time between issuing a preliminary and final statement is 13 business days. The details of the dates for issuing these statements are in AEMO’s settlement calendar.<sup>10</sup>

### **2.4.2 Issues**

This process was exercised for the first time in September 2010 and highlighted that, under some circumstances, clause 3.15.10(c) does not allow AEMO sufficient time to comply with its obligations to include compensation amounts payable by, or to, Market Participants in their preliminary and final statements. AEMO’s ability to comply with the 15 business days allowed under clause 3.15.10(c) depends on a number of factors, including:

- The date the AEMC notifies AEMO of the amount of compensation payable to the relevant Market Participant.
- Where this date of notification occurs with respect to the settlement calendar.

<sup>8</sup> The pre-dispatch schedule includes forecasts that are non-binding on Registered Participants and are the result of many inputs that can be changed before dispatch, these include demand forecasts, network capacity, generator availabilities and generator bids. Thus, although the above changes would make the test objective, it could still, with hindsight, prove incorrect. There is also a risk that a Generator could be influenced to vary its bids with the intent of affecting the outcome of the test.

<sup>9</sup> Compensation due to the application of the MPC or MFP is only available to Scheduled Network Service Providers.

<sup>10</sup> For further information on the settlements calendar refer to:  
<http://www.aemo.com.au/electricityops/timetables.html>.



- The time AEMO needs to perform its functions with respect to clause 3.15.10.
- The 13 business days between the electronic posting of preliminary and final statements.

Table 2 illustrates the issue with the AEMC notifying AEMO of the compensation payable on Wednesday 24 November 2010. AEMO is unable to include compensation amounts payable in the preliminary statement for settlement week 47 due to the time required making these calculations and inputting them into the settlement systems. Given this, AEMO will include these amounts in the preliminary and final statements of settlement week 48, which are on Friday 3 December and Wednesday 22 December, respectively. In this instance, AEMO did not comply with the 15 business days allowed under clause 3.15.10(c).

*Table 2: Extract from AEMO's 2010 settlement calendar*

WEEK ID	BILLING PERIOD START	BILLING PERIOD END	PRELIMINARY STATEMENT	FINAL STATEMENT	SETTLEMENT DATE
47	Sun-14-Nov	Sat-20-Nov	Fri-26-Nov	Wed-15-Dec	Fri-17-Dec
48	Sun-21-Nov	Sat-27-Nov	Fri-3-Dec	Wed-22-Dec	Fri-24-Dec

AEMO considers that clause 3.15.10 should be amended to allow AEMO up to 25 business days to fulfil its obligations under this clause. AEMO would settle any amounts payable two days after the receipt of the final statement in accordance with clauses 3.15.15 and 3.15.16.

## 2.5 Minor issues

AEMO's analysis of clauses 3.14.1 and 3.14.2 of the NER identified a number of minor issues that are addressed in the following section.

### 2.5.1 Incorrect references to "market ancillary service price"

Under clause 3.14.1(a) of the NER, the AEMC must publish a schedule that specifies an APC for each region to apply to spot prices and ancillary service prices. AEMO considers that including a reference to dispatch prices in this clause would make it clear that the APC limits the dispatch price and is consistent with clause 3.14.2(d1). This proposed change would require the AEMC to vary the APC Schedule to account for this. The proposed Rule would include a transitional provision to allow the AEMC to amend this without undertaking a Rules consultation.

Clause 3.14.1(a) also refers to "market ancillary service prices", which is not commonly referred to in the NER, except in clauses 3.8.24(b), 3.9.2A(d), 3.13.7(e)(3) and (4), 3.15.7(c), however, only clauses 3.9.2A(d), 3.14.1(a) and 3.15.7(c) italicise the entire term. AEMO understands that this term consists of two defined glossary terms, "market" and "ancillary service price". The Glossary definition of "ancillary service price" refers to a "market ancillary service", hence the definition already identifies that the price is for a market ancillary service. As such, AEMO considers that the word "market" in these clauses is superfluous and should be deleted, and "ancillary service price" should be italicised. AEMO also notes that the NER, correctly, does not include references to "non-market ancillary service prices", so there should be no confusion generated as a result of this correction.



Further, clause 3.9.2B(e)(1) includes a reference to “market ancillary services prices”, pluralising “service” is inconsistent with the other NER references and appears to be an error, AEMO considers the reference should be singular.<sup>11</sup>

### **2.5.2 Redundant APC derogation (clause 9.45.2)**

On 25 May 2008, the AEMC updated the APC to \$300 for all regions in accordance with clause 3.14.1(a) of the NER. Clause 9.45.2 of the NER should be deleted because it is no longer relevant to the Tasmanian region.

## **3 Proposed Rule**

### **3.1 Description of the proposed rule**

The proposed Rule would:

- Clarify clause 3.14.2(c)(1A) to make it clear that an APP for market ancillary services commences at the dispatch interval following the dispatch interval where the ancillary service price CPT threshold was exceeded.
- Clarify that clause 3.14.2(d2) requires AEMO to limit all market ancillary services where an APP is notified for energy or any market ancillary service.
- Delete clause 3.14.2(c)(3), which allows AEMO to impose an APP for the next trading day, or amend for the drafting issues identified in section 2.3.2.
- Amend clause 3.15.10(c) to allow AEMO up to 25 business days to fulfil its obligations to include compensation awarded by the AEMC under clause 3.14.6 in statements provided under clauses 3.15.14 and 3.15.15.
- In clause 3.14.1(a) include a reference to the defined term dispatch prices. AEMO notes that the AEMC is required to undertake a consultation in accordance with clause 8.9. Given this is a minor clarification which does not materially affect the APC schedule, AEMO proposes that the proposed Rule includes a transitional provision that directs the AEMC to amend this schedule without conducting a Rules consultation. This would avoid unnecessary costs associated with consulting on this matter.
- In clauses 3.14.1(a), 3.8.24(b), 3.9.2A(d), 3.13.7(e)(3) and (4), 3.14.1(a) and 3.15.7(c) omit “market” and italicise the term “ancillary service prices” wherever occurring.
- In clause 3.9.2B(e)(1) omit “market ancillary services prices” and substitute with “ancillary service prices” italicised.
- Delete clause 9.45.2.

<sup>11</sup> Note that under clause 1.7.1(b) “words importing the singular include the plural and vice versa”. Although this is relevant for the reference to “market ancillary services prices” in clause 3.9.2B(e)(1), AEMO considers that this should be corrected to be consistent with other references.



### **3.2 Power of AEMC to make the proposed rule**

The subject matter about which the AEMC may make Rules is set out in section 34 and Schedule 1 of the National Electricity Law (NEL).

AEMO considers that the proposed Rule falls within the subject matters that the AEMC may make Rules about, as it relates to the activities of persons participating in the NEM.

## **4 How the Proposed Rule Contributes to the National Electricity Objective**

Before the AEMC can make the a Rule change it must apply the rule making test set out in the NEL, which requires it to assess whether the proposed Rule will or is likely to contribute to the National Electricity Objective (NEO). Section 7 of the NEL states 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, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system.

AEMO submits that the proposed Rule is likely to promote the NEO because it would reduce ambiguities and the complexity of the existing APP provisions. This would make it clearer when AEMO is required to intervene in the NEM and this would improve decision-making for Registered Participants and AEMO. This would increase the predictability of the NER's operation and regulatory certainty by reducing difficulties in predicting and understanding outcomes.

The consequences of intervention are material, and ambiguity could result in dispute over the application of these clauses. Disputes can result in resources being spent on those processes, whereas clarifying these provisions might avoid or reduce incentives for dispute. The proposed Rule would increase regulatory certainty which, in turn, would reduce unnecessary risks for Registered Participants and reduce the potential costs involved in managing these risks. These costs are a factor contributing to inefficiencies in the NEM and would ultimately be borne by consumers, as AEMO passes costs to Registered Participants through increased participant fees and they, in turn, pass these, and their costs, on to consumers. Potential costs of dispute and managing risks are, therefore, avoided and not passed on to consumers of electricity. This is likely to promote the efficient operation of electricity services for the long term interests of consumers of electricity with respect to the price of electricity supply, thereby contributing towards the NEO.

AEMO also submits that deleting clause 3.14.2(c)(3) of the NER, which is intended to allow an APP to be carried over to the next trading day, increases regulatory certainty because it removes a discretionary provision that, to date, has not been exercised and the existing drafting makes it impractical to apply. Deleting this clause continues to allow an APP to be notified if high prices were to recur shortly after the closing of an APP if it was triggered by clause 3.14.2(c)(1) or (c)(1A). AEMO considers that, as drafted, this clause does not have its intended effect and would require AEMO and the AER to make subjective and speculative decisions regarding future prices. Deleting this clause, or amending it, would improve the transparency and predictability of the NER



and NEM's operation, which would increase regulatory certainty because it would be clear when AEMO will intervene in the market. For these reasons, AEMO notes that deleting this clause is also consistent with good regulatory practice.

The proposed Rule also promotes good regulatory practice because the clarity of the NER is improved by clarifying requirements and removing redundant elements.

## **5 Expected Benefits and Costs of the Proposed Rule**

Generally, the proposed Rule benefits participants because it would reduce the complexity in administered price provisions which could create difficulties in predicting and understanding outcomes. Increased certainty and transparency of these arrangements is likely to reduce the potential or incentive for differences of opinion over the application of the APC and AFP.

### **5.1 Proposed changes to clause 3.14.2(c)(3)**

#### **5.1.1 Deleting clause 3.14.2(c)(3)**

As discussed in section 4, AEMO considers that deleting clause 3.14.2(c)(3) would benefit participants because it would increase the predictability and transparency of decision-making. This would result in greater regulatory certainty regarding the application of the APP.

AEMO does not consider that there would be material costs associated with deleting clause 3.14.2(c)(3). It may increase the theoretical risk of an APP being removed and then reapplied in the next trading day not long after it had been removed. Based on experience, AEMO's view is that this risk is unlikely to be significant. Further, any increase in risk would be negligible because if high prices recurred shortly after an APP closed it is likely that the period between the closing and recommencement of an APP would be brief because clause 3.14.2(c)(1) or (c)(1A) would trigger another APP shortly thereafter. AEMO notes that the existing clause permits the APP to fluctuate because AEMO and the AER have discretion to exercise this provision.

#### **5.1.2 Amending the drafting of clause 3.14.2(c)(3)**

Correcting the drafting issues identified in section 2.3.2 would make this clause clearer for Registered Participants and AEMO, thereby increasing regulatory certainty. Replacing "AEMO's opinion" with "the pre-dispatch schedule" would ensure that AEMO applies an objective test that is limited to the pre-dispatch schedule. This would remove most of the market uncertainty associated with speculative views about prices in the next business day.

Potentially, this alternative would reduce the ability of the APP to fluctuate because the proposed test would take into account high prices in the current trading day. Because this option makes the decision to impose an APP in advance dependent on the pre-dispatch schedule, there is a risk that Generators' pre-dispatch bidding might be influenced by the knowledge they can indirectly affect the decision as to whether an APP would be imposed for the next trading day. This might result in a misleading pre-dispatch schedule.



AEMO does not expect that the proposed redrafting of this clause would result in any costs. If this clause is retained, AEMO intends to automate the process to reduce operational decision-making and the costs of system changes would not be avoided.

## **5.2 Clarification of the commencement of an APP and application of the APC to market ancillary services**

The proposed Rule would clarify the commencement of an APP and application of the APC for market ancillary services. AEMO does not expect that the proposed Rule would result in material costs because it is a clarification and an APP for market ancillary services has never been triggered, however, if a future APP was notified for market ancillary services and Registered Participants considered that the APP was to be applied from the next trading interval instead of the next dispatch interval, Generators would benefit from high prices and Market Participants would not because prices would be uncapped in these dispatch intervals.

## **5.3 Extending the time allowed for AEMO to settle APC, MPC, MPF compensation**

The proposed Rule would increase the time AEMO is allowed to include compensation awarded by the AEMC under clause 3.14.6 in preliminary and final statements from 15 to 25 business days. This would allow AEMO enough time to comply with this obligation and would not increase its costs. AEMO does not expect that this would result in any costs to Registered Participants because, in awarding compensation, the AEMC included financing costs to the date the compensation was payable for Synergen's compensation claim.

## **5.4 Clarifications and minor changes**

The proposed Rule identifies a number of clarifications and minor changes to existing clauses, including correcting errors, italicisation of terms, and the removal of a redundant clause. AEMO does not expect that these changes would result in material costs to the market, but would benefit Registered Participants by increasing regulatory certainty.

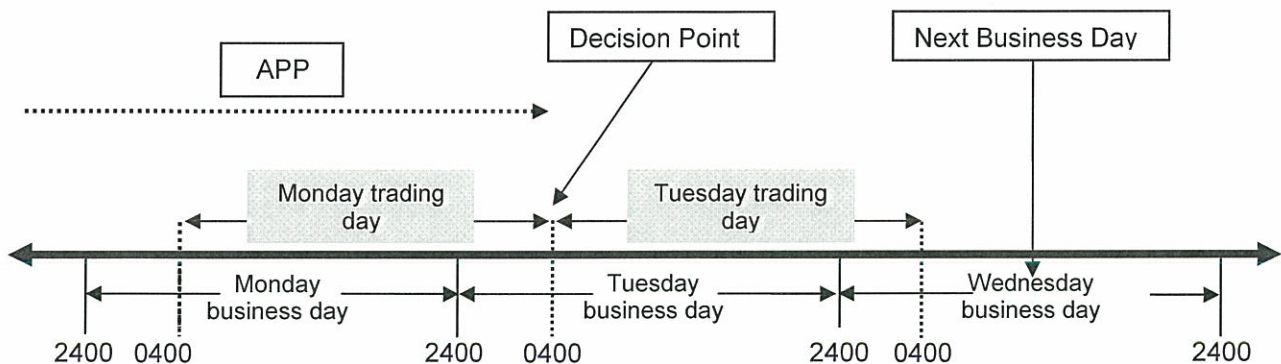
## Glossary

TERM OR ABBREVIATION	EXPLANATION
ACCC	Australian Competition and Consumer Commission
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AFP	Administered floor price
APC	Administered price cap
APP	Administered price period
CPT	Cumulative price threshold
MFP	Market floor price
MPC	Market price cap
NECA	National Electricity Code Administrator
NEL	National Electricity Law
NEM	National Electricity Market
NEO	The national electricity objective as stated in section 7 of the NEL
NER	National Electricity Rules



## APPENDIX 1: AN ILLUSTRATION OF THE IMPOSITION OF AN ADMINISTERED PRICE PERIOD IN ADVANCE

Figure 1: An illustration of the imposition of an APP in advance



In Figure 1, if an APP was notified after 0400 hrs on Monday, under clause 3.14.2(c)(2) all other trading intervals in that trading day are APPs. Under clause 3.14.2(c)(3), AEMO may form a view as to whether one or more trading intervals in the next business day is likely to be an APP. Note that the Monday trading day ends in the Tuesday business day. At 0400 hrs on Tuesday (the decision point) the next business day is Wednesday, not Tuesday. At this time, AEMO only has forecast prices available that extend to the end of the Tuesday trading day, that is, from 0000 hours to 0400 hrs on the Wednesday business day. Hence, at 0400 hrs on Tuesday, there would only be eight trading interval price forecasts available for the next business day (that is, Wednesday) on which to base a decision to impose an APP for the next trading day.

Further, if the decision to impose an APP was required to be made on a day prior to a non-business day, the next business day would be a Monday (shown in the Table 1) and no pre-dispatch schedule would be available on which to base a decision to impose an APP for the next trading day.

Table 1: Imposing an administered price period

ADMINISTERED PRICE PERIOD NOTIFIED IN TRADING DAY	DAY THE DECISION TO IMPOSE AN APP IS MADE	NEXT BUSINESS DAY
Monday	Tuesday 0400 hrs	Wednesday
Tuesday	Wednesday 0400 hrs	Thursday
Wednesday	Thursday 0400 hrs	Friday
Thursday	Friday 0400 hrs	Monday
Friday	Saturday 0400 hrs	Monday
Saturday	Sunday 0400 hrs	Monday

Sunday	Monday 0400 hrs	Tuesday
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This clause does not require AEMO to form a view for the rest of the current business day, which is the period from 0400 hrs to 2400 hrs. Hence, prices that would have the most relevance to a decision taken at 0400 hrs on Tuesday would not be considered.