

Australian Energy Market Commission

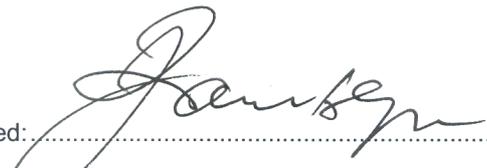
**Rule Determination**

**National Electricity Amendment (Removal of  
Performance Standard for Identifying  
Manifestly Incorrect Inputs) Rule 2009**

Rule Proponent(s)  
NEMMCO

26 February 2009

Signed: .....

  
**John Tamblyn**  
**Chairman**  
For and on behalf of  
Australian Energy Market Commission

**Commissioners**  
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## **Citation**

AEMC 2009, *Removal of Performance Standard for Identifying Manifestly Incorrect Inputs*, Rule Determination, 26 February 2009, Sydney

## **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
DPRG	Dispatch Pricing Reference Group
MCE	Ministerial Council on Energy
NECA	National Electricity Code Administrator
NEL	National Electricity Law
NEM	National Electricity Market
NEMMCO	National Electricity Market Management Company Ltd
NEO	National Electricity Objective
Rules	National Electricity Rules

## Summary

In accordance with sections 102 and 103 of the National Electricity Law (NEL) the Australian Energy Market Commission (Commission) has determined to make the National Electricity Amendment (Removal of Performance Standard for Identifying Manifestly Incorrect Inputs) Rule 2009 and related Rule determination. In this Rule determination, the Commission has approved NEMMCO's Rule change proposal and sets out the reasons for the Commission's determination. The Rule is scheduled to commence operation on 27 February 2009.

On 13 November 2008, NEMMCO lodged a Rule change proposal requesting the Commission to make a non-controversial Rule.

The Rule change proposal can be divided into three sections:

- removing the requirement for NEMMCO to design the automated procedures to a performance standard, so that at least the majority of dispatch intervals subject to review are found either to: have had manifestly incorrect inputs; or be the result of the dispatch algorithm being run with correct inputs immediately after being run with manifestly incorrect inputs (by removing clause 3.9.2B(j) from the Rules);
- removing the requirement for NEMMCO to have regard to the performance standard under clause 3.9.2B(j) when it reviews the effectiveness of the automated procedures (by amending clause 3.9.2B(k) of the Rules); and
- removing the requirement on NEMMCO to carry out a review of the automated procedures if a report conducted by NEMMCO under clause 3.9.2B(l) on the effectiveness of the automated procedures demonstrates that these procedures have not achieved the performance standards (by removing clause 3.9.2B(m) from the Rules).

NEMMCO also requested that its Rule change proposal be expedited under section 96 of the NEL for the following reasons:

- its Rule change proposal would remove a performance standard that is not achievable;
- its Rule change proposal would have no effect on market operation or performance; and
- it discussed the issue with industry representatives who participate in the Dispatch Pricing Reference Group (DPRG), and the DPRG supported NEMMCO's Rule change proposal, provided the requirements for NEMMCO to review and report on the performance of the automated identification process in clauses 3.9.2B(k) and (l) of the Rules remain.

The Commission agreed to expedite the Rule making process as it considered that the proposed Rule with amendments will be unlikely to have a significant effect on the National Electricity Market (NEM), subject to any written objections to the

expedited process. On 15 January 2009, the Commission published notice under sections 95 and 96 of the NEL of its intention to commence the Rule change process and consultation on this Rule change proposal. The period for written objections to the expedited process closed on 30 January 2009 and written submissions closed on 13 February 2009. There were no written objections to the expedited process and no submissions received.

Having considered the issues raised in the Rule change proposal and its own analysis, the Commission is satisfied that the Rule is likely to contribute to the achievement of the National Electricity Objective (NEO) by removing NEMMCO's obligations under clauses 3.9.2B(j) and (m) of the Rules and amending NEMMCO's obligations under clause 3.9.2B(k) of the Rules to perform these obligations having regard to performance standards which it has determined is unachievable (as highlighted in the reviews it undertook in 2006 and 2007). This will make the Rules more robust by creating more certainty on NEMMCO's responsibilities in relation to this clause, thereby promoting the efficient operation of electricity services with respect to the price, quality, safety, reliability and security of supply of electricity and the reliability, safety and security of the national electricity system.

# 1 The NEMMCO Rule Change Proposal

On 13 November 2008, NEMMCO lodged a Rule change proposal requesting the Commission to make a non-controversial Rule.

## 1.1 Summary of the Rule Change Proposal

NEMMCO's Rule change proposal can be divided into three sections:

1. removing the requirement for NEMMCO to design the automated procedures to a performance standard, so that at least the majority of dispatch intervals subject to review are found either to: have had manifestly incorrect inputs; or be the result of the dispatch algorithm being run with correct inputs immediately after being run with manifestly incorrect inputs (by removing clause 3.9.2B(j) from the Rules);
2. removing the requirement for NEMMCO to have regard to the performance standard under clause 3.9.2B(j) when it reviews the effectiveness of the automated procedures (by amending clause 3.9.2B(k) of the Rules); and
3. removing the requirement on NEMMCO to carry out a review of the automated procedures if a report conducted by NEMMCO under clause 3.9.2B(l) on the effectiveness of the automated procedures demonstrates that these procedures have not achieved the performance standards (by removing clause 3.9.2B(m) from the Rules).

## 1.2 Context and Background

On 15 February 2005, NEMMCO submitted a proposal to National Electricity Code Administrator (NECA) to amend the National Electricity Code to allow limited corrections to be made to spot market energy and ancillary service price outcomes, where those price outcomes are based on manifestly incorrect inputs to the dispatch algorithm.<sup>1</sup> This proposal then became the responsibility of the Commission who published the draft Rule determination and final Rule determination. At the time, the Commission noted that the Rules had no provision for the correction of such pricing errors, allowing them to flow through to the spot market settlement process, and to persist as market price signals.<sup>2</sup> The Commission determined that it intended to make a Rule to address the issue raised in the proposal.<sup>3</sup> On 12 January 2006, the Commission made the National Electricity Amendment (Revision of Dispatch Pricing due to Manifestly Incorrect Inputs) Rule 2006 No. 1 which commenced operation on 1 June 2006.

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<sup>1</sup> AEMC Final Rule Determination on Price Revisions for Manifestly Incorrect Inputs, November 2005, p.3.

<sup>2</sup> AEMC Final Rule Determination on Price Revisions for Manifestly Incorrect Inputs, November 2005, p.3.

<sup>3</sup> AEMC Final Rule Determination on Price Revisions for Manifestly Incorrect Inputs, November 2005, p.3.

In accordance with clause 3.9.2B(k) of the Rules, NEMMCO undertook two reviews in 2006 and 2007:<sup>4</sup>

- “In August 2006, NEMMCO completed a preliminary review of the triggers relating to the identification of dispatch intervals in consultation with the Dispatch Pricing and Reference Group (DPRG). It found that 8.26 per cent of events that were subject to review were associated with a MII [manifestly incorrect input]. As a result, the triggers used in the price revision process were amended.<sup>5</sup>”
- “A full review was undertaken in May 2007 and, in consultation with the DPRG, sensitivity studies were undertaken to determine the impact of changes in identifying MIIs [manifestly incorrect inputs], using historical data, by increasing and decreasing the values of the trigger levels. The review concluded that NEMMCO had not achieved the required performance standard and reducing or increasing trigger levels would not improve the performance of the identification process of dispatch intervals to the required standard (i.e. greater than 50 per cent).”

In its Rule change proposal, NEMMCO considered that the existing performance standard for the automated procedures would be unachievable for the following reasons:<sup>6</sup>

- “The main reason for this [the existing performance standard for the automated procedures being unachievable] is that the trigger for the automated procedure is based on material differences in dispatch and pricing outcomes, as required by clause 3.9.2B[i] of the Rules, however, significant changes to market conditions, such as sudden shifts in dispatch offers, or the re-classification of interconnectors due to lightning, also produce similar material differences in market outcomes. The frequency of these non-MII [non-manifestly incorrect input] events is much higher than MII [manifestly incorrect input] events”; and
- “Following the 2006 and 2007 reviews, NEMMCO notes:
  - higher trigger levels imposed in 2006 are still exceeded by normal market and power system events;
  - a further increase of the trigger levels risks not capturing MIIs [manifestly incorrect inputs] and the opportunity for correcting a price for these dispatch intervals would be lost;

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<sup>4</sup> NEMMCO Rule change proposal, Attachment A, 13 November 2008, p.1.

<sup>5</sup> “The triggers are based on market outcomes of regional dispatch prices and interconnector flows. Significant changes in these parameters are compared to the nominated trigger levels to identify dispatch outcomes that may be the result of MIIs [manifestly incorrect inputs]. These identified dispatch outcomes are marked subject to review.”

<sup>6</sup> NEMMCO Rule change proposal, Attachment A, 13 November 2008, p.2.

- regional dispatch prices and inter-regional interconnector flows are the only feasible market outcomes that could be used as triggers for the automated process; and
- improvements to the inputs to the dispatch and pricing process have reduced the occurrence of MIIs [manifestly incorrect inputs]. Perversely, this has had the effect of lowering the automated process performance indicator as the proportion of material differences in pricing outcomes due to manifestly incorrect inputs compared to normal market processes reduced.”

NEMMCO considered that its proposed Rule would address this issue by removing a performance standard that is not achievable.<sup>7</sup> In particular, NEMMCO considered that this would entail removing clauses 3.9.2B(j) and (m) from the Rules and amending clause 3.9.2B(k).<sup>8</sup>

NEMMCO also indicated that it “discussed the issue with industry representatives who participate in the DPRG, which supported NEMMCO’s [*sic*] proposing the Rule provided the requirements for NEMMCO to review and report on the performance of the automated identification process in clauses 3.9.2B(k) and (l) remain”.<sup>9</sup>

### 1.3 Consultation on the NEMMCO proposal

NEMMCO requested that its Rule change proposal be expedited under section 96 of the National Electricity Law (NEL) for the following reasons:<sup>10</sup>

- its Rule change proposal would “remove a performance standard that is not achievable”;
- its Rule change proposal would “have no effect on market operation or performance”; and
- it “discussed the issue with industry representatives who participate in the DPRG, which supported NEMMCO’s [*sic*] proposing the Rule provided the requirements for NEMMCO to review and report on the performance of the automated identification process in clauses 3.9.2B(k) and (l) remain”.

The Commission agreed to expedite the Rule making process as it considered that the proposed Rule with amendments will be unlikely to have a significant effect on the national electricity market (NEM), subject to any written objections to the expedited process.

On 15 January 2009, the Commission published notice under sections 95 and 96 of the NEL of its intention to commence the Rule change process and consultation on this Rule change proposal. The period for written objections to the expedited process

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<sup>7</sup> NEMMCO Rule change proposal, Attachment A, 13 November 2008, p.2.

<sup>8</sup> NEMMCO Rule change proposal, Attachment A, 13 November 2008, p.3.

<sup>9</sup> NEMMCO Rule change proposal, Attachment A, 13 November 2008, Pp.3-4.

<sup>10</sup> NEMMCO Rule change proposal, Attachment A, 13 November 2008, Pp.3-4.

closed on 30 January 2009 and written submissions closed on 13 February 2009. There were no written objections to the expedited process and no submissions received.

No public hearing was held on this Rule change proposal.

## 2 Methodology for Developing the Rule Determination

The Commission has determined in accordance with section 102 of the NEL to make this Rule determination and, in accordance with section 103, the Rule to be made. The Rule is attached to this determination. The Rule is scheduled to commence operation on 27 February 2009.

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

1. the Commission's powers under the NEL to make the Rule;
2. NEMMCO's Rule change proposal and proposed Rule;
3. submissions received (if any);
4. the Commission's analysis on the ways in which the Rule is likely to contribute to the achievement of the national electricity objective (NEO) so that it satisfies the statutory Rule making test; and
5. any relevant MCE statements of policy principles.

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

Under the NEL, the Commission may make a Rule if it falls within the subject matter for which the Commission may make Rules, as set out in section 34 and Schedule 1 to the NEL.

The Commission is satisfied that the Rule relates to:

1. section 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 –

...

(iii) the activities of persons (including Registered participants) participating in the national electricity market or involved in the operation of the national electricity system;” and

2. items 7 and 8 of Schedule 1 to the NEL, which relate to:

item 7. The setting of prices for electricity and services purchased through the wholesale exchange operated and administered by NEMMCO, including maximum and minimum prices.

- item 8. The methodology and formulae to be applied in setting prices referred to in item 7.

## **2.2 Assessment of the Rule: the Rule making test and the National Electricity Objective**

Under the NEL, the Commission may make a Rule if it is satisfied that the Rule will or is likely to contribute to the achievement of the NEO.

The Rule making test requires the Commission to consider whether the proposed Rule promotes 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.

## **2.3 The NEMMCO Rule change proposal and proposed Rule**

NEMMCO's Rule change proposal sought to remove the performance standard required by clause 3.9.2B of the Rules for identifying dispatch intervals that have been affected by manifestly incorrect inputs.<sup>11</sup> It considered that the existing performance standard for the automated procedures would be unachievable.<sup>12</sup>

The Rule change proposal can be divided into three sections:<sup>13</sup>

- removing the requirement for NEMMCO to design the automated procedures to a performance standard, so that at least the majority of dispatch intervals subject to review are found either to: have had manifestly incorrect inputs; or be the result of the dispatch algorithm being run with correct inputs immediately after being run with manifestly incorrect inputs (by removing clause 3.9.2B(j) from the Rules);
- removing the requirement for NEMMCO to have regard to the performance standard under clause 3.9.2B(j) when it reviews the effectiveness of the automated procedures (by amending clause 3.9.2B(k) of the Rules); and
- removing the requirement on NEMMCO to carry out a review of the automated procedures if a report conducted by NEMMCO under clause 3.9.2B(l) on the effectiveness of the automated procedures demonstrates that these procedures have not achieved the performance standards (by removing clause 3.9.2B(m) from the Rules).

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<sup>11</sup> NEMMCO Rule change proposal, Cover Letter, 13 November 2008, p.1.

<sup>12</sup> NEMMCO Rule change proposal, Attachment A, 13 November 2008, p.2.

<sup>13</sup> NEMMCO Rule change proposal, Attachment B, 13 November 2008, p.1.

NEMMCO also requested that its Rule change proposal be expedited under section 96 of the NEL for the following reasons:

- its Rule change proposal would remove a performance standard that is not achievable;<sup>14</sup>
- its Rule change proposal would have no effect on market operation or performance;<sup>15</sup> and
- it discussed the issue with industry representatives who participate in the DPRG, and the DPRG supported NEMMCO's Rule change proposal, provided the requirements for NEMMCO to review and report on the performance of the automated identification process in clauses 3.9.2B(k) and (l) of the Rules remain.<sup>16</sup>

NEMMCO provided a statement addressing how their Rule change proposal will or is likely to contribute to the NEO under the NEL. NEMMCO expects the proposed Rule to:<sup>17</sup>

- promote good regulatory practice because it ensures the Rules are consistent with what can be achieved; and
- improve the clarity, consistency and efficiency of the Rules by removing the requirement to design the automated procedure to a performance standard. In turn, such removal fosters an environment of efficient investment and use of electricity services.

NEMMCO also provided a statement addressing the expected benefits and costs of its Rule change proposal and the potential impacts of the change on those likely to be affected. It states that:<sup>18</sup>

- it expects that the proposed Rule change would benefit NEMMCO because it would no longer need to comply with an obligation it is unable to meet;
- there will be no change to costs because NEMMCO would continue reporting and analysing the performance of manifestly incorrect inputs; and
- it does not expect that any other party would be adversely affected by this proposed Rule change.

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<sup>14</sup> NEMMCO Rule change proposal, Attachment A, 13 November 2008, p.3.

<sup>15</sup> NEMMCO Rule change proposal, Attachment A, 13 November 2008, p.3.

<sup>16</sup> NEMMCO Rule change proposal, Attachment A, 13 November 2008, p.4.

<sup>17</sup> NEMMCO Rule change proposal, Attachment A, 13 November 2008, p.4.

<sup>18</sup> NEMMCO Rule change proposal, Attachment A, 13 November 2008, p.4.

## **2.4 Submissions received on the Rule change proposal**

There were no submissions received during consultation.

## **2.5 The Commission's test of the National Electricity Objective**

The Commission has applied the Rule making test to the Rule, as modified by the outcomes of analysis and discussion in Appendix A of this Rule determination. The Commission is satisfied that the Rule is likely to contribute to the achievement of the NEO by removing NEMMCO's obligations under clauses 3.9.2B(j) and (m) of the Rules and amending NEMMCO's obligations under clause 3.9.2B(k) of the Rules to perform these obligations having regard to performance standards which it has determined is unachievable (as highlighted in the reviews it undertook in 2006 and 2007). This will make the Rules more robust by creating more certainty on NEMMCO's responsibilities in relation to this clause, thereby promoting the efficient operation of electricity services with respect to the price, quality, safety, reliability and security of supply of electricity and the reliability, safety and security of the national electricity system.

Appendix A presents the Commission's reasoning on the issues raised by NEMMCO's proposal.

## **2.6 MCE statements of policy principles**

The NEL also requires the Commission to have regard to any Ministerial Council on Energy (MCE) statements of policy principles in making a Rule under the NEL. The Commission notes that there are no relevant MCE statements of policy principles to which it must have regard for this Rule change proposal.

## **2.7 Differences between proposed Rule and final Rule**

The Commission has accepted NEMMCO's proposed Rule for the removal of the performance standard required by clause 3.9.2B of the Rules for identifying dispatch intervals that have been affected by manifestly incorrect inputs. In particular:

- removing clause 3.9.2B(j);
- amending clause 3.9.2B(k); and
- removing clause 3.9.2B(m).

## **A Commission's analysis of the proposed Rule**

In this appendix, the Commission addresses issues that have been raised during the public consultation or that have emerged during its analysis.

### **A.1 NEMMCO's proposal**

In summary, NEMMCO's Rule change proposal can be divided into three sections:

1. removing the requirement for NEMMCO to design the automated procedures to a performance standard, so that at least the majority of dispatch intervals subject to review are found either to: have had manifestly incorrect inputs; or be the result of the dispatch algorithm being run with correct inputs immediately after being run with manifestly incorrect inputs (by removing clause 3.9.2B(j) from the Rules);
2. removing the requirement for NEMMCO to have regard to the performance standard under clause 3.9.2B(j) when it reviews the effectiveness of the automated procedures (by amending clause 3.9.2B(k) of the Rules); and
3. removing the requirement on NEMMCO to carry out a review of the automated procedures if a report conducted by NEMMCO under clause 3.9.2B(l) on the effectiveness of the automated procedures demonstrates that these procedures have not achieved the performance standards (by removing clause 3.9.2B(m) from the Rules).

This section details the Commission's analysis and reasons underlying its Rule in relation to the issue identified above.

### **A.2 The Commission's consideration and reasoning**

On the issue of identification of dispatch intervals subject to review in the Commission's final Rule determination on Price Revisions for Manifestly Incorrect Inputs in November 2005, the Commission noted that:<sup>19</sup>

- "NEMMCO proposed to automatically identify dispatch intervals that would be subject to review, through procedures to be established in consultation with Market Participants."
- "NEMMCO proposed that the Rules would specify that the procedures must be accurate and robust enough to ensure that the majority of intervals subject to review must be subsequently found to either:
  - a. have had manifestly incorrect inputs to the dispatch algorithm when run in that dispatch interval; or

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<sup>19</sup> AEMC Final Rule Determination on Price Revisions for Manifestly Incorrect Inputs, November 2005, p.11.

- b. be the result of the dispatch algorithm being run with correct inputs immediately after being run with incorrect inputs.”

The Commission considered in its final Rule determination on Price Revisions for Manifestly Incorrect Inputs in November 2005 that:<sup>20</sup>

- “The Commission considers it appropriate that the National Electricity Rules do not contain the technical details relating to how potentially incorrect inputs are identified. However the Commission also considers that the Rules should provide broad guidance as to the required performance of the identification procedure.”
- “There is potential for a number of ‘false positives’ in the identification of events, where events are identified as subject to review, but prices are not replaced. These incidents would add uncertainty to pricing outcomes that are relied upon and used by Registered Participants and other stakeholders.”
- “NEMMCO has suggested that the procedure should operate with a benchmark of identifying 50% ‘real’ input errors. The Commission considers that this level is appropriate as a minimum benchmark for the identification procedure.”
- “It may be possible, with the benefit of experience, to reduce the number of false positive results. Therefore, the Commission proposes, in the interests of transparency of the process and better quality information to the market, that NEMMCO should report on the causes of false positive incidents as part of its proposed annual report on the identification procedure.”

On this basis, the Commission decided to support “NEMMCO’s proposal to develop, in consultation with interested parties, a procedure to automatically identify dispatch intervals that are subject to review. However, the Commission ... decided to modify the proposed Rule to require NEMMCO to report annually on the cause of any dispatch intervals being identified as having potentially incorrect inputs, but where prices were not subsequently modified”.<sup>21</sup>

The Commission considers that NEMMCO has proposed a Rule change through the benefit of experience gained after the Commission’s final Rule determination on Price Revisions for Manifestly Incorrect Inputs in November 2005, and NEMMCO’s two reviews in 2006 and 2007 as required under clause 3.9.2B(k) of the Rules.<sup>22</sup> NEMMCO has argued that following these reviews the performance standard for identifying dispatch intervals affected by manifestly incorrect inputs, as required under clause 3.9.2B, is unachievable. The Commission is satisfied that the Rules will be more robust and create more certainty on NEMMCO’s responsibilities in relation to this clause if the obligations under clauses 3.9.2B(j) and (m) of the Rules are

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<sup>20</sup> AEMC Final Rule Determination on Price Revisions for Manifestly Incorrect Inputs, November 2005, p.12.

<sup>21</sup> AEMC Final Rule Determination on Price Revisions for Manifestly Incorrect Inputs, November 2005, p.12.

<sup>22</sup> Clause 3.9.2B(k) requires NEMMCO to review at least once a year to review the effectiveness of the automated procedures having regard to the performance standard referred to in clause 3.9.2B(j).

removed and clause 3.9.2B(k) is amended. This in turn is likely to contribute to the achievement of the NEO.

### **A.3 The Commission's finding in relation to this issue**

The Commission accepts NEMMCO's proposal to remove the performance standard required by clause 3.9.2B of the Rules for identifying dispatch intervals that have been affected by manifestly incorrect inputs (by removing clauses 3.9.2B(j) and (m) from the Rules and amending clause 3.9.2B(k)) and accepts that it is likely to contribute to the achievement of the NEO.

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