



## Compliance with dispatch instructions

### Final determination released

**The AEMC has made a final determination to not make a Rule to change the nature of the obligation on generators and other market participants to comply with dispatch instructions from AEMO. The AEMC considers there is an appropriate level of regulatory certainty under the current arrangements and that moving away from the current strict obligation to comply could impair AEMO's ability to manage system security and result in higher total system costs.**

### Background

AEMO's central dispatch process maintains power system security by balancing the supply and demand of electricity throughout the day. Market participants, such as generators and scheduled loads, independently make bids and offers to consume or produce electricity at various prices in each five minute dispatch interval. The central dispatch process combines these bids and offers into a merit order, which forms the basis of dispatch instructions issued to these market participants by AEMO.

This merit order represents the optimal mix of generation to meet the expected demand, taking into account constraints designed to manage power system security.

Under the current arrangements, a generator has a strict obligation to comply with dispatch instructions, except in circumstances where it believes that doing so would be a hazard to public safety or materially risk damaging equipment. The AER is responsible for monitoring and enforcing compliance with these obligations. It has discretion in deciding whether to take enforcement action and the nature of that action. AEMO monitors the extent to which generators comply with dispatch instructions for the efficient operation of the market.

### The rule change request

On 13 April 2015, Snowy Hydro submitted a request to the AEMC to replace the strict obligation to comply with dispatch instructions in the National Electricity Rules (NER) with an obligation under which generators would not be in breach of the NER if they either:

- use reasonable endeavours to comply with a dispatch instructions; or
- are not found by AEMO to be non-conforming.

Snowy Hydro's rationale for the rule change request is primarily based on regulatory uncertainty around the strict obligation to comply with dispatch instructions. It suggests that the current Rule is uncertain in its enforceability. Snowy Hydro also suggests that the current Rule is unnecessary for the efficient and secure operation of the NEM, and imposes an unnecessary compliance burden on generators.

### Reasons for the Commission's decision

The AEMC has decided not to make a Rule because it is not satisfied that the proposed Rule will, or is likely to, contribute to the achievement of the National Electricity Objective.

#### *Regulatory uncertainty*

There is an appropriate level of regulatory certainty around the current strict obligation to comply with dispatch instructions. As described above, the AER has a level of discretion as to how it exercises its enforcement powers, and it clearly outlines how it exercises its discretion taking into account the realities of the market, including through guidelines, such as its Compliance and Enforcement Statement of Approach. This approach to enforcement appears to be borne out in practice.

The Commission has made a final determination to not make a Rule to change the nature of the obligation on generators and other market participants to comply with dispatch instructions from AEMO.

If compliance with dispatch obligations were based on “reasonable endeavours”, as proposed by Snowy Hydro, what is required for compliance in any particular circumstance would be less clear to generators.

#### *Importance of compliance with dispatch instructions*

The central dispatch process achieves a supply of electricity to meet forecast demand that minimises wholesale electricity prices for consumers and maintains power system security. Dispatch instructions to generators – and compliance with those instructions - are fundamental to this process.

Were the strict obligation to comply with dispatch instructions to be qualified as proposed by Snowy Hydro, over time generators are likely to be less diligent in complying with these instructions, particularly at times of high prices. In these circumstances, the capacity of generators which form part of the optimal mix of generation determined by AEMO for that five minute dispatch interval, would be displaced by the capacity of generators which are not part of this optimal mix.

Over time this could result in the need for AEMO to procure more frequency control services to manage frequency fluctuations on the power system, which could increase the prices for these services. This could increase total system costs and ultimately wholesale electricity prices paid by consumers. It could also impair AEMO’s ability to maintain the NEM in a secure operating state.

#### *Costs of compliance*

The rule change request suggests that the current obligation to strictly comply with dispatch instructions may result in higher costs being incurred by some market participants, compared to a reasonable endeavours obligation. While this is possible, market participants have a substantial degree of influence over their dispatch instructions and can minimise their costs through the way they bid parameters such as their price, capacity and ramp rates. These are commercial matters for market participants.

#### *AEMO’s non-conformance procedure*

Part of the solution proposed by Snowy Hydro in the rule change request is that compliance with AEMO’s non-conformance procedures would mean a generator was not in breach of the NER. These procedures are primarily designed to achieve the efficient operation of the market by aligning price with dispatch.

AEMO’s non-conformance procedures are distinct from the AER’s processes. This distinction reflects the different roles of AEMO and the AER. AEMO’s role is system and market operator and it does not enforce generator behaviour or conduct from a NER-compliance perspective. On the other hand the AER’s role includes monitoring and enforcing generator compliance with dispatch instructions for the purposes of NER-compliance.

For information contact:

AEMC Chairman, **John Pierce** (02) 8296 7800  
AEMC Senior Director, **Chris Spangaro** (02) 8296 7800

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