

NEMMCO

**National Electricity Market
Management Company Ltd**

ABN 94 072 010 327

Sydney Office

13 November 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box A2449
South Sydney NSW 1235

By email: submissions@aemc.gov.au

Dear John,

Removal of Performance Standard for identifying Manifestly Incorrect Inputs

NEMMCO requests the AEMC consider making a Rule under sections 91 and 96 of the *National Electricity Law (NEL)*. The proposed Rule seeks to remove the performance standard required by clause 3.9.2B for identifying dispatch intervals that have been affected by manifestly incorrect inputs.

NEMMCO considers that the proposed Rule change is non-controversial as it is unlikely to have a significant effect on the National Electricity Market (**NEM**), as is required for an expedited consultation process under section 96 of the NEL.

A description of the proposed Rule change, statement of the issues concerning the existing Rules, and how the proposed Rule addresses those issues consistent with the national electricity objective (**NEO**) is contained in Attachment A. A draft of the proposed Rule is set out in Attachment B.

NEMMCO would be pleased if you could have these matters considered by the AEMC. For further details, please do not hesitate to contact John Wormald on (02) 9239 9107.

Yours faithfully,



Murray Chapman
Acting General Manager Market Operations

Enc. Attachment A: Requests for Rule change
Attachment B: Draft version of the proposed Rule

Mansfield Office
PO Box 2516
Mansfield QLD 4122
Tel: (07) 3347 3100
Fax: (07) 3347 3200

Melbourne Office
Level 12
15 William Street
Melbourne VIC 3000
Tel: (03) 9648 8777
Fax: (03) 9648 8778

Norwest Office
PO Box 7326
Baulkham Hills BC NSW 2153
Tel: (02) 8884 5000
Fax: (02) 8884 5500

Sydney Office
Level 22, Norwich House
6-10 O'Connell Street
Sydney NSW 2000
Tel: (02) 9239 9199
Fax: (02) 9233 1965

ATTACHMENT A

1. Statement of issues

This section identifies the issues with clause 3.9.2B(j) of the National Electricity Rules (**Rules**) regarding the performance standard for automated procedures. Additionally, NEMMCO's proposed solution to these issues is discussed.

1.1 Background

On 1 July 2006, the Rule relating to manifestly incorrect inputs (**MIIs**) commenced. It was introduced to allow NEMMCO to make minor corrections to spot and ancillary service price outcomes where they resulted from MIIs into the dispatch algorithm. The purpose of this Rule was to ensure that spot and ancillary service prices were not distorted by MIIs resulting in prices being inconsistent with the operating conditions of the National Electricity Market (**NEM**).

In its Rule change request, NEMMCO proposed to develop and review procedures for the automatic identification of dispatch intervals subject to review because of significant changes to dispatch and pricing outcomes. The process was to be designed to a performance standard so that at least half of dispatch intervals subject to review are due to MIIs. This aspect of the proposal was accepted by the AEMC.

As required by clause 3.9B(k) of the Rules, NEMMCO has undertaken two reviews since the commencement of clause 3.9B.

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**).¹ It found that 8.26 per cent of events that were subject to review were associated with a MII. As a result, the triggers used in the price revision process were amended.²

A full review was undertaken in May 2007³ and, in consultation with the DPRG, sensitivity studies were undertaken to determine the impact of changes in identifying MIIs, 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).

Price revision process under the Rules

Under clause 3.9.2B of the Rules, NEMMCO is required to review and make changes to pricing where it has determined that a MII into the dispatch algorithm has occurred. A review of a dispatch interval is triggered:

- by NEMMCO applying the automated procedures developed in consultation with Registered Participants; or

¹ For further information on the DPRG including membership see <http://nemmco.com.au/stakeholder/dprg.html>

² 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. These identified dispatch outcomes are marked subject to review.

³ The report is available at <http://www.nemmco.com.au/powersystemops/140-0104.pdf>

- where NEMMCO considers the dispatch interval is likely to be subject to a MII where the dispatch interval immediately preceding it was a dispatch interval subject to review.

Where NEMMCO has determined a dispatch interval is subject to review it must, within 30 minutes of the affected dispatch interval occurring:

- replace all energy and market ancillary service prices with the corresponding prices for the last correct dispatch interval; and
- recalculate and adjust all spot prices for the affected dispatch interval.

NEMMCO must publish a report outlining the reasons for this determination, whether it was correct, and what action will be taken to address the risk of its occurring again.

The automated procedures are designed to detect instances where material differences in prices and interconnector flows have occurred. As indicated earlier, they must be designed to meet a performance standard that requires that at least the majority of dispatch intervals subject to review are found to:

- have had MIIs; or
- be the result of the dispatch algorithm's being run with correct inputs immediately after being run with MIIs.

At least once annually NEMMCO is required to review the effectiveness of the automatic procedures against the performance standard and report on its findings. If the performance standard has not been achieved NEMMCO, in consultation with Registered Participants, must review the automated procedures and amend these where necessary.

1.2 The Issue with the Current Provisions

NEMMCO considers the performance standard for the automated procedures to be unachievable. The main reason for this 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(j) 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 events is much higher than MII events.

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 and the opportunity for correcting a price for these dispatch intervals would be lost;
- 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. Perversely, this has had the effect of lowering the automated process performance indicator as the proportion of material differences in pricing outcomes due to MIIs compared to normal market processes reduced.

Given these factors, NEMMCO considers that the performance standard is unachievable. The DPRG agreed at its meeting number 92 (held on 27 November 2007) that it was

appropriate for NEMMCO to seek its removal through a Rule change, provided that NEMMCO continues to report on its performance in identifying MIIIs.

2. Proposed Rule

This section provides a description of the proposed Rule developed by NEMMCO, NEMMCO's right to submit the proposed Rule changes to the AEMC, and the power that NEMMCO considers that the AEMC has to consider this proposed Rule change.

2.1 Description of Proposed Rule

The proposed Rule seeks to remove clauses 3.9.2B(j) and (m) of the Rules and amend clause 3.9.2B(k).

2.2 NEMMCO's Right to Submit this Proposal

NEMMCO is requesting that the AEMC make this proposed Rule in accordance with section 91 of the NEL.

NEMMCO has the following relevant functions under the NEL:

- to operate and administer the NEM; and
- to promote the development and improve the effectiveness of the operation and administration of the NEM.

Under section 91(1) of the NEL, the AEMC may make a Rule at the request of any person, the MCE or the Reliability Panel. As such, NEMMCO may request the AEMC make a Rule.

2.3 Power of the 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 NEL.

NEMMCO 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. The proposed Rule is within matters set out in Schedule 1 to the NEL, as it relates to the methodology and formulae to be applied in setting prices for electricity services purchased through the wholesale exchange operated and administered by NEMMCO.

2.4 Request for a Non-Controversial Rule

NEMMCO requests that the AEMC reviews this Rule change proposal under section 96 of the NEL. Section 96 applies if the AEMC considers that a request for a Rule is a request for a non-controversial Rule. A non-controversial Rule means a Rule that is unlikely to have a significant effect on the NEM.

NEMMCO considers that section 96 applies to this proposal as the Rule would:

- remove a performance standard that is not achievable; and
- have no effect on market operation or performance.

NEMMCO has discussed the issue with industry representatives who participate in the DPRG, which supported NEMMCO's 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.⁴

2.5 Consultation

NEMMCO has discussed the issues associated with the performance standard with the DPRG and the need to remove it. The DPRG agreed that the performance standard could be removed provided that NEMMCO's requirement to review the effectiveness of the automated procedures remained.

3. How the proposed Rules contribute to the National Electricity Objective (NEO)

Before the AEMC can make 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 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.

NEMMCO submits that the proposed Rule promotes good regulatory practice because it ensures the Rules are consistent with what can be achieved. NEMMCO considers that removing the requirement to design the automated procedure to a performance standard would improve the clarity, consistency and efficiency of the Rules which, in turn, fosters an environment of efficient investment and use of electricity services.

4. Expected Benefits and Costs of the Proposed Rule

NEMMCO 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, as discussed in section 1.2. There will be no change to costs because NEMMCO would continue report and analyse the performance of MIs.

NEMMCO does not expect that any other party would be adversely affected by this proposed Rule change.

⁴ Minutes of DPRG meeting number 92 are not published but are available from members (see membership list on the NEMMCO website at <http://nemmco.com.au/stakeholder/dprg.html>)

GLOSSARY

Term or Abbreviation	Explanation
AEMC	Australian Energy Market Commission
DPRG	Dispatch Pricing Reference Group
MCE	Ministerial Council on Energy
MIs	Manifestly incorrect inputs
NEM	National Electricity Market
NEO	The national electricity objective as stated in section 7 of the NEL.
NEL	National Electricity Law
Rules	National Electricity Rules

ATTACHMENT B

This Draft is based on National Electricity Rules Version 22**3.9.2B Pricing where NEMMCO determines a manifestly incorrect input**

- (j) ~~[Deleted]The automated procedures must be designed to a performance standard, so that at least the majority of *dispatch intervals* subject to review are found either to:~~
 - (1) ~~have had manifestly incorrect inputs; or~~
 - (2) ~~be the result of the *dispatch algorithm* being run with correct inputs immediately after being run with manifestly incorrect inputs.~~
- (k) At least once each calendar year, *NEMMCO* must review the effectiveness of the automated procedures ~~having regard to the performance standard referred to in clause 3.9.2B(j).~~
- (m) [Deleted]