Australian Energy Market Commission

RULE CHANGE

CONSULTATION PAPER

National Electricity Amendment (Compliance with dispatch instructions) Rule 2015

17 September 2015

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About the AEMC

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

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1 Introduction

On 13 April 2015, Snowy Hydro submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission) to amend clause 4.9.8(a) of the National Electricity Rules (NER) by replacing the standard of compliance with dispatch instructions under the current arrangements, with an obligation which:

- requires participants to use reasonable endeavours to comply; and
- incorporates the Australian Energy Market Operator's (AEMO) non-conformance process.

This Consultation Paper has been prepared to facilitate public consultation on the rule change proposal, and to seek stakeholder submissions on the rule change request.

This paper:

- sets out the background to, and summary of, the rule change request;
- sets out the proposed assessment framework to be used by the Commission in assessing the rule change request;
- identifies a number of questions and issues to facilitate the consultation on the rule change request; and
- outlines the process for making submissions.

Submissions on this consultation paper are due by no later than 15 October 2015.

2 Background

Snowy Hydro considers that there is a need to amend the current arrangements relating to compliance with dispatch instructions, which are set out in the NER. It contends that the current arrangements are unnecessary for the safe, efficient operation of the NEM and impose an unnecessary compliance burden.

This chapter sets out the following background information to the rule change request:

- an overview of the design of the wholesale electricity market;
- the current rules requiring compliance with dispatch instructions;
- AEMO's process for non-conformance with dispatch instructions;
- the AER's process for non-compliance with dispatch instructions;
- AEMO's system security obligations, and
- a comparison of the AER non-compliance and AEMO non-conformance processes, and AEMO system security obligations.

2.1 Overview of wholesale electricity market design

The National Electricity Market (NEM) is a decentralised electricity market. It is operated by AEMO and relies on scheduled and semi-scheduled generators, scheduled network service providers and market participants, independently making dispatch offers and following dispatch instructions.[1]

The NEM is designed to produce electricity safely and at an efficient cost. Market participants make bids and offers to consume or produce electricity at various prices in each five minute dispatch interval in a day. Each generator's offers are combined into a merit order and used to forecast the most efficient mix of generation to dispatch. AEMO issues dispatch instructions to participants, based on these bids, offers and other market conditions. These dispatch instructions allow electricity supply and demand to be safely balanced every minute of the day.

Consistency between central dispatch and pricing is therefore a key market design principle of the NEM.[2] Non-compliance with dispatch instructions may lead to inconsistencies between central dispatch and pricing and distort the efficiency of market outcomes.

1 NER, Clause 4.9.8.

2 NER, Clause 3.1.4(a)(4)

2.2 Current rules for compliance with dispatch instructions

The current rules requiring compliance with dispatch instructions are set out in chapter 3 and 4 of the NER, as outlined below.

2.2.1 Compliance with dispatch instructions - clause 4.9.8(a)

The obligation in clause 4.9.8(a) is a responsibility of all registered participants and a civil penalty provision. It states that:

A Registered Participant must comply with a dispatch instruction given to it by AEMO unless to do so would, in the Registered Participant's reasonable opinion, be a hazard to public safety or materially risk damaging equipment.

This means that, with the exception of the circumstances set out in the clause, registered participants are required to comply with dispatch instructions under the current arrangements. The extent to which the AER takes action to enforce this obligation is subject to the AER's discretion, as described in section 2.4 below.

2.2.2 Failure to conform to dispatch instruction - clause 3.8.23

Clause 3.8.23 outlines the process to be followed by AEMO when a participant fails to conform to dispatch instructions. If a scheduled generator, scheduled network service provider or scheduled load fails to respond to dispatch instructions within a tolerable time and accuracy, it is declared as non-conforming and cannot be used as the basis for setting wholesale spot prices. However, a participant that fails to meet its dispatch target is still paid for the amount of energy it provides and any frequency control ancillary services (FCAS) it is dispatched for by AEMO. AEMO has set out how it approaches the non-conformance process in one of its power system operating procedures, which is summarised in section 2.3 below.

2.3 AEMO non-conformance process

AEMO monitors non-conformance with dispatch instructions in accordance with its Dispatch System Operating Procedure.[3]

The purpose of AEMO's non-conformance process is to:

- monitor conformance of participants' dispatch against dispatch targets for the efficient operation of the market (ie aligning pricing with dispatch).[4] Non-conformance with dispatch targets, which are determined based on the most efficient mix of generation, may result in inefficient pricing; and

3 Australian Energy Market Operator, *Dispatch System Operating Procedure*, 23 October 2014.

4 Dispatch targets for all scheduled generators, semi-scheduled generators, scheduled network services and scheduled loads are derived by the NEM Dispatch Engine after co-optimising the

- implement corrective measures if market participants fail to follow a dispatch instruction, such as removing a generating unit from dispatch.[5]

AEMO identifies participants who are non-conforming based on the severity and duration of the event. This is based on whether the dispatch from a participant's unit is outside the Small Error Trigger threshold of 3 per cent or Large Error Trigger threshold of 5 per cent, compared to its dispatch target, and the number of dispatch intervals that it continues to dispatch outside these error thresholds.

AEMO implements corrective measures aimed at resolving the mismatch between actual and total dispatched generation in the NEM. Corrective measures involve communications with the participant to notify that it is dispatching outside its error thresholds. Through this process, a participant's compliance status for example could change from 'Normal' through to 'Suspended', as outlined below:[6]

- **Normal:** Plant is following dispatch target within error thresholds;
- **Off target:** Plant is not following dispatch target and MW error exceeds detection thresholds;
- **Non responding**: A number of dispatch intervals have passed and the plant is still not following target (the number of dispatch intervals depends on the severity of the error);
- **Non-conforming pending**: The non-response has reached a stage where the plant will be declared non-conforming;
- **Non-conforming**: The plant is declared non-conforming; and
- **Suspended**: The plant is not included in the compliance process.

Therefore, the end point of this process is that a non-conforming plant is removed from dispatch by AEMO. This means that it is also removed as a basis for setting the dispatch price.

2.4 AER enforcement process

The Australian Energy Regulator (AER) is responsible for monitoring, investigating and enforcing compliance with obligations under the National Electricity Law and the respective rules and regulations.[7] Importantly, the AER is not obliged to take enforcement action in any circumstances. It has discretion in deciding whether to take action and the nature of that action.

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energy market with the frequency control ancillary services market. Australia Energy Market Operator, *Dispatch System Operating Procedure*, 23 October 2014, p9.

5 Ibid, p10.

6 Ibid, p31

7 Australian Energy Regulator, *Compliance and Enforcement Statement of Approach*, April 2014, p4.

The AER's first Compliance Bulletin provided guidance to the electricity industry on the AER's expectations and the approach it intended to take with respect to monitoring compliance with dispatch instructions.[8]

The AER's approach to monitoring and enforcing compliance is outlined in its Compliance and Enforcement Statement of Approach. This explains how the AER responds to potential breaches and the factors it has regard to when deciding whether to take enforcement action. These include (but are not limited to) the nature, extent and impact of the conduct; whether the conduct was deliberate or avoidable; the extent of any financial gain; and the businesses' actions and corporate culture.[9] The factors are generic to all enforcement actions and do not specify a megawatt (MW) error tolerance limit at which the AER will take enforcement action for a participant whose dispatch has differed from its dispatch target.

The AER also issues Quarterly Compliance Reports which outline its compliance monitoring and enforcement activity for each three month period. These provide updates on the AER's engagement with industry, and if necessary provide further clarity on the AER's approach to enforcing compliance with the rules.[10]

Since the commencement of the AER's compliance function relating to dispatch instructions in 2006, it has issued three infringement notices and instituted one proceeding for a breach of clause 4.9.8(a).[11]

2.5 AEMO system security obligations

AEMO's obligations in relation to power system security are set out in Chapter 4 of the NER. This outlines AEMO's responsibility for maintaining the power system within the limits of its technical envelope, so it is in a secure operating state.[12] AEMO manages power system security in a number of ways including through the use of system constraints, the procurement of ancillary services[13] and by issuing directions.[14]

2.6 Comparison of AER and AEMO processes and obligations

Table 2.1 below compares the AER non-compliance process, AEMO non-conformance process and AEMO system security obligations in terms of purpose, relevant part of the NER and how each function.

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8 Australian Energy Regulator, *Compliance Bulletin No. 1 - Complying with dispatch instructions*, December 2006, p1.

9 Australian Energy Regulator, *Compliance and Enforcement Statement of Approach*, April 2014, p10.

10 Australian Energy Regulator, *Quarterly Compliance Report: National Electricity and Gas Laws, January - March 2015*, p1

11 Ibid, p3 and 6.

12 NER, Clause 4.3.1

13 NER, Clause 4.9.3A

14 NER, Clause 4.89

It is noted that AEMO's non-conformance process is not concerned with system security, which it manages separately through the use of system constraints, the procurement of FCAS and by issuing directions.

Table 2.1 Comparison of AER non-compliance, AEMO non-conformance processes and AEMO system security obligations

	AER Non-Compliance process	AEMO Non-Conformance process	AEMO System Security obligations
Purpose	Monitoring and enforcing compliance with dispatch instructions.	Monitoring conformance against dispatch targets for the efficient operation of the market (ie aligning central dispatch with price). Implement corrective measures where a participant fails to follow dispatch instructions (ie removing generator from dispatch).	Maintain power system security.
NER	Chapter 4	Chapter 3	Chapter 4
How it works?	The AER has discretion in deciding whether to take enforcement action and the nature of that action, considering all relevant circumstances for each case. The factors for enforcement action are outlined in the AER's Compliance and Enforcement Statement of Approach.[15]	Identify where participants are non-conforming based on the severity and duration of the event, as defined in AEMO's Dispatch Systems Operating Procedure.[16]	Maintain power system security through: • Use of system constraints; • Issuing directions; and • Procurement of FCAS.

15 Australian Energy Regulator, *Compliance and Enforcement Statement of Approach*, April 2014, p10

16 Australia Energy Market Operator, *Dispatch System Operating Procedure*, 23 October 2014, p10.

3 Details of the Rule Change Request

This Chapter provides a summary of the proposed amendments to the NER as set out in the rule change request. It outlines Snowy Hydro's proposed rule and rationale for the rule change request.

Please refer to the rule change request for a full description of the proposal and rationale.

3.1 The rule change request

Snowy Hydro's rule change request proposes to amend the current NER by replacing the standard of compliance with dispatch instructions under the current arrangements, with an obligation which means participants who either:

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

will not be in breach of the relevant rules.

The rule change request includes a proposed rule which amends clause 4.9.8(a) of the NER.

"A Registered Participant will breach this clause 4.9.8(a) if, with respect to a dispatch instruction given to it by AEMO.

(1) it does not use reasonable endeavours to comply with that dispatch instruction unless to do so would, in the Registered Participant's reasonable opinion, be a hazard to public safety or materially risk damaging equipment; and

(2) one or more of the Registered Participant's scheduled generating units, scheduled network services or scheduled loads which caused or contributed to the Registered Participant's failure to comply with clause 4.9.8(a)(1) has been declared and identified as non-conforming by AEMO under clause 3.8.23."

3.2 Rationale for rule change request

Snowy Hydro's rationale for the rule change request, including issues with the current arrangements and the proposed solution, is outlined below.

3.2.1 Issues with current arrangements

Snowy Hydro suggests that there are a number of issues with the current arrangements for compliance with dispatch instructions.

"Strict compliance" is physically impossible

Snowy Hydro states that the current arrangements require "strict compliance" with dispatch instructions, in every dispatch interval, which is not physically possible. It is stated that this is due to the following reasons:

- variability in the fuel to energy conversion process[17] makes it difficult for generators to control the precise quantity of electricity produced;
- most scheduled generators are fitted with governor control systems that automatically adjust its output in response to frequency fluctuations, such that its output may deviate from the target specified in the dispatch instruction;
- the metering equipment for scheduled generators in the NEM is permitted to have an accuracy tolerance of between 0.5% and 3%; and
- the inability of scheduled generators to simultaneously comply with dispatch instructions to provide energy and FCAS.

"Strict compliance" is inconsistent with intention of the NER and AEMO procedures

Snowy Hydro states that the current clause 4.9.8(a) is inconsistent with the intention of the NER and AEMO's procedures, which both contemplate regular departure from the need to comply with dispatch instructions. For example, AEMO's non-conformance procedure outlines a process by which participant's dispatch output is monitored for departure against its dispatch target for each dispatch interval.

Uncertain regulatory risk

Snowy Hydro states that the current rule is uncertain in its enforceability. This is due to the lack of clarity around the scope of enforcement in light of physical impossibilities identified above (ie dispatch error tolerance limits not specified) and because participants are subject to the AER's enforcement discretion. This creates uncertainty for generators applying the rule to their generation activities and may reduce the efficiency of the wholesale spot market.

"Strict compliance" is unnecessary for market security and efficiency, and imposes an unnecessary compliance burden

According to Snowy Hydro, the current rule is unnecessary for the safe and efficient operation of the NEM and the costs of precise compliance are not offset by any benefits that advance the NEO. Generators continue to have financial incentives in the absence of a requirement to "strictly comply" with dispatch targets, due to the FCAS cost

17 This refers to the fact that the amount of energy that can be produced from a fixed amount of fuel is not constant. Snowy Hydro states that this is due to a range of factors for each type of generation. For hydro-electric generation it depends on a number of factors including the operation of the headwater including pipeline and tail water infrastructure, whether the unit is producing a level of output that is approaching its minimum or maximum load and the condition and operating point of the plant.

recovery process[18] and because non-conformance removes the generator's offer as a basis for setting the dispatch price.

The rule change request suggests that the current rules impose a significant compliance cost on generators and the market. The current rules may increase operational costs for generators by requiring additional units to be started and stopped, and for reserve capacity to be kept solely to comply with dispatch targets. It may also increase wholesale spot market prices, as marginal generators factor in the potential cost of non-compliance as a risk premium into their dispatch bid.

3.2.2 Proposed solution

Snowy Hydro's proposed solution is designed to address the issues it set out in the rule change request. The proposed solution would mean a participant would be safe from being found in breach of the relevant rules where either:

- it used reasonable endeavours to comply with a dispatch instruction; or
- it was not found by AEMO to be non-conforming.

Replace "strict compliance" with reasonable endeavours obligation

According to Snowy Hydro, replacing the requirement for participants to "strictly comply" with dispatch instructions with an obligation based on reasonable endeavours reflects the reality of operating large, complicated equipment in a market where dispatch targets can change every five minutes. Generators would operate under an obligation to do everything they reasonably can to meet dispatch targets.[19]

Use of AEMO's non-conformance process

According to Snowy Hydro, the adoption of AEMO's non-conformance process will appropriately trade-off the need for registered participants to comply with dispatch instructions to ensure secure operation of the power system, and the increase in overall costs if the compliance obligation is specified with a too high level of precision.[20]

Snowy Hydro states that the use of AEMO's established process should reduce AER costs by removing the need for the AER to run its own systems and processes to monitor compliance with dispatch instructions. It should also remove ambiguity as to how compliance is measured and triggered.

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18 The Causer Pays process is used to allocate the costs of purchasing regulation FCAS from market participants that diverged from their dispatch target. Australian Energy Market Operator, *Causer Pays: Procedure for Determining Contribution Factors*, 21 December 2008, p5.

19 Snowy Hydro, *Proposed rule change: Reasonable endeavours to comply with dispatch instructions*, 13 April 2015.

20 Ibid, pp10-11.

4 Assessment framework

The Commission's assessment of this rule change request must consider whether the proposed rule promotes the National Electricity Objective (NEO).

The NEO is:[21]

> "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, safety, reliability and security of supply of electricity; and
>
> (b) the reliability, safety and security of the national electricity system."

Based on a preliminary assessment of this rule change request, the most relevant aspects of the NEO are the efficient operation and use of electricity services for the long-term interests of consumers with respect to the price of supply of electricity, and the security of the national electricity system.

To determine whether the proposed rule, if made, is likely to promote the NEO, the following principles may be taken into account.

4.1 Most efficient mix of electricity generation

Efficient wholesale electricity costs underpin an efficient energy market and efficient investment decisions. It is proposed to test the contribution of the rule change request to the efficient cost of supply of electricity. This relates to productive efficiency in that electricity is produced as efficiently as possible. The rule change request relates to a move away from the requirement to comply with dispatch instructions under the current arrangements. As dispatch instructions are based on the most efficient mix of generation,[22] the proposed rule has the potential to result in an inefficient mix of generation and therefore higher electricity wholesale costs.

4.2 The security of the national electricity system

Maintaining power system security within a safe operating state reduces the potential for damage to assets and harm to people. It is proposed to test the contribution of the rule change request to the security of the national electricity system. The rule change request relates to a move away from the current standard of compliance with dispatch instructions under the current arrangements. This has the potential to change market participants' dispatch behaviour and AEMO's ability to manage power system security during the normal function of the market.

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21 As set out under section 7 of the National Electricity Law (NEL).

22 Determined by the National Electricity Market Dispatch Engine.

4.3 Regulatory certainty for market participants

Regulatory certainty supports confidence in markets and supporting regulatory arrangements. For market participants, confidence in regulatory arrangements may encourage them to actively participate, and invest in the market, which promotes efficiency. It is proposed to test the degree to which the rule change request is likely to enhance regulatory certainty and predictable outcomes for market participants.

4.4 Compliance costs

The primary principles that are likely to be taken into account in the assessment of the rule change request are outlined in sections 4.1, 4.2 and 4.3 above. A secondary consideration is the compliance costs that market participants may incur in order to comply with a dispatch instruction.

Reducing compliance costs could contribute to the NEO through a reduction in wholesale electricity costs flowing through to customers. The rule change relates to the potential reduction in market participants' costs to supply electricity by replacing the standard of compliance with dispatch instructions under the current arrangements, with an alternative compliance obligation which is less stringent, such as reasonable endeavours. It is proposed to test the likely impact on compliance costs due to such a change.

The proposed rule will be assessed against the relevant counterfactual of not making the proposed change to the NER. That is, against the current situation where participants are required to comply with dispatch instructions, as per clause 4.9.8(a) of the NER.

5 Issues for Consultation

This chapter identifies a number of issues for consultation that are relevant to this rule change request. The issues outlined below are provided for guidance. Stakeholders are encouraged to comment on these issues as well as any other aspect of the rule change request or this consultation paper, including the proposed framework.

5.1 Is there a problem with the current arrangements?

This section addresses whether there is a problem with the current arrangements for compliance with dispatch instructions.

5.1.1 Standard for compliance

Under the current arrangements, participants are required to comply with dispatch instructions, except in circumstances where a participant reasonably believes that doing so would be a hazard to public safety or materially risk damaging equipment. The rule change request suggests that a standard of "strict compliance" is unnecessary for the efficient and safe operation of the NEM.

Under the current arrangements there is no lawful excuse for not complying with the obligation to meet dispatch instruction outside of clause 4.9.8(a) itself. This means that unless a participant had a reasonable opinion that compliance with the terms of the dispatch instructions would create a hazard to public safety or material risk damaging equipment, there is no ground on which the participant can rely to excuse itself from liability for not having met the terms of the dispatch instruction. At the same time, the AER has discretion in whether it takes action in respect of any failures to comply with dispatch instructions.

Stakeholder views are sought on whether the standard of compliance with dispatch instructions under the current arrangements - and bearing in mind the AER's approach to enforcing it - is important for the operation of the NEM. In particular, stakeholders are asked to comment on whether this standard is warranted in terms of the benefits it provides to the market and how non-compliance by one or more participants may affect other participants in the NEM.

Question 1

(a) Is the standard of compliance with dispatch instructions under the current arrangements, taking into account the AER's approach to enforcing it, important for the efficient and safe operation of the NEM?

(b) Under the current rules, how may a participant's non-compliance with dispatch instructions affect other participants in the NEM?

5.1.2 Compliance costs

The rule change request suggests that the standard of compliance under the current arrangements causes generators to incur unnecessary expenditure to minimise the risk of breaching the current rule. It also suggests that wholesale spot market prices may increase as marginal generators factor in the potential cost of compliance into their dispatch bids.

Stakeholder views are sought on the difficulty of complying with a dispatch instruction under the current arrangements and given the AER's discretion around enforcement. This includes whether compliance with the current rule results in additional costs for generators and the market, compared to compliance with an alternative compliance obligation which is less stringent, such as reasonable endeavours. Stakeholder views are also sought on whether the obligation to comply with a dispatch instruction affects different participants differently. For example, would it affect a gas-fired generator differently from a hydro generator?

Question 2

(a) Are the costs of complying with the current rule greater than those which are likely to be incurred if there was an alternative compliance obligation that was less stringent, such as reasonable endeavours?

(b) How do the costs of complying with the current rule vary between participants?

5.1.3 AER enforcement approach

Under the current arrangements, the AER has discretion in deciding whether to take enforcement action and the nature of that action against market participants who do not comply with dispatch instructions.[23] It has developed an approach to enforcement which is detailed in its Compliance and Enforcement Statement of Approach.[24] While this document does not have legal standing, it explains how the AER responds to potential breaches and the factors it has regard to when deciding whether to take enforcement action.

The AER engages with industry and produces a Quarterly Compliance Report which provides an update on its activities in relation to this compliance monitoring function, and further guidance on its approach, if required.

Snowy Hydro suggests that the AER's approach creates an uncertain regulatory risk for market participants. It suggests that there is a lack of clarity because the AER does not specify a MW error limit at which point it will take enforcement action against market participants that have deviated from their dispatch target. It suggests that

23 Australian Energy Regulator, *Compliance and Enforcement Statement of Approach*, April 2014, p10.

24 Australian Energy Regulator, *Compliance and Enforcement Statement of Approach*, April 2014.

market participants are therefore subject to the AER's discretion to enforce compliance. Stakeholder views are sought on these issues.

Question 3

(a) Does the discretion the AER has in deciding whether to take enforcement action and the nature of that action mean there is uncertainty about the extent to which compliance with clause 4.9.8(a) is required?

(b) What are the consequences of any such uncertainty?

5.1.4 Simultaneous compliance with dispatch instructions for energy and FCAS

The National Electricity Market Dispatch Engine (NEMDE) is a computer program which AEMO employs to co-optimise the energy and frequency control ancillary services (FCAS) markets for each dispatch interval. NEMDE takes generators' offers and combines them into a merit order which is used to forecast the most efficient mix of electricity generation and the dispatch targets for each generator.

FCAS are used by AEMO to manage power system security, by maintaining key technical characteristics of the system, including standards for frequency, voltage, network loading and system restart processes.[25] The NEMDE co-optimises the provision of FCAS services with the energy market. FCAS providers' bid their services into the eight separate FCAS markets for each dispatch interval and AEMO issues dispatch instructions for the provision of these services.

Snowy Hydro suggests that it is impossible for a generator to simultaneously comply with dispatch targets for energy and FCAS as these are measured over various time periods[26] and governor control systems automatically adjust the output of a unit in response to frequency fluctuations. Stakeholder views are sought on the importance of this issue.

Question 4

(a) Are market participants able to simultaneously comply with dispatch instructions for energy and FCAS? If so, how do market participants manage to do this?

5.2 Is the proposed solution appropriate?

This section addresses whether the solution proposed by Snowy Hydro is appropriate.

25 Australian Energy Market Operator, Ancillary Services, website viewed on 3 September 2015. http://www.aemo.com.au/Electricity/Market-Operations/Ancillary-Services

26 For example, a fast raise target is 6 seconds, a slow raise is 60 seconds and energy is 5 minutes. Australian Energy Market Operator, *Guide to Ancillary Services in the National Electricity Market,* p8.

5.2.1 Use of reasonable endeavours

The first limb of the proposed rule proposes to replace the current arrangements for compliance with dispatch instructions with a compliance obligation based on reasonable endeavours.

The current NER includes a number of reasonable endeavours obligations on AEMO and market participants. These reasonable endeavours obligations are generally used when compliance does, or is likely to require reliance on a third party or an event outside of the direct control of the person on whom the obligation is placed. For example, market participants have a reasonable endeavours obligation to comply with directions issued by AEMO when there is a credible contingency or actual event that threatens power system security.[27]

The nature and extent of a reasonable endeavours obligation is necessarily dependent on what is reasonable for that participant in the circumstances. These circumstances could include a participant's financial interests and even related regulatory obligations with which the participant may need to comply (see for example section 5.2.4 below).

In the context of compliance with dispatch instructions, participants make dispatch bids and offers to signal their technical capability and commercial positions. In considering compliance with dispatch instructions and alternative standards, it is important to bear in mind that dispatch instructions are formulated based on the participants' own bids and offers.

Stakeholder views are sought on whether the flexibility provided by a reasonable endeavours obligation is warranted in terms of its likely impact on market participants, and the efficiency and security of the NEM. This relates to how market participants' behaviour may change as a result of a reasonable endeavours compliance obligation and how this might affect the way in which the AER enforces compliance.

Question 5

(a) What is the likely impact on the behaviour of market participants having a reasonable endeavours obligation?

(b) How is a reasonable endeavours obligation likely to impact uncertainty and compliance costs?

(c) What would amount to reasonable endeavours in complying with a dispatch instruction?

5.2.2 Use of AEMO's non-conformance process

The second limb of the proposed rule proposes that any failure to meet a dispatch instruction must be considered by AEMO to be non-conforming for such failure to be a

27 NER, Clause 4.8.9(c).

breach of the rule. This means that what is required to establish a breach of the rule will be dependent on AEMO's non-conformance process.

AEMO's existing non-conformance process is designed to monitor the efficiency of the market (ie aligning central dispatch with pricing). The rule change request proposes to use it to set out how participants need to comply with dispatch instructions. Using AEMO's non-conformance process in this way could, for example, allow a generator to differ from its dispatch target by more than around five per cent of its dispatch target[28] for five consecutive dispatch intervals, without breaching the proposed rule.

The use of AEMO's non-conformance process in this way may result in greater flexibility or greater uncertainty (or both) given that it is easier to change than the NER. The non-conformance procedure is set out in the Dispatch System Operating Procedure which is made under clause 4.10 of the NER. Under clause 4.10 there is no requirement for AEMO to consult with stakeholders when developing or revising this procedure. In comparison, a statutory process involving stakeholder consultation is required for a change to the NER.

Stakeholder feedback is sought on whether it is appropriate to use AEMO's non-conformance process for the purpose proposed in the rule change request.

Question 6

(a) Is AEMO's non-conformance process appropriate for the purpose proposed in the rule change? Is it likely to impact on market efficiency or power system security if used in this way?

(b) It is appropriate for compliance with dispatch instructions to be partly determined by AEMO?

5.2.3 Financial incentives to comply with dispatch instructions

The rule change request suggests that generators will continue to have strong financial incentives to comply with dispatch instructions if there is a move away from the current standard of compliance with dispatch instructions. This is due to the FCAS cost recovery process and because non-conformance with dispatch targets can lead to a generator's offers being removed as a basis for setting the dispatch price. The FCAS cost recovery process, known as 'Causer Pays', recovers the cost of regulation FCAS from those market participants who have caused the need for FCAS services.[29]

28 Based on the large error trigger, which is the lower of 5% of the dispatch bid or the ramp rate (MW/min) multiplied by four. Australian Energy Market Operator, *Dispatch System Operating Procedure*, 23 October 2014, p35.

29 Australian Energy Market Operator, *Causer Pays: Procedure for Determining Contribution Factors*, 21 December 2008.

Stakeholder views are sought on whether these processes are likely to provide sufficient financial incentives for market participants to comply with dispatch instructions if the proposed rule is made.

Question 7

(a) If the proposed rule is made, are the financial incentives provided by the FCAS cost recovery process and removal of the generator's offer from the basis of setting the wholesale spot price, sufficient for market participants to comply as precisely as possible, with dispatch instructions?

5.2.4 Compliance with dispatch instructions other than energy and FCAS

The rule change request focuses on compliance with dispatch instructions for energy and FCAS. Dispatch instructions also include other information which market participants are required to follow, such as voltage set point, tap positions and ancillary services related information. The proposed change from the standard of compliance with dispatch instructions under the current arrangements, to a reasonable endeavours obligation, could change the behaviour of market participants in complying with other components of their dispatch instruction. Stakeholder views are sought on the importance of this matter.

Question 8

(a) Is the proposed rule likely to change the behaviour of market participants in complying with other components of a dispatch instruction?

5.3 Are there other alternatives to the rule change proposal?

Snowy Hydro proposed a possible solution to what it perceives to be a problem with the current arrangements. If stakeholders consider that there is a problem with the current arrangements, views are sought on whether an alternative solution exists which better addresses the problem.

Question 9

(a) If there is a problem with the current arrangements, is there an alternative solution which better addresses the problem?

6 Lodging a submission

The Commission invites written submission on this rule change proposal.[30] Submissions are to be lodged online or by mail by 15 October 2015 in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on rule change proposals.[31] The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Andrew Pirie on (02) 8296 7867.

6.1 Lodging a submission electronically

Electronic submissions must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code ERC0187. The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within 3 business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

6.2 Lodging a submission by mail or fax

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission
PO Box 2449
Sydney South NSW 1235

The envelope must be clearly marked with the project reference code: ERC0187

Alternatively, the submission may be sent by fax to (02) 8296 7899.

Except in circumstances where the submission has been received electronically, upon receipt of the hardcopy submission the Commission will issue a confirmation letter.

If this confirmation letter is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

30 The Commission published a notice under section 95 of the NEL to commence and assess this rule change request.

31 This guideline is available on the Commission's website.

Abbreviations

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Commission	See AEMC
FCAS	Frequency Control Ancillary Service
NEL	National Electricity Law
NEMDE	National Electricity Market Dispatch Engine
NEO	National Electricity Objective
NER	National Electricity Rules