

28 November 2019

Mr John Pierce
Chair
Australian Energy Market Commission

10 Eagle Street
Brisbane QLD 4122
T 07 3347 3100

By electronic submission

Dear Mr Pierce

Rule change request – Removal of obligation to counteract during intervention

AEMO submits the attached request for the Australian Energy Market Commission (AEMC) to make a Rule change under section 91 of the National Electricity Law.

The attached Rule change request proposes that the requirement for AEMO to endeavour to minimise the number of affected participants, and the effect on interconnector flows, during an intervention should be removed from the Rules.

This Rule change request was recommended in the AEMC's Final Report on Intervention mechanisms in the NEM.

Any questions on this Rule change request should be directed to Kevin Ly, Group Manager – Regulation, at kevin.ly@aemo.com.au.

Yours sincerely



Peter Geers
Chief Strategy and Markets Officer

Attachments:

1. Rule change proposal - Removal of obligation to counteract during intervention

ELECTRICITY RULE CHANGE PROPOSAL

REMOVAL OF OBLIGATION TO COUNTERACT DURING
INTERVENTION

November 2019





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1. SUMMARY

AEMO is proposing a rule to remove the provision for ‘counteraction’ under clause 3.8.1(b)(11) of the National Electricity Rules (NER) during an AEMO intervention event.

The AEMC’s Final Report on its Investigation into intervention mechanisms in the NEM (AEMC Final Report)¹ recommended that AEMO submit a rule change request to remove the requirement on AEMO to counteract.² This rule change proposal is responding to that recommendation.

AEMO asks that this proposal is fast-tracked because it responds to a request from an AEMC review.

2. RELEVANT BACKGROUND

2.1 Current framework

Counteraction is the term used to describe actions taken by AEMO intended to minimise the number of affected participants and impact on interconnector flows during an AEMO intervention event.

Counteractions in response to a direction to provide energy may take the form of:

- reducing the dispatch target for another unit or units in the same station as the directed unit, in order to minimise the number of affected participants and impact on interconnector flows;
- reducing the dispatch target for another unit or units in the same portfolio as the directed unit, in order to minimise the number of affected participants, and – if the intervention is contained within a single region – the impact on interconnector flows; or
- reducing the dispatch target for another unit or units in the same region as the directed unit, in order to minimise the impact on interconnector flows.

2.2 Narrative of issue and proposed changes

When counteraction has been deployed, it is questionable whether the number of affected participants and impact on interconnector flows was materially reduced or whether the counteraction resulted in any cost efficiency.

In practice, counteraction is seldom feasible in the current power system. Over the past three years, directions have most commonly occurred in South Australia during periods of high wind generation and low synchronous generation. At those times the online synchronous generators are typically running at their minimum safe operating level and cannot reduce their output further. It is also not practicable to counteract on semi-scheduled generation using AEMO’s current systems, which were designed to manage brief, infrequent interventions involving only scheduled generation (and load).

The AEMC’s review of intervention mechanisms in the NEM questioned whether minimising the costs of dispatch might be a more important goal than minimising the number of affected participants and the impact on interconnector flows. The AEMC Final Report sided with minimising the cost of dispatch. AEMO agrees with this conclusion.

This proposal requests that the obligation on AEMO to counteract, i.e. minimise the number of affected participants and the effect on interconnector flows during an AEMO intervention event, is removed from the NER.

¹ AEMC, Investigation into intervention mechanisms in the NEM, Final report, 15 August 2019

² Ibid, p.113 (Recommendation 8)



3. STATEMENT OF ISSUE

3.1 Current Rules

The obligation on AEMO to counteract (where practical) arises from NER 3.8.1(b)(11):

3.8.1(b) The *central dispatch* process should aim to maximise the value of *spot market* trading i.e. to maximise the value of *dispatched load* based on *dispatch bids* less the combined cost of *dispatched generation* based on *generation dispatch offers*, *dispatched network services* based on *network dispatch offers*, and *dispatched market ancillary services* based on *market ancillary service offers* subject to:

... (11) ensuring that as far as reasonably practical, in relation to a [sic] *AEMO intervention event*:

(A) the number of *Affected Participants*; and

(B) the effect on *interconnector flows*,

is minimised;

NER 4.8.9(h)(3) reinforces the ability for AEMO counteract under NER 3.8.1(b)(11):

4.8.9(h) If *AEMO* issues a *direction* or *clause 4.8.9 instruction*, *AEMO* may, to give effect to the *direction* or *clause 4.8.9 instruction*:

(3) select a *Market Participant* or *Market Participants* to become *Affected Participants* to implement clause 3.8.1(b)(11).

3.2 Issues with the current Rules

3.2.1 The current Rules do not work well

As noted in Section 2.2, counteraction is seldom practicable during most AEMO intervention events, and when counteraction has been deployed, it is questionable whether the number of affected participants and impact on interconnector flows was materially reduced.

3.2.2 The current Rules might not minimise costs

It can be safely inferred that the intention of counteraction was to minimise disruption to the market. However, minimising disruption, even if it can be achieved, is not the same as minimising costs.

The AEMC Final Report notes that the obligation to counteract in NER 3.8.1(b)(11) may conflict with the obligation to minimise the cost of directions in NER 4.8.9(b)(1). This can happen in at least two ways:

- When a counteraction is issued to a unit in the same portfolio as a directed unit, the participant can receive compensation as a directed participant and as an affected participant.
- The complex and interconnected nature of the NEM make the consequences of counteraction impossible to predict. The cost of the dispatch solution associated with counteraction may be higher than the cost of the dispatch solution without counteraction, and there is no way of telling beforehand.



4. PROPOSED RULE

4.1 Description of proposed rule

AEMO proposes that NER 3.8.1(b)(11) and 4.8.9(h)(3) are deleted.

4.2 How the proposal will address the issues

The current obligation on AEMO to counteract during AEMO intervention events is difficult to implement, and it is not clear whether counteraction – when it can be applied – produces a better outcome. Deleting NER 3.8.1(b)(11) and 4.8.9(h)(3) will remove the obligation on AEMO to counteract.

5. HOW THE PROPOSED RULE CONTRIBUTES TO THE NATIONAL ELECTRICITY OBJECTIVE (NEO)

To the extent that counteraction increases the costs of dispatch, the proposed rule would contribute to the NEO by reducing costs to consumers. More generally, removal of counteraction would contribute to the NEO by making the operation of the NEM simpler, and this can be expected to contribute to the more efficient operation of electricity services.

6. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE

Removing the obligation on AEMO to counteract during an AEMO intervention event from the NER would:

- Eliminate the possibility of a participant receiving compensation both as a directed participant and as an affected participant if counteraction is applied.
- Eliminate the need to develop operating guidelines for counteraction and train staff in their use within AEMO.

There are no obvious costs associated with removing the obligation for counteraction other than the rule change process itself and corresponding changes to AEMO operational procedures.