INFORMATION

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Settlement under low operational demand

Final determination and rule published

The Australian Energy Market Commission (AEMC) has made a rule that amends rule 3.15 of the National Electricity Rules (NER) to remove ambiguity that would otherwise prevent AEMO introducing a flooring mechanism. This mechanism addresses the risks of market customers receiving payments for being net generators, in low demand conditions.

Overview of the final rule

In its rule change request, Infigen Energy (Infigen) proposed a flooring mechanism to address inequities that result under the current rules as net regional demand gets lower and potentially reaches zero. This issue arises when market customers with net negative adjusted gross energy (AGE) values are paid for these net negative values, and the costs of these payments are recovered from market customers with positive AGEs.

The Commission has made a more preferable final rule to change the definition of customer energy in the NER to remove any remaining ambiguity that would otherwise prevent AEMO introducing the flooring mechanism proposed by Infigen Energy (Infigen) in its rule change request.

The rule is an interim solution to address the urgent payment and settlement risks that can take place when net demand is low until a more permanent solution is progressed, potentially through the *Integrating energy storage solutions into the NEM (integrating storage) rule change.*

Benefits of the Rule

The rule change will remove ambiguity in the NER that would otherwise prevent AEMO introducing the flooring mechanism into the NEM and this will:

- remove the risk that market customers receive inequitable payments if they have negative net regional demand during a trading interval
- substantially remove the risk that market customers will be required to pay a disproportionate amount of non-energy costs during periods of low demand.

When combined with the final rule in the *NEM settlement under low, zero and negative demand conditions* rule change (AEMO rule change), it will remove the settlement risk that exists in low, zero and negative demand conditions.

Commencement of the rule

The rule will commence on 10 October 2021. This is aligned with the start of the settlement week and is designed to minimise unnecessary complexity for stakeholders who will need to make system changes in response to the rule change.

Differences from the draft decision to make no rule

On 17 June 2021, the AEMC published a draft determination to not make a rule in response to Infigen's rule change request. This was because the AEMC had made the more preferable rule in response to AEMO's rule change proposal (see further detail below) with a higher threshold for triggering substitution of 150 MWh. This helped to reduce the risk of inequitable payments made to market customers that are net generators of electricity and the risk that this may lead to the remaining net load market customers bearing a disproportionate cost, when net regional demand is low.

Since the release of the draft determination, the risk of payments being made to market customers for being net generators has likely risen, particularly in South Australia. AEMO has also noted that making payments to market customers may be inconsistent with existing non-energy cost definitions in the NER.

Context and the rule change request

Operational demand has fallen across the NEM over the last 10 years because of the increased penetration of rooftop solar. This is particularly the case in South Australia and Victoria. According to AEMO's 2021 *Electricity Statement of Opportunities,* minimum demand in South Australia is now forecast to be 76 MW in 2022 and -115 MW by 2023. There is now a real risk that market customers could be paid for being net generators at some stage in 2021-22.

AEMO's related rule change

On 17 June 2021, the Commission made a final determination and rule on AEMO's *NEM settlement under low, zero and negative demand conditions* rule change.

In its rule change AEMO raised concerns about the inability of its settlement systems to function when net regional demand fell below 1 MWh during a trading interval.

To address this, AEMO proposed introducing a substitution methodology that required it to substitute average AGE data from the previous four billing periods into the non-energy cost equations, within the NER, when net regional demand was less than 1 MWh in a trading interval.

The Commission's more preferable final rule implemented the substitution methodology with a final threshold for substituting average AGE data of 150 MWh. This rule change:

- substantially removed the settlement risks that exists in low, zero or negative demand conditions
- addressed the related risks to AEMO's prudential systems, which rely on settlement data to perform allocations
- reduced the risk that market customers may receive payments for having a negative net demand
- reduced the risk that market customers with positive net loads may pay a disproportionate share of non-energy when net regional demand is low.

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