

# ELECTRICITY RULE CHANGE PROPOSAL

ALIGNMENT OF INTERVENTION COMPENSATION AND  
SETTLEMENT TIMETABLES

**November 2018**





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# 1. SUMMARY

AEMO requests the AEMC to consider a proposal to amend provisions of the National Electricity Rules (NER) to better align the timelines for determining and paying participant compensation for AEMO interventions with the settlement timetable.

The frequency of interventions has increased in the last two years, with directions lasting on average 3 days and up to 22 consecutive days for one direction in April 2018. This has led to the identification of several anomalies and inefficiencies in the compensation process that AEMO considers should be addressed. This rule change request is one of a number of requests (being submitted together) relating to intervention pricing and compensation for intervention events that AEMO has developed in consultation with stakeholders.

This rule change request proposes two principal measures to improve the alignment of the timetable for determining and paying participant compensation with the settlement timetable:

- The NER currently defines the timetable for determining and paying participant compensation in business days after the intervention event ends (100, 150 or 200 business days depending on the circumstances), whereas the settlement revision timelines are defined in weeks after the end of each billing week (20 and 30 weeks)<sup>1</sup>.

AEMO considers that the benefit in aligning the payment of compensation determinations with 20 or 30-week routine revised statements would ensure participants receive compensation and revision statements for a billing week in the same revision.

- The NER also requires that the final compensation amount is included in the first preliminary settlement statement following the final determination, whether or not that statement relates to the billing week in which the intervention occurred. This can be impracticable if the final determination is produced very close to the next preliminary settlement statement.

AEMO considers that there is benefit in improving the practicality of the intervention settlement timetable and aligning it with the settlement revision timeline for the relevant billing week, without requiring a separate preliminary and final settlement statement process.

## 2. STATEMENT OF ISSUE

### 2.1 Background

#### 2.1.1 Current framework

AEMO intervention events occur when AEMO issues a direction (in respect of scheduled plant or a market generating unit) or exercises the Reliability and Emergency Reserve Trader (RERT).

The Final Report of the Reliability Frameworks Review described two objectives of the intervention compensation framework: ensuring that participants are not out of pocket as a result of an intervention and minimising market distortions.<sup>2</sup>

Where an AEMO intervention event occurs:

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<sup>1</sup> The 100 business day requirement would be aligned with the 20 week routine revision, and the 150 business day requirement would be aligned with the 30 week routine revision. The current 200 business day requirement would remain unchanged.

<sup>2</sup> See page 104 of the Final Report, available at <https://www.aemc.gov.au/markets-reviews-advice/reliability-frameworks-review>.



- AEMO must set the dispatch price and ancillary service prices for an intervention price dispatch interval at the value which AEMO, in its reasonable opinion, considers would have applied had the intervention not occurred;<sup>3</sup>
- A Directed Participant, or a Market Customer in respect of scheduled load, is entitled to formula-based compensation,<sup>4</sup> and a Directed Participant may claim additional compensation if that amount was insufficient to cover its direct net costs and lost revenue;<sup>5</sup> and
- An Affected Participant is entitled to receive from, or required to pay to, AEMO an amount that puts it in the position that it would have been in had the intervention not occurred, and may submit a claim for additional compensation if it considers that its entitlement or liability should be redetermined.<sup>6</sup>

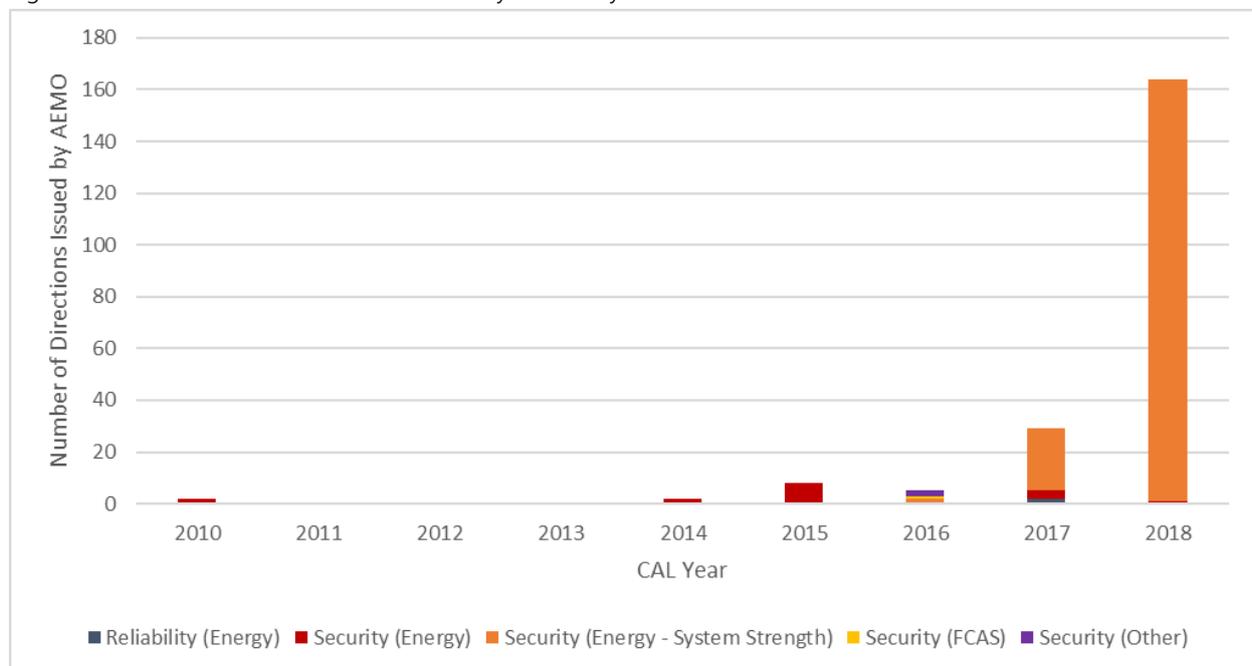
Where AEMO determines compensation for any AEMO intervention event, it must complete its obligations to calculate initial amounts, determine additional claims and include final adjustments in settlement statements as soon as practicable and no later than:<sup>7</sup>

- 100 business days after the end of the intervention event if AEMO is not required to appoint an independent expert to assist the determination; and
- either 150 or 200 business days after the end of the intervention event if an independent expert is required to determine a claim, depending on the type of claims involved.

### 2.1.2 Changing nature of interventions

In the last two years, the number of directions has increased from less than ten in 2016, to 29 in 2017 and nearly 163 so far in 2018 (as at 7 December). Figures 1 and 2 below show the growth in the number and duration of interventions.

Figure 1: Number of interventions and causes by calendar year



<sup>3</sup> Clause 3.9.3(b) of the NER.

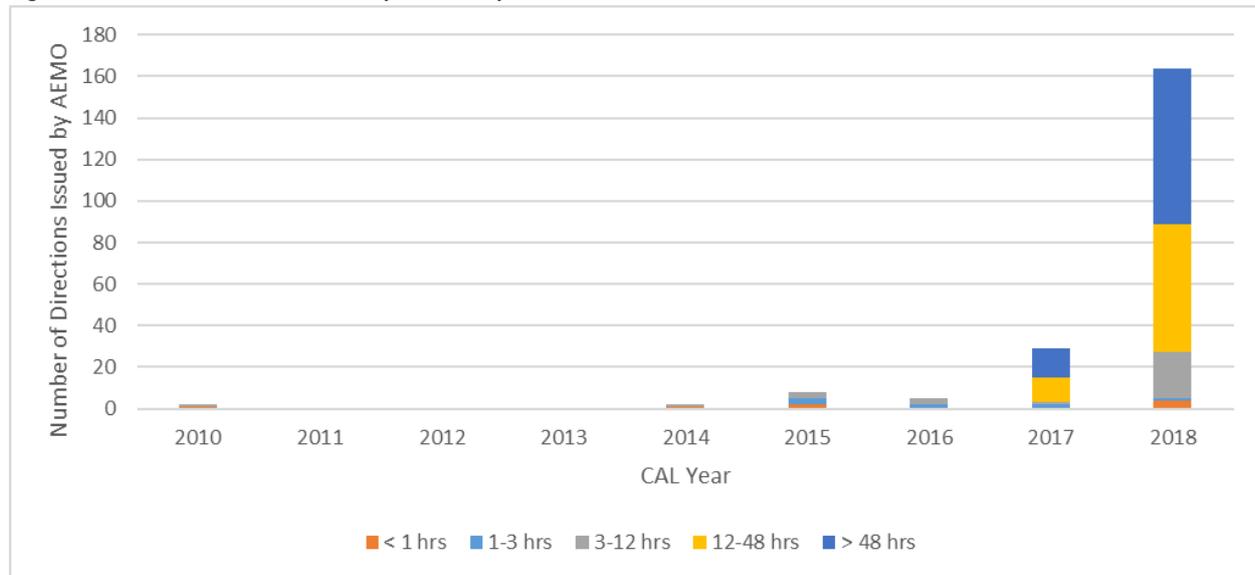
<sup>4</sup> Clauses 3.15.7 and 3.15.7A of the NER.

<sup>5</sup> Clause 3.15.7B of the NER.

<sup>6</sup> Clause 3.12.2 of the NER.

<sup>7</sup> Clause 3.12.1(a) of the NER.

Figure 2: Duration of interventions by calendar year



### 2.1.3 Intervention Pricing Working Group

As was explained in the Final Report of the AEMC’s Reliability Frameworks Review,<sup>8</sup> the increased frequency and duration of interventions have led to the identification of several anomalies and inefficiencies in the intervention pricing and compensation processes that AEMO considers should be addressed. In June 2017, AEMO engaged consultants (SW Advisory and Endgame Economics) to undertake a comprehensive review of the intervention pricing and compensation process. The consultants’ final report<sup>9</sup> (produced in October 2017) outlined recommendations for improvements to the compensation process as well as alternative methodologies for intervention pricing.

To seek industry feedback on the recommended alternative approaches for the Intervention Pricing Methodology<sup>10</sup>, AEMO established the Intervention Pricing Working Group (IPWG).<sup>11</sup> The IPWG was open to all interested parties in the energy industry and consisted of representatives from 14 organisations, including thermal and renewable generators, settlement residue unit holders and the AEMC. It met on five occasions between November 2017 and May 2018.

In addition to agreeing on changes to the Intervention Pricing Methodology,<sup>12</sup> the IPWG also agreed that various rule changes should be proposed to amend elements of the intervention pricing and compensation mechanisms. This rule change request is one of a number of requests (being submitted together) relating to intervention pricing and compensation that AEMO has developed in consultation with stakeholders.

<sup>8</sup> See section 6.10 of the Final Report, available at <https://www.aemc.gov.au/markets-reviews-advice/reliability-frameworks-review>.

<sup>9</sup> The consultant report (‘Intervention Pricing Final Report’) is included in the IPWG Meeting 1 – Meeting Pack, available at <https://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Other-meetings/Intervention-Pricing-Working-Group>.

<sup>10</sup> The Intervention Pricing Methodology is developed in accordance with clause 3.9.3(e) of the NER and the Rules consultation procedure.

<sup>11</sup> IPWG meeting papers and minutes are available at <https://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Other-meetings/Intervention-Pricing-Working-Group>.

<sup>12</sup> Consultation on the agreed changes to the Intervention Pricing Methodology was recently completed. Details of this consultation process are available at <http://aemo.com.au/Stakeholder-Consultation/Consultations/Intervention-Pricing-Methodology-Consultation?Convenor=AEMO%20NEM>.



## 2.2 Nature and scope of issue(s) to be addressed

### 2.2.1 Overall timeframes

Clause 3.12.1(a) of the NER sets the deadlines by which AEMO must finalise determinations of intervention compensation quantities. As noted above in section 2.1.1, AEMO is required to:

- complete all determinations under clauses 3.12.2, 3.12.3, 3.15.7, 3.15.7A, 3.15.7B and 3.15.8; and
- include adjustments in final settlement statements under clause 3.15.10C,

as soon as practicable and within 100, 150 or 200 business days after the end of the intervention event, depending on whether and to what extent an independent expert is required to determine claims. no later than:

These 100 and 150 business day timeframes are similar to, but not aligned with, the settlement revisions that occur approximately 20 weeks and 30 weeks after the relevant billing week, as required by clause 3.15.19(b) of the NER. Updated metering data is processed in time to support these routine settlement revision processes, but in many instances the final updates will not be accounted for in the intervention compensation calculations.

Following the final determination of intervention compensation (and within the intervention settlement timeframes), clause 3.15.10C(b) appears to require that the amounts payable or receivable are included in the first preliminary statement (and corresponding final statement) immediately following the determination. These statements will relate to a different billing week than the billing week in which the intervention occurred.

The IPWG indicated alignment of the intervention settlement timetable with routine settlement revisions would permit streamlining and alignment of their business processes.

The following issues may arise due to the misaligned timeframes:

- The calculation of compensation quantities may not be based on the best available metering data, meaning that the final payments could over- or undercompensate Market Participants.
- It is more difficult for market participants to reconcile settlement statements and align or streamline their business processes where compensation payments adjustments are made in settlement statements for different billing weeks.
- Unnecessary administration of out-of-cycle settlements.

### 2.2.2 Consistency between intervention compensation and settlement rules

This rule change request also proposes some corrections and clarification of a number of inconsistencies within and between the intervention compensation and settlement provisions of the NER.

Although rule 3.12 addresses the determination of compensation payments for AEMO intervention events generally, covering both directions and reserve contract activations, the two categories are not consistently addressed in the settlement provisions.

- Clause 3.15.10C(a), which deals with the inclusion of intervention compensation in settlement statements, refers only to directions, not the broader category of AEMO intervention events. This may be because clause 3.15.9 (RERT recovery) mentions the inclusion of RERT-related compensation recovery amounts in (preliminary and final) settlement statements, although it is insufficiently detailed and does not address the timing differences between initial and final determination amounts.



- Clause 3.12.1 fails to mention the determination of amounts under clause 3.15.9. AEMO's practice is to determine final compensation and recovery amounts for RERT interventions in the same timeframe as for directions.

Clause 3.15.10C is expressed by reference to the billing period in which a direction was issued. This wording will not adequately cover intervention events that span billing periods, and is inconsistent with clause 3.12.2(d).<sup>13</sup>

Clause 3.15.10C(b) appears to require final compensation amounts to be included in preliminary settlement statements. AEMO considers that the inclusion of either amount in a preliminary statement is unnecessary, and only delays payment of amounts that have already been finally determined.

## 3. PROPOSED RULE

### 3.1 Description of the proposed Rule

AEMO proposes that clause 3.12.1(a) be amended to refer to the 20 and 30-week routine revised statements, instead of 100, 150 or 200 business days as appropriate.

To ensure that longer duration events are accommodated, inconsistencies resolved, and unnecessary administrative steps removed, AEMO's proposed draft rule also extends the intervention settlement provisions in rule 3.12 to fully incorporate RERT interventions and reserve contract recovery amounts under clause 3.15.9. It also amends clause 3.15.10C to:

- refer to settlement statements for billing periods in which any type of AEMO intervention event occurred;
- remove reference to clause 3.15.14 (preliminary statements); and
- for the settlement of final compensation amounts after determining additional claims, align with the changes to clause 3.12.1(a).

### 3.2 How the proposal will address the issues

The proposed Rule would:

- ensure that the best available metering data is used in the calculation of compensation quantities, through the alignment of compensation determinations with the settlement revision timetable;
- improve the practicality of the timetable for AEMO and participants and mitigate compliance risk for AEMO by aligning intervention compensation payments with the settlement revision timeline for each billing week in which an AEMO intervention event occurred; and
- provide consistency and certainty in the application of the compensation rules to all AEMO intervention events, irrespective of category and duration.

Table 1 describes the proposed timetable. In practice, the 100 and 150-day processes will take longer (by up to 2 weeks). The existing 200-day process will be shortened (by about 10 weeks).

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<sup>13</sup> AEMO has proposed in a separate rule change request that clause 3.12.2(d) be deleted, but clause 3.15.10C requires correction.



Table 1 Current and proposed intervention settlement timeframes

Deadline	Current	Proposed
Compensation determination	Final settlement statement (18 business days after the end of the billing week)	No change. Final settlement statement (18 business days)
Revisions and additional compensation payments (no independent expert)	100 business days after the end of the AEMO intervention event	First routine revised statement (20 weeks) after the end of the intervention event
Independent expert required for either other services directions or additional compensation claims	150 business days after the end of the AEMO intervention event	Second routine revised statement (30 weeks) after the end of the intervention event
Independent expert required for other services directions and additional compensation claims	200 business days after the end of the AEMO intervention event	Second routine revised statement after the end of the intervention event.

This proposed Rule will not increase AEMO’s administrative costs.

### 3.3 Stakeholder engagement

This proposed changes to the timeline for intervention compensation threshold were discussed with the IPWG at Meetings 3 and 4 (held on 15 February 2018 and 22 March 2018 respectively) at which members agreed that the threshold should be applied to each AEMO intervention event.<sup>14</sup>

The final recommendations of the IPWG, including the recommendation to submit this rule change request, were also presented to Meeting 32 of AEMO’s National Electricity Market Wholesale Consultative Forum.<sup>15</sup>

### 3.4 AEMO Procedure changes

This proposed change to the intervention compensation timetable would not require any changes to AEMO’s procedures and guidelines that are established and maintained under the NER.

### 3.5 Transitional matters

AEMO could apply this proposed Rule immediately following approval, so does not consider any transitional provisions are required.

## 4. HOW THE PROPOSED RULE CONTRIBUTES TO THE NATIONAL ELECTRICITY OBJECTIVE

The proposed rule will contribute to the national electricity objective by improving efficient operation of electricity services by:

<sup>14</sup> See page 4 of the minutes from Meeting 3 of the IPWG (in the meeting pack for Meeting 4) and page 10 of the minutes from Meeting 4 of the IPWG (in the meeting pack for Meeting 5). The respective meeting packs are available at <https://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Other-meetings/Intervention-Pricing-Working-Group>.

<sup>15</sup> The meeting pack and draft minutes for Meeting 32 are available at <https://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Wholesale-meetings/NEM-Wholesale-Consultative-Forum>.



- Ensuring the currency and accuracy of metering data used for determining compensation.
- Ensuring consistency of data used for compensation with data used for settling the market.
- Reducing for participants administrative costs and improving transparency of AEMO compensation determinations, by improving clarity of settlement statements for energy and direction compensation.

## 5. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE

The proposed Rule would deliver the following benefits:

- ensure that the best available metering data is used in the determination of intervention compensation;
- improve the practicality of the timetable for determining and settling intervention compensation; and
- minimise out-of-cycle payments by AEMO.

There are no material costs to AEMO or market participants to implement the proposed Rule if it is adopted.

## 6. DRAFT RULE

This draft is based on version 113 of the National Electricity Rules, therefore does not incorporate the *National Electricity Amendment (Participant compensation following market suspension) Rule 2018*.

### 3.12.1 Intervention settlement timetable

- (a) *AEMO* must use reasonable endeavours to complete and fulfil its obligations set out in clauses 3.12.2, 3.12.3, 3.15.7, 3.15.7A, 3.15.7B, 3.15.8, 3.15.9 and 3.15.10C such that final determinations of all total amounts payable or receivable by AEMO under clauses 3.12.2, 3.15.7(a), 3.15.8 and 3.15.9 for each AEMO intervention event ending during a billing period are reflected: as soon as practicable and no later than:
- (1) if practicable, in the routine revised statement issued approximately 20 weeks ~~100 business days~~ after the end of relevant billing period; and the AEMO intervention event or the end of a series of related AEMO intervention events ~~if AEMO is not required to appoint an independent expert under clause 3.15.7A or refer a matter to an independent expert under clause 3.12.2(1), 3.12.2(m), 3.15.7B(c) or 3.15.7B(d);~~
  - (2) in the routine revised statement issued approximately 30 weeks ~~150 business days~~ after the end of relevant billing period. the AEMO intervention event or the end of a series of related AEMO intervention events ~~if AEMO is:~~
    - (i) ~~required to appoint an independent expert under clause 3.15.7A but is not required to refer a claim or matter to an independent expert under clause 3.12.2(1), 3.12.2(m), 3.15.7B(c) or 3.15.7B(d); or~~



- ~~(ii) required to refer a claim or matter to an independent expert under clause 3.12.2(l), 3.12.2(m), 3.15.7B(e) or 3.15.7B(d) but is not required to appoint an independent expert under clause 3.15.7A; and~~
- ~~(3) 200 business days after the end of the AEMO intervention event or the end of a series of related AEMO intervention events if AEMO is required to appoint an independent expert under clause 3.15.7A and refer a claim or matter to an independent expert under clause 3.12.2(l), 3.12.2(m), 3.15.7B(e) or 3.15.7B(d).~~

### 3.12.3 Role of the Independent Expert in calculating payments in relation to intervention by AEMO

- (a) Subject to clause 3.12.3(a1), if a matter is to be referred to an independent expert pursuant to clauses 3.12.2(l), 3.12.2(m) or 3.15.7B, AEMO must in accordance with the *intervention settlement timetable* publish a notice of its proposed nominee as independent expert and appoint such nominee.
- (a1) If within 3 *business days* of publication of AEMO's nominee pursuant to clause 3.12.3(a) more than 25% of the *Referred Affected Participants*, *Referred Market Customers* and *Referred Directed Participants* in relation to ~~that direction~~ the relevant AEMO intervention event object in writing to AEMO's nominee AEMO must, as soon as reasonably practicable thereafter, request the AEMC to nominate an independent expert.

...

### 3.15.9 Reserve settlements

- (a) AEMO's costs incurred in contracting for the provision of *reserves* are to be met by fees imposed on *Market Customers* in accordance with this clause 3.15.9.
- (b) AEMO must, in accordance with the intervention settlement timetable, calculate: ~~Included in the statements to be provided under clauses 3.15.14 and 3.15.15, AEMO must give each Market Participant a statement setting out:~~
  - (1) the aggregate of the amounts payable by AEMO under *reserve contracts* in respect of the relevant *billing period*;
  - (2) any amounts determined as payable by AEMO:
    - (i) by the independent expert under clause 3.12.3 in respect of an AEMO intervention event that is an exercise of the RERT during the relevant billing period; or
    - (ii) as a result of a *scheduled generating unit*, *scheduled network service* or *scheduled load* under a *scheduled reserve contract* being *dispatched* or *generating units* or *loads* under an *unscheduled reserve contract* being *activated*, in respect of the relevant *billing period*; and

- (3) the aggregate of the amounts receivable by *AEMO* under the *Rules* in respect of *reserve contracts* during the relevant *billing period*.
- (c) Separate amounts must be calculated ~~statements must be provided~~ under paragraph (b):
  - (1) for *reserve contracts* entered into by *AEMO* specifically in respect of the *Market Participant's region* in accordance with paragraph (d); and
  - (2) for *reserve contracts* other than those entered into for and allocated to a specific *region* or *regions*.

...

### 3.15.10C Intervention Settlements

- (a) *AEMO* must include in the ~~final statement~~ final statements provided under clause ~~3.15.14 and 3.15.15~~ for a *billing period* in which one or more intervention price trading intervals occurred ~~a direction was issued~~:
  - (1) for each *Affected Participant* and *Market Customer* in relation to the relevant AEMO intervention event ~~that direction~~ the amount calculated pursuant to clause 3.12.2(c);
  - (2) for each *Directed Participant* in relation to the relevant AEMO intervention event ~~that direction~~ the amount calculated pursuant to clause 3.15.7(c) or clause 3.15.7A(a) by application of clause 3.15.7A(e), as the case may be;
  - (3) for each *Market Customer* in relation to an AEMO intervention event that is a direction, the amount calculated pursuant to clause 3.15.8(b) by application of clause 3.15.8 mutatis mutandis provided that the amount for the purposes of:
    - (i) clause 3.15.8(a)(1)(i) shall be the total amount payable to *AEMO* by *Affected Participants* and *Market Customers* calculated pursuant to clause 3.12.2(c);
    - (ii) clause 3.15.8(a)(1)(ii) shall be the amount calculated in accordance with that clause;
    - (iii) clause 3.15.8(a)(2)(i) shall be the total amount payable by *AEMO* to *Affected Participants* and *Market Customers* calculated pursuant to clause 3.12.2(c);
    - (iv) clause 3.15.8(a)(2)(ii) shall be the sum of the total amount payable by *AEMO* to *Directed Participants* calculated pursuant to clause 3.15.7(c) and 3.15.7A(a) by application of 3.15.7A(e); and
    - (v) clause 3.15.8(a)(2)(iii) shall be zero; and
  - (4) for each *Market Customer*, *Market Generator* and *Market Small Generation Aggregator* in relation to an AEMO intervention event that is a direction, an amount calculated pursuant to clause 3.15.8(e) by application of clause 3.15.8 mutatis mutandis provided that for the purposes of clause 3.15.8(f)(2) TNSCASP, TSRP, RTCRSP, RTCLSP and TSFCAS shall be the total compensation payable by *AEMO* for the

relevant *ancillary service* calculated in accordance with clause 3.15.7(c) or clause 3.15.7A(a) by application of clause 3.15.7A(e), as the case may be.

(4A) for each *Market Customer* in relation to an *AEMO intervention event* that is an exercise of the *RERT*, the amounts calculated pursuant to clause 3.15.9(b)(1), (b)(2)(ii) and (b)(3) and clause 3.15.9(e).

- (b) *AEMO* must include in ~~the first~~ each statement it provides under clauses 3.12.1(a) ~~3.15.14 and 3.15.15~~ following a final determination of all total amounts payable or receivable by it pursuant to clauses ~~clause~~ 3.12.2, ~~clause~~ 3.15.7(a), ~~and clause~~ 3.15.8 and 3.15.9, separate details of the amount:
- (1) receivable by each *Directed Participant* pursuant to clause 3.15.7(a) less the amount, if any, paid to that *Directed Participant* pursuant to clause 3.15.10C(a)(2);
  - (2) receivable by each *Affected Participant* or *Market Customer* pursuant to clause 3.12.2:
    - (i) less the amount paid to that *Affected Participant* or *Market Customer*, in accordance with the statement issued to it pursuant to clause 3.15.10C(a)(1), if any; or
    - (ii) plus the amount paid by that *Affected Participant* or *Market Customer* in accordance with the statement issued to it pursuant to clause 3.15.10C(a)(1), if any;
  - (3) payable by each *Affected Participant* or *Market Customer* pursuant to 3.12.2:
    - (i) less the amount paid by that *Affected Participant* or *Market Customer*, in accordance with the statement issued to it pursuant to clause 3.15.10C(a)(1), if any; or
    - (ii) plus the amount paid to that *Affected Participant* or *Market Customer* in accordance with the statement issued to it pursuant to clause 3.15.10C(a)(1), if any;
  - (4) receivable by each *Market Customer* pursuant to clause 3.15.8(b):
    - (i) less the amount paid to that *Market Customer* in accordance with the statement issued to it pursuant to clause 3.15.10C(a)(3), if any; or
    - (ii) plus the amount paid by that *Market Customer* in accordance with the statement issued to it pursuant to clause 3.15.10C(a)(3), if any;
  - (5) payable by each *Market Customer* pursuant to clause 3.15.8(b) or clause 3.15.9(e):
    - (i) less the amount paid by that *Market Customer* in accordance with the statement issued to it pursuant to clause 3.15.10C(a)(3), if any; or

- (ii) plus the amount paid to that *Market Customer* in accordance with the statement issued to it pursuant to clause 3.15.10C(a)(3), if any;
- (6) if an *Affected Participant* or *Market Customer* is not entitled to any compensation pursuant to clause 3.12.2, the amount:
  - (i) receivable by that person equal to the amount paid by that person pursuant to clause 3.15.10C(a); or
  - (ii) payable by that person equal to the amount paid to that person pursuant to clause 3.15.10C(a);
- (7) payable by each *Market Customer*, *Market Generator* and *Market Small Generation Aggregator* equal to:
  - (i) the amount payable by the *Market Customer*, *Market Generator* or *Market Small Generation Aggregator*, as the case may be, pursuant to clause 3.15.8(e) by application of clause 3.15.8 mutatis mutandis provided that for the purposes of clause 3.15.8(f)(2) TNSCASP, TSRP, RTCRSP, RTCLSP and TSFCAS shall be the total compensation payable by *AEMO* for the relevant *ancillary service* calculated in accordance with clause 3.15.7A(a); less
  - (ii) the amount paid by the *Market Customer*, *Market Generator* or *Market Small Generation Aggregator*, as the case may be, in accordance with the statement issued to it pursuant to clause 3.15.10C(a)(4); and
- (8) payable by *Registered Participants* pursuant to clause 3.15.8(g).

# ELECTRICITY RULE CHANGE PROPOSAL

DEADLINES FOR ADDITIONAL COMPENSATION CLAIMS  
FOLLOWING MARKET INTERVENTION

**November 2018**





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## 1. SUMMARY

AEMO requests the AEMC to consider a proposal to alter deadline for additional compensation claims by Affected Participants and Market Customers following a market intervention, and to apply the same deadline to claims by Directed Participants.

The frequency of interventions has increased in the last two years, with directions lasting on average 3 days and up to 22 consecutive days for one direction in April 2018. This has led to the identification of anomalies and inefficiencies in the compensation process that AEMO considers should be addressed. This rule change request relates to deadlines for compensation claims that AEMO has developed in consultation with stakeholders.

Once AEMO initially notifies an Affected Participant or Market Customer of the compensation that has been determined following a market intervention<sup>1</sup>, the NER provide seven business days for the relevant participant to lodge a claim for additional compensation. Directions have been more complex in the last two years, involving multiple, overlapping and extended interventions, and this may be insufficient time for the participant to calculate the merits of claiming additional compensation.

Conversely, the NER do not set a deadline for additional compensation claims by Directed Participants, leaving this to be specified by AEMO in the intervention settlement timetable. AEMO must finalise all compensation and associated recovery calculations relating to a single intervention event or series of related events within the same overall timeframe.

To address these issues, AEMO proposes a consistent deadline of 15 business days from the time of notification for all additional compensation claims to be submitted to AEMO. AEMO considers this would improve the operation of the market by unifying the compensation deadlines that apply for claims relating to the same set of circumstances and providing a realistic and certain timeframe for submission.

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<sup>1</sup> This occurs when the final statement under clause 3.15.15 for the billing week at the start of the AEMO intervention event is issued.



## 2. STATEMENT OF ISSUE

### 2.1 Background

#### 2.1.1 Current framework

AEMO intervention events occur when AEMO issues a direction (in respect of scheduled plant or a market generating unit) or exercises the Reliability and Emergency Reserve Trader (RERT).

The Final Report of the Reliability Frameworks Review described two objectives of the intervention compensation framework: ensuring that participants are not out of pocket as a result of an intervention and minimising market distortions.<sup>2</sup>

Where an AEMO intervention event occurs:

- AEMO must set the dispatch price and ancillary service prices for an intervention price dispatch interval at the value which AEMO, in its reasonable opinion, considers would have applied had the intervention not occurred;<sup>3</sup>
- A Directed Participant, or a Market Customer in respect of scheduled load, is entitled to formula-based compensation,<sup>4</sup> and a Directed Participant may claim additional compensation if that amount was insufficient to cover its direct net costs and lost revenue;<sup>5</sup> and
- An Affected Participant is entitled to receive from, or required to pay to, AEMO an amount that puts it in the position that it would have been in had the intervention not occurred, and may submit a claim for additional compensation if it considers that its entitlement or liability should be redetermined.<sup>6</sup>

Once AEMO initially notifies an Affected Participant or Market Customer of the compensation that has been determined following a market intervention, the NER provide seven business days for the relevant participant to lodge a claim if it considers that its entitlement should be redetermined, specifying the amount of the difference claimed.<sup>7</sup>

Although Directed Participants are also permitted to make additional compensation claims,<sup>8</sup> the NER do not specify the deadline for submitting claims in that case, leaving this to be set by AEMO in the intervention settlement timetable. To date, AEMO has set a seven-day limit for Directed Participant claims, for consistency with the deadline in clause 3.12.2(f). The NER require the intervention settlement timetable to provide for all compensation and associated recovery calculations relating to a single intervention event or series of related events to be finalised within the same overall timeframe. The proposed rule would codify what AEMO would do in practice.

#### 2.1.2 Changing nature of interventions

In the last two years, the number of directions has increased from less than ten in 2016, to 29 in 2017 and nearly 163 so far in 2018 (as at 7 December). Figures 1 and 2 below show the growth in the number and duration of interventions.

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<sup>2</sup> See page 104 of the Final Report, available at <https://www.aemc.gov.au/markets-reviews-advice/reliability-frameworks-review>.

<sup>3</sup> Clause 3.9.3(b) of the NER.

<sup>4</sup> Clauses 3.15.7 and 3.15.7A of the NER.

<sup>5</sup> Clause 3.15.7B of the NER.

<sup>6</sup> Clause 3.12.2(f) of the NER.

<sup>7</sup> Clauses 3.12.2(b), 3.12.2(i) and 3.15.7B(a4) of the NER.

<sup>8</sup> Clause 3.15.7B(a) of the NER.



Figure 1: Number of interventions and causes by calendar year

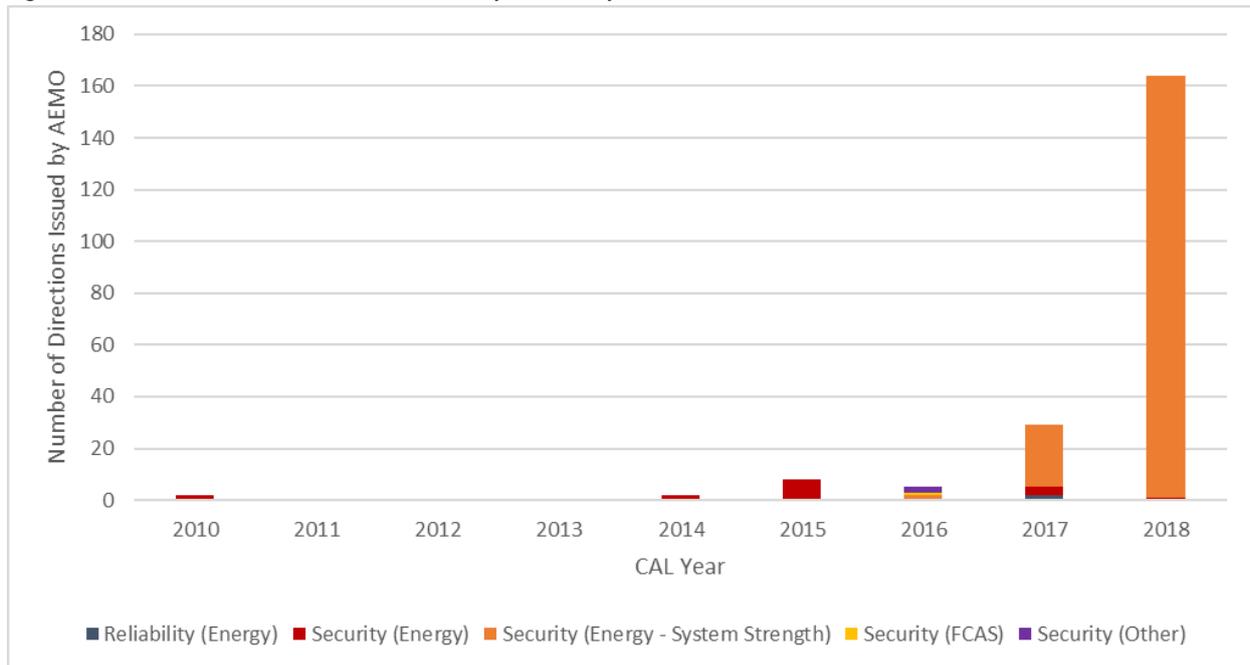
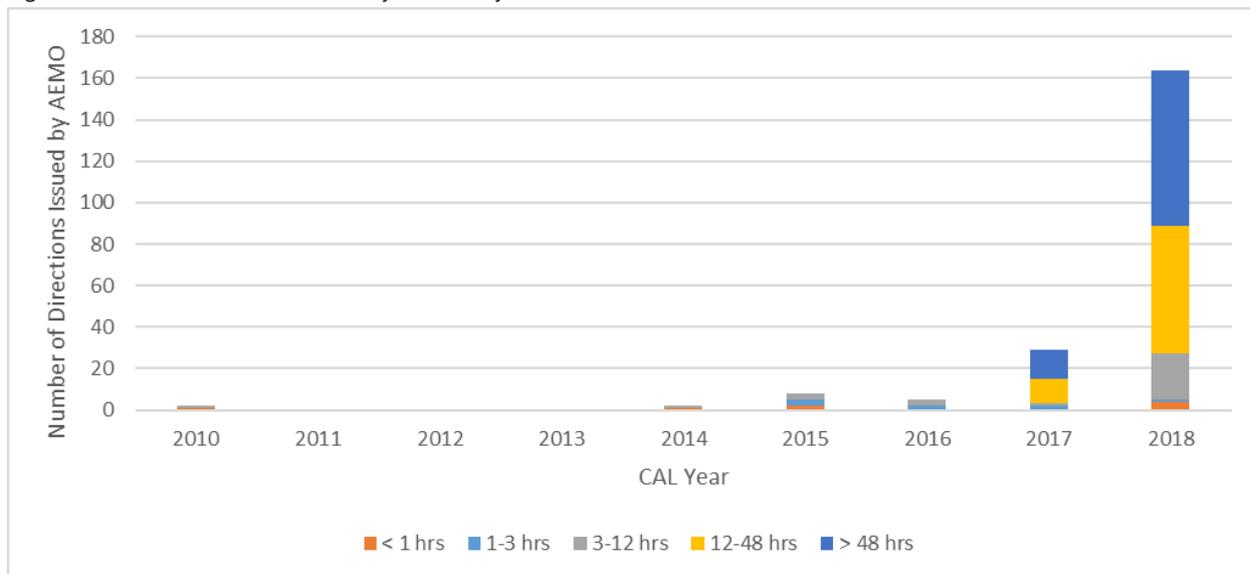


Figure 2: Duration of interventions by calendar year



### 2.1.3 Intervention Pricing Working Group

As was explained in the Final Report of the AEMC’s Reliability Frameworks Review,<sup>9</sup> the increased frequency and duration of interventions have led to the identification of several anomalies and inefficiencies in the intervention pricing and compensation processes that AEMO considers should be addressed. In June 2017, AEMO engaged consultants (SW Advisory and Endgame Economics) to undertake a comprehensive review of the intervention pricing and compensation process. The consultants’ final report<sup>10</sup> (produced in October

<sup>9</sup> See section 6.10 of the Final Report, available at <https://www.aemc.gov.au/markets-reviews-advice/reliability-frameworks-review>.

<sup>10</sup> The consultant report ('Intervention Pricing Final Report') is included in the IPWG Meeting 1 – Meeting Pack, available at <https://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Other-meetings/Intervention-Pricing-Working-Group>.



2017) outlined recommendations for improvements to the compensation process as well as alternative methodologies for intervention pricing.

To seek industry feedback on the recommended alternative approaches for the Intervention Pricing Methodology<sup>11</sup>, AEMO established the Intervention Pricing Working Group (IPWG).<sup>12</sup> The IPWG was open to all interested parties in the energy industry and consisted of representatives from 14 organisations, including thermal and renewable generators, settlement residue unit holders and the AEMC. It met on five occasions between November 2017 and May 2018.

In addition to agreeing on changes to the Intervention Pricing Methodology,<sup>13</sup> the IPWG also agreed that various rule changes should be proposed to amend elements of the intervention pricing and compensation mechanisms. This rule change request is one of a number of requests (being submitted together) relating to intervention pricing and compensation that AEMO has developed in consultation with stakeholders.

## 2.2 Nature and scope of issue(s) to be addressed

Given the increasing complexity of extended directions, AEMO considers that seven days may be insufficient time for a participant to calculate the merits of claiming additional compensation or may lead to administrative inefficiency for each participant to maintain the capability to respond in this short timeframe.

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<sup>11</sup> The Intervention Pricing Methodology is developed in accordance with clause 3.9.3(e) of the NER and the Rules consultation procedure.

<sup>12</sup> IPWG meeting papers and minutes are available at <https://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Other-meetings/Intervention-Pricing-Working-Group>.

<sup>13</sup> Consultation on the agreed changes to the Intervention Pricing Methodology was recently completed. Details of this consultation process are available at <http://aemo.com.au/Stakeholder-Consultation/Consultations/Intervention-Pricing-Methodology-Consultation?Convenor=AEMO%20NEM>.



## 3. PROPOSED RULE

### 3.1 Description of the proposed Rule

AEMO proposes that clause 3.12.2(f) of the NER be amended by replacing “7 business days” with “15 business days”, and that clause 3.15.7B(a) be amended to insert a 15 business day limit for claims for additional compensation by Directed Participants.

The proposed draft rule also corrects a cross-referencing error in clause 3.15.7B(a)(2) and removes redundant drafting in clause 3.12.2(f).

### 3.2 How the proposal will address the issues

The proposed Rule would provide participants with more time to assess the impact of intervention events before deciding whether to lodge a claim for additional compensation. This can reduce the administrative overhead for participants to maintain the capability to respond in short timeframes to events that may have high impact on financial returns.

The proposed Rule would reduce the time for AEMO to assess a claim and determine final compensation to approximately 13 weeks. AEMO considers that this time is sufficient to assess claims and determine final compensation amounts.

### 3.3 Stakeholder engagement

This proposed extension to the deadline for additional compensation claims was proposed by IPWG members and unanimously agreed at Meeting 4 (held on 22 March 2018).<sup>14</sup>

The final recommendations of the IPWG, including the recommendation to submit this rule change request, were also presented to Meeting 32 of AEMO’s National Electricity Market Wholesale Consultative Forum.<sup>15</sup>

### 3.4 AEMO procedure changes

This proposed change to the deadline for additional compensation claims would require minor updates to the formulation of AEMO’s intervention settlement timetables, which are published individually for each AEMO intervention event (or series of related interventions). No other changes are envisaged to AEMO’s procedures and guidelines that are established and maintained under the NER.

### 3.5 Transitional matters

AEMO could apply this proposed Rule immediately following approval, so does not consider any transitional provisions are required.

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<sup>14</sup> See page 12 of the minutes from Meeting 4 of the IPWG. These are in the meeting pack for Meeting 5 of the IPWG, which is available at <https://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Other-meetings/Intervention-Pricing-Working-Group>. See also page 3 of the document “4.1 IPWG Rule Change Proposals – Meeting 5.pdf” in the meeting pack for Meeting 5.

<sup>15</sup> The meeting pack and draft minutes for Meeting 32 are available at <https://www.aemo.com.au/Stakeholder-Consultation/Industry-forums-and-working-groups/Wholesale-meetings/NEM-Wholesale-Consultative-Forum>.



## 4. HOW THE PROPOSED RULE CONTRIBUTES TO THE NATIONAL ELECTRICITY OBJECTIVE

As explained in earlier sections, the proposed Rule has the potential to reduce administrative costs, which are ultimately borne by end customers. This promotes the National Electricity Objective by maintaining the efficient operation of electricity services for the long term interests of consumers with respect to price of supply.



## 5. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE

The proposed Rule increases certainty of the process for intervention compensation claims and has the potential to reduce ongoing administrative costs for market participants.

There should be no costs to market participants to implement the proposed Rule if it is adopted. AEMO will only face nominal implementation costs to adjust the intervention settlement timetable.

## 6. DRAFT RULE

This draft is based on version 113 of the National Electricity Rules, therefore does not incorporate the *National Electricity Amendment (Participant compensation following market suspension) Rule 2018*.

### 3.12.2 Affected Participants and Market Customers entitlements to compensation in relation to AEMO intervention

...

- (f) Subject to paragraphs (h) and (i), within ~~15~~ 7 *business days* of receipt of the notice referred to in paragraph (c) an *Affected Participant* or *Market Customer* may make a written submission to *AEMO* in accordance with paragraph (g) claiming that the amount set out in the notice is greater than, ~~or~~ or less than, ~~or equal to~~ its entitlement pursuant to paragraph (a)(1) as an *Affected Participant* or paragraph (a)(2) as a *Market Customer*, as the case may be.

...

### 3.15.7B Claim for additional compensation by Directed Participants

- (a) Subject to clauses 3.15.7B(a1) and 3.15.7B(a4), a *Directed Participant* entitled to compensation pursuant to clause 3.15.7 or clause 3.15.7A may, within 15 business days of receipt of the advice referred to in clause 3.15.7(e) or 3.15.7A(f) ~~in accordance with the intervention settlement timetable~~, make a written submission to *AEMO* claiming an amount equal to the sum of:

...

- (2) the amount notified to that *Directed Participant* pursuant to clause 3.15.7 ~~(e)~~ (e) or 3.15.7A(f); less

...