



Threshold for participant compensation following market intervention

Draft determination

The Australian Energy Market Commission has today made a more preferable draft rule in relation to the *Threshold for participant compensation following market intervention* rule change request. The more preferable draft rule will change the application of the threshold for directed participants so it applies to each direction rather than to each trading interval. The draft determination leaves the current arrangements unchanged with respect to affected participants.

Background

The interventions framework in the National Electricity Rules (NER) provides AEMO with the tools to intervene in the market for reliability purposes (e.g. in the event of a breach of the reliability standard) or for power system security purposes (e.g. to maintain voltage). The interventions framework - the system's "safety net" - includes not only directions but the Reliability and Emergency Reserve Trader (RERT) and instructions. The intervention framework has always been available to AEMO as a last resort to keep the lights on but in the last two years has been used increasingly frequently to maintain adequate levels of system strength in South Australia.

Low system strength has emerged as an issue in South Australia as the generation mix in that region shifts from one dominated by synchronous generators to one with a growing proportion of asynchronous renewable generation and this has implications for power system security.

When AEMO intervenes in the market in this way, it is required to compensate both market participants who were directed, and those affected by the direction. Generators who are directed to provide energy or frequency control ancillary services (FCAS) are compensated based on the 90th percentile of spot prices over the preceding 12 months.

Affected participants are those parties whose dispatch targets have been affected as a result of an AEMO intervention event. Affected participants are entitled to receive from, or pay to, AEMO an amount that puts them in the position they would have been in but for the direction or RERT activation. For example, if a generator's output is reduced as a result of an intervention, it will be paid compensation by AEMO to put it in the position that it would have been in had the intervention event not occurred.

At present, the NER includes a \$5,000 threshold which limits the payment of compensation both to and by affected participants. The threshold also limits the payment of compensation to directed participants in the event they claim additional compensation beyond the amount automatically calculated. AEMO has submitted a rule change request seeking to change the threshold so it applies to each intervention event, rather than to each trading interval.

Overview of draft determination

The Commission considers that it is appropriate for the NER to enable directed participants to recover the costs they incur when providing a service under direction. If this necessitates an additional compensation claim, the application of a "per trading interval" threshold should not limit the amount of compensation that can be paid such that directed participants incur loss.

As such the Commission's draft rule amends the compensation threshold in relation to directed participant additional compensation claims so that it applies per direction and not per trading interval, enabling directed participants to recover the costs they incur when providing a service under direction

However, the Commission has determined not to change the application of the threshold as it relates to affected participants. The Commission considers that the treatment of participants affected by system security interventions should be aligned to the treatment of participants affected by constraints under the normal dispatch of the system. A direction is a way of meeting, or satisfying, a physical constraint on the system, where that constraint is not, or cannot, be represented in NEMDE. If it were possible to implement the system strength requirements as constraints, AEMO would do so. In that case, there would be no compensation for being constrained down, because generators have no right to be dispatched in the NEM.

In addition, the Commission notes that affected participants can optimise their position with respect to compensation at the expense of consumers.

As such, the Commission has made a recommendation to narrow the circumstances in which affected participant compensation is payable to those instances where intervention pricing applies in connection with an intervention event in accordance with the revised regional reference node test.

Changing the affected participant compensation threshold to apply per event rather than per trading interval runs counter to this recommendation as it would significantly increase the quantum of compensation payable to and by affected participants.

Accordingly, the Commission has made a draft determination to make a more preferable rule in which the change to the \$5,000 threshold is made in relation to directed participants' additional cost claims but not in relation to the compensation payable to affected participants.

Next steps

The AEMC invites submissions on the draft rule determination, including a more preferable draft rule, by 26 September 2019.

Related work

This rule change is part of a package of four AEMO rule change requests related to the interventions and related compensation frameworks that are triggered when AEMO intervenes in the market.

The AEMC has made a draft determination with respect to this rule change and the *Application of the regional reference node test to the RERT* rule change request. These draft determinations accompany the AEMC's final report on its *Investigation into intervention mechanisms in the NEM*. The final report includes a number of additional recommendations on changes to the interventions and compensation framework.

On 30 May 2019, the Commission made a final rule that improves the administrative processes related to intervention compensation and settlement following market intervention. This addresses two of the four rule change requests submitted by AEMO in relation to the interventions and compensation frameworks.

For information contact:

AEMC Executive General Manager, **Suzanne Falvi** (02) 8296 7883

AEMC Director, **Sebastien Henry** (02) 8296 7833

Media: Communication Director, Prudence Anderson 0404 821 935 or (02) 8296 7817

15 August 2019