

19 September 2019

Mr John Pierce
Chairman
Australian Energy Market Commission
By electronic rule change lodgement

10 Eagle Street
Brisbane QLD 4122
T 07 3347 3100

Dear Mr Pierce

Requests for Four (4) Rule Changes Related to Market Intervention Pricing and Compensation

AEMO submits the four (4) attached rule change proposals requesting the AEMC to make Rules under section 91 of the National Electricity Law. The rules relate to:

- Affected Participant compensation for scheduled loads;
- Additional compensation for FCAS revenue losses;
- RERT cost recover for Affected Participants; and
- Removal of additional compensation for other services directions.

AEMO requests the AEMC consider making these Rules as proposed. Any queries concerning these changes should be directed to Kevin Ly, Group Manager - Regulation on Kevin.Ly@aemo.com.au.

Yours sincerely



Peter Geers
Executive Group Manager, Strategy and Markets

cc: Attachments-

1. Affected Participant compensation for scheduled loads
2. Additional compensation for FCAS revenue losses
3. RERT cost recover for Affected Participants
4. Removal of additional compensation for other services directions

RERT COST RECOVERY FOR AFFECTED PARTICIPANTS

1. RELEVANT BACKGROUND

1.1 Current framework

Under clause 3.15.9 of the NER, AEMO's costs incurred in contracting for the provision of RERT are recovered from Market Customers under that clause. The items set out in clause 3.15.9 to be included in these calculations do not include any amounts payable by AEMO to Affected Participants under clauses 3.12.2 or 3.12.3. The rules are also silent on the method for apportioning those amounts between regions or participants.

AEMO infers this is to be recovered under clause 3.15.9(e) of the NER as it specifically applies to RERT and requires AEMO to include in final statements amounts determined as payable by AEMO as a result of the activation of reserve contracts and payable under 3.12.3 (which include amounts payable to affected participants) and amounts receivable by AEMO in respect of reserve contracts.

AEMO also infers these amounts should be apportioned between regions under clause 3.15.9 of the NER on the same basis that reserve contract usage charges are apportioned as this is consistent with relying on clause 3.15.9 of the NER as the basis for recovery and the cost sharing arrangement agreed between jurisdictions.

Given the uncertainty in the NER with recovery of amounts paid to affected participants as a result of the exercise of RERT, AEMO proposes a rule change to clarify the basis and apportionment for recovery these amounts by AEMO.

1.2 Nature and scope of issue to be addressed

In expanding clause 3.15.9, AEMO would consider three areas of consideration:

- Basis for recovery
- Apportionment between regions and market participants
- Apportionment between market customers

1.3 Current Rules

This draft is based on version 123 of the National Electricity Rules.¹

3.15.9 Reserve settlements

- (a) ...
- (b) 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

¹ National Electricity (Enhancement to the Reliability and Emergency Reserve Trader) Rule 2019 No.3 will amend clause 3.15.9. The amendment does not affect the issues raised in this submission, but will affect the final drafting of the Rule.

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; 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 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*

(d) Where either:

(1) without the intervention in the market of AEMO a region would otherwise, in AEMO's reasonable opinion, fail to meet the minimum power system security standards or the reliability standard; or

(2) a region requires a level of power system reliability or reserves which, in AEMO's reasonable opinion, exceeds the level required to meet the reliability standard

then *AEMO* must recover its net liabilities, or distribute its net profits, under the terms of reserve contracts entered into to meet these requirements, from or to the *Market Customers* in that *region* in accordance with paragraph (e).

(e) In respect of reserve contracts entered into by *AEMO*, *AEMO* must calculate in relation to each *Market Customer* for each region in respect of each billing period a sum determined by applying the following formula:

$$MCP = \frac{E \times RRC}{\sum E}$$

where:

MCP is the amount payable by a *Market Customer* for a *region* in respect of a *billing period*;

E is the sum of all that *Market Customer's adjusted gross energy amounts* in a *region* (the " **relevant region**") in each *trading interval* which occurs between 0800 hours and 2000 hours (*EST*) on a *business day* in the *billing period* excluding any *loads* in that *region* in respect of which the *Market Customer* submitted a *dispatch bid* for any such trading interval;

RRC is the total amount payable by *AEMO* under *reserve contracts* which relate to the relevant *region* in the *billing period* as agreed under clause 3.20.3(f); and

$\sum E$ is the sum of all amounts determined as "E" in accordance with this paragraph (e) in respect of that *region*.

3.20.3 Reserve contracts

(a) ...

(f) In entering into *reserve contracts* under paragraph (b) *AEMO* must agree with the relevant nominated persons referred to in paragraph (c) cost-sharing arrangements between the *regions* for the purpose of clause 3.15.9.

1.4 Issues with the current Rule

On 19 Jan 2018, when RERT was activated in VIC and SA, AEMO was required to determine compensation to Affected Participants as a result of applying intervention pricing, and to ascertain how each region benefitted from the RERT activated in both regions. Based on the reasoning section 1.1. above, the RERT costs for 19 Jan 2018 were apportioned such that VIC customers paid for all the RERT activated in VIC and SA customers paid for all the RERT activated in SA.

AEMO considers it necessary to explicitly identify the basis on which these costs are recovered and apportioned between regions.

Basis for recovery

Clause 3.15.9(b)(2) of the NER requires AEMO to include in statements any amounts determined as payable by AEMO (i) by an independent expert under clause 3.12.3 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.

An AEMO intervention event occurs as a result of the dispatch or activation of reserve contracts, and therefore amounts payable by AEMO as determined under clause 3.12.2 of the NER as a result of an AEMO intervention event (as a result of the exercise of RERT) would be amounts to be included in settlement statements under clause 3.15.9(b)(2)(ii) of the NER.

Even though this clause requires AEMO to set out these amounts in statements, unlike other comparable provisions in the NER, this clause does not specifically say that such amounts are recoverable by AEMO from Market Participants in respect of the same billing period.

Clause 3.15.9(b)(3) of the NER does state that AEMO must also include in statements any amounts 'receivable by AEMO in respect of reserve contracts' in the relevant billing period. Amounts receivable by AEMO include amounts recoverable under clause 3.15.9(d) and (e). While paragraph (d) refers to 'net liabilities' under the terms of reserve contracts, the term 'RRC' in the paragraph (e) formula is even narrower, referring to amounts payable 'under reserve contracts' relating to the relevant region as agreed in the cost sharing arrangement.

Where a participant is required to pay an amount to AEMO, the NER usually specifically states that the amount is payable to AEMO. For example, clause 3.15.8(c) of the NER specially states that the amount calculated to fund compensation for directions is an amount payable by the market customer to AEMO.

Even though clause 3.15.9(b)(2) of the NER requires AEMO to set out the compensation amounts in statements, there is a risk that this does not give AEMO the basis for recovering these amounts from participants. Ultimately AEMO would be relying on an assumption that there cannot have been an intention to override the fundamental principle of the market that AEMO's payment liability is limited by its ability to recover, and accordingly every obligation to pay must have a corresponding right of recovery.

Apportionment between regions and market participants

In accordance with clause 3.20.3(f) of the NER, apportionment of costs of reserve contracts between regions is based on the cost sharing arrangements agreed between jurisdictions for the purposes of clause 3.15.9 of the NER.

Clause 3.20.3(f) of the NER states that the cost sharing arrangement is for the purpose of clause 3.15.9 of the NER, if AEMO relies on clause 3.15.9 of the NER as the basis for recovery of payments to affected participants, AEMO could use the same approach to apportioning the payment to affected participants between regions.

Apportionment between market customers

Under clause 3.15.9(d) of the NER, where a region would fail to meet the reliability standard without intervention or a region requires a level of reliability which exceeds the reliability standard, AEMO must to recover net liabilities, or distribute net profits, under the terms of reserve contracts entered into to meet these requirements in accordance with paragraph (e).

Paragraph (e) sets out a formula for recovery of costs (as apportioned between regions in accordance with the jurisdiction cost sharing arrangement) from market customers based on load during 8am-8pm in the billing period.

However, as already noted, paragraph (e) appears to only be applicable to costs of reserve contracts, not payments to affected participants, as:

- the formula in paragraph (e) refers to the RRC being the amounts payable under AEMO 'under reserve contracts' and
- paragraph (e) applies to the recovery of net liabilities under paragraph (d) which are described as net liabilities 'under the terms of reserve contracts' entered into to meet these requirements.

Therefore, arguably paragraph (e) applies to amounts payable by AEMO ‘under’ reserve contracts, whereas the amounts payable by AEMO to affected participants are payable under clause 3.12.2 of the NER.

2. HOW THE PROPOSAL WILL ADDRESS THE ISSUES

As mentioned earlier, AEMO has recovered costs incurred as a result of a reserve contract under clause 3.15.9 for the exercise of RERT in 2018 and has also used the same approach for the events of January 2019.

The proposed rule will address the issues by including this process explicitly in the Rules.

3. PROPOSED RULE

3.1 Description of the proposed Rule

AEMO proposes to amend clause 3.15.9 of the NER to reflect AEMO’s approach for its exercising of RERT in 2018 and 2019, that is:

- Costs of compensating participants affected by a RERT activation will be recovered from Market Customers.
- Costs will be allocated to Market Customers in the region in which the RERT was exercised.
- Costs within a region will be allocated to Market Customers in proportion to the energy consumed in a trading interval.

3.2 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 (NEO)

AEMO considers that the proposed change addresses an apparent error in the Rules that does not explicitly instruct AEMO on how to recover the costs of Affected Participant compensation during RERT.

These outcomes directly promote the National Electricity Objective by maintaining the efficient operation of electricity services for the long-term interests of consumers with respect to price and security of supply.

5. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE

The proposed Rule would deliver the following benefits:

- increased certainty for participants that they will be fairly compensated for actions that support the reliability and security of the power system; and
- removal of any incentive for participants to avoid or minimise financial losses that may accrue due to interventions, potentially in ways that compromise AEMO’s ability to manage the power system.

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

The expected impact on compensation payments from the proposed rule is dependent on the extent, and timing of future directions. It is thus difficult to predict the impact of the rule, although given the relative minimal capacity of scheduled loads currently within the NEM, the impact is likely comparatively minimal.