

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

REMOVAL OF ADDITIONAL COMPENSATION FOR OTHER SERVICES DIRECTIONS

1. RELEVANT BACKGROUND

1.1 Current framework

Whenever AEMO directs for services *other* than energy and market ancillary services, it must pay compensation to directed participants as required by clauses 3.15.7A (payments to Directed Participants) of the National Electricity Rules and clause 3.15.7B (additional compensation). The compensation is based on a fair payment price (FPP) for the services and are determined by an independent expert.

The principles for determining FPP are in clause 3.15.7A(c) which require the Independent Expert to consider:

- A. the disinclination of Scheduled Generators, Semi-Scheduled Generators, Market Generators, Scheduled Network Service Providers or Market Customers to provide the service the subject of the direction must be disregarded;
- B. the urgency of the need for the service the subject of the direction must be disregarded;
- C. the Directed Participant is to be treated as willing to supply at the market price that would otherwise prevail for the directed services the subject of the direction in similar demand and supply conditions; and
- D. the fair payment price is the market price for the directed services the subject of the direction that would otherwise prevail in similar demand and supply conditions.

Once the FPP is determined, AEMO notifies the participant and they can then make a claim for additional compensation if their costs are higher than the FPP. Under certain circumstances this requires AEMO to appoint another independent expert to determine the compensation payable.

However, AEMO considers a FPP that does not meet those costs would be inconsistent with the principles in 3.15.7A(c) and an additional compensation claim process is not required.

1.2 Nature and scope of issue to be addressed

Although the number of directions issued by AEMO is increased sharply in recent years, the number of directions to provide other services has been rare. The most recent "other service" direction, issued to Snowy Hydro to provide voltage control on 24 January 2019, is in the process of being determined by an independent expert. The two-step process has been identified as an unnecessary delay in finalising compensation and an alternative, parallel, process is considered preferable.

This would also minimise the risk of the independent expert being unable to finalise compensation within 30 weeks as contemplated by AEMO's rule change to clause 3.12.1.

2. STATEMENT OF ISSUE

2.1 Current Rules

Based on Version 123 of the National Electricity Rules, provisions related to additional compensation claims for other services directions are as follows:

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 3.14.5A(d), clause 3.15.7 or clause 3.15.7A may, within 15 business days of receipt of the advice referred to in clauses 3.14.5A(g), 3.15.7(e) or 3.15.7A(f), make a written submission to AEMO claiming an amount equal to the sum of:
 - (1) ---
 - (2) the amount notified to that Directed Participant pursuant to clause 3.14.5A(g), clause 3.15.7(e) or clause 3.15.7A(f); less
 - (3) ---

These provisions currently require the Independent Expert to follow a two-step process in determining compensation, one to determine compensation and one to determine additional compensation.

2.2 Issues with the current Rule

Clauses 3.15.7B(a) and (a1) require the Directed Participant to submit an additional compensation claim once the FPP in clause 3.15.7A has been determined, and assuming that price does not adequately cover net costs and losses. Additionally, the Independent Expert is not required to (and arguably should not) consider actual costs or losses in determining the FPP.

AEMO considers this to be an unnecessary step in the process and a better approach would be to allow the Independent Expert to receive cost and loss information at the start of the process so that the fair payment price and additional compensation can be determined at the same time.

Clause 3.15.7A(c) states that the Independent Expert can determine a FPP for an other services direction based on the principles previously listed in section 1.1. It is silent on whether determining a FPP would involve consultation with the directed participant. In reality, it likely the two parties would consult, given the practical requirements of details the Independent Expert would need from the participant in order to make their determination.

Clause 3.15.7A(c)(2)(iv) states that the Independent Expert must produce a draft report on FPP and that it must request submissions from interested parties. As a non-defined term, "interested parties" would include the participant. If the participant felt that the price did not cover their costs, this presents the opportunity to raise that concern, allowing the Independent Expert to factor this into their price determination. The participant may have already had the opportunity to do this as per the previous paragraph.

The current wording of 3.15.7B invites directed participants to submit additional compensation claims if they feel that their costs have not been recovered. In the case of directions for other services, this would give participants either a second or third opportunity to raise concerns of their cost recovery. It is AEMO's view that the participant does not require this additional opportunity. At this stage the Independent Expert will always have sufficient information to make a determination of a FPP following receipt of submissions to their draft determination. Inviting additional claims will therefore not resolve any difference of views between the participant and the Independent Expert on what constitutes a fair price.

3. HOW THE PROPOSAL WILL ADDRESS THE ISSUES

The proposed rule would remove the ability to make additional compensation claims from clause 3.15.7A, but allow the independent expert to take into account the costs and losses incurred by the Directed Participant. This change would still allow a participant to recover costs and safeguards would still be provided through request for submissions on the Independent Expert's draft report published under clause 3.15.7A(c)(2)(iv).

4. PROPOSED RULE

4.1 Description of the proposed Rule

AEMO proposes the removal of reference to clause 3.15.7A and clause 3.15.7A(f) within clause 3.15.7B(a)

4.2 Transitional Matters

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

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

AEMO considers that the proposed changes strike a fair balance between the interests of market participants and consumers in respect of the cost of electricity.

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.

6. EXPECTED BENEFITS AND COSTS OF THE PROPOSED RULE

The proposed Rule would deliver the following benefits:

- reduced incentives to “second guess” an Independent Expert’s determination when being directed by AEMO; and
- reduce the time required to determine compensation to a Directed Participant. Should AEMO’s timetable alignment rule changes be adopted by the AEMC, the rule would allow full consideration of issues in determining a fair market price within the proposed 30-week routine revision process.

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

7. DRAFT RULE

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

3.15.7B Claim for additional compensation by Directed Participants

(b) Subject to clauses 3.15.7B(a1) and 3.15.7B(a4), a Directed Participant entitled to compensation pursuant to clause 3.14.5A(d), or clause 3.15.7 ~~or clause 3.15.7A~~ may, within 15 business days of receipt of the advice referred to in clauses 3.14.5A(g), 3.15.7(e) ~~or 3.15.7A(f)~~, make a written submission to AEMO claiming an amount equal to the sum of:

(4) ---

(5) the amount notified to that Directed Participant pursuant to clause 3.14.5A(g) or clause 3.15.7(e) ~~or clause 3.15.7A(f)~~; less

(6) ---