



# Application of compensation in relation to AEMO interventions

## Overview of rule change

On 17 September 2019, the Australian Energy Market Operator (AEMO) submitted a rule change request to narrow the circumstances in which compensation is payable in connection with AEMO intervention events.

The request follows a recommendation made by the Commission in the final report of its *Investigation into intervention mechanisms in the NEM*. The Commission recommended that affected participant compensation only be payable in connection with interventions which trigger intervention pricing under the revised RRR test, and should not be payable in connection with security related interventions. This will create consistency as between constraints and security related interventions, and reduce costs to consumers. This is the subject of this rule change request.

If the rule is made as proposed, the practical effect will be that affected participant compensation is no longer payable if the intervention is to obtain a security service that is not traded in the market (e.g. system strength).

## Background and the Investigation into intervention mechanisms in the NEM

When AEMO intervenes in the market by issuing a direction, it is required to compensate market participants who are directed to provide services. AEMO is also required to compensate certain participants who are “affected”, or dispatched differently, due to AEMO issuing a direction or activating the reliability and emergency reserve trader (RERT). Such compensation is designed to put participants in the position they would have been in but for the intervention.

The Commission’s *Investigation into intervention mechanisms in the NEM* considered whether affected participant compensation should be payable in connection with security related interventions. The final report concluded that:

- no such compensation is payable when AEMO uses a constraint, rather than an intervention, to maintain system security
- where the intervention responds to a security issue, the dispatch targets used to calculate affected participant compensation (and intervention pricing) are not feasible, meaning they would never be realised in practice.
- participants can optimise their position with respect to affected participant compensation, and this can impose higher than necessary costs on consumers.

AEMO’s rule change request acts on these conclusions and the recommendation that the circumstances in which affected participant compensation is payable should be narrowed.

## Interaction with other rule changes on foot

The rule change request is related to two other rule changes that the Commission currently has on foot, and for which draft determinations were published on 15 August 2019:

1. *Threshold for compensation following market intervention* - Currently, no compensation is payable to the affected participant, or payable by that participant to AEMO, if the amount is less than \$5,000. The Commission made a draft determination to change the compensation threshold as it related to directed participants but made no change to the threshold as it applies to affected participants. This was because it would not be appropriate to change the threshold in respect of affected participants when the Commission recommended in the *Investigation into intervention mechanisms*, that the circumstances when such compensation is payable should be narrowed. Accordingly, now

that this rule change request has been submitted, the commission has extended the timeframe for the compensation threshold final determination and rule such that it aligns with the (proposed expedited) timeframe for this rule.

*2. Application of the regional reference node test to the reliability and emergency reserve trader (RERT)* - The RRN test is currently used by AEMO to determine when intervention pricing should be implemented in connection with a direction. Intervention pricing is a practice designed to minimise market distortion when AEMO intervenes in the market. The Commission made a draft determination to extend the RRN test to encompass the RERT and clarify the circumstances in which intervention pricing should and should not apply. The new approach will provide clarity and consistency across the NEM, whereas the existing test would not deliver consistent pricing outcomes across the NEM. AEMO has requested that this rule commence no later than the revised RRN test final rule, such that the changes can be implemented in a streamlined manner.

### Next steps

On 24 October 2019, the AEMC published a consultation paper seeking stakeholder input on the proposal to narrow the circumstances in which compensation is payable in connection with AEMO intervention events.

The Commission considers this rule change request is a request for a "non-controversial rule" given it is unlikely to have a significant effect on the national electricity market. Such rules can be processed using the eight week "expedited process", provided that the Commission does not receive any valid requests not to use the expedited process.

To be valid, an objection should set out the reasons why the rule change request will have a significant impact on the national electricity market as defined in the NEL. Such requests must be received by close of business on 7 November 2019.

Submissions to the rule change request are due by 21 November 2019.

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