

Package of three rules to amend intervention pricing and compensation frameworks

Final determinations

The Australian Energy Market Commission has today published three final rules to amend the intervention pricing and compensation frameworks that apply when the Australian Energy Market Operator (AEMO) intervenes in the market. The first provides that intervention pricing will no longer apply in connection with interventions to obtain services which are not traded in the market; the second provides that affected participant compensation will no longer be payable in connection with interventions that do not trigger intervention pricing; and the third changes the \$5,000 compensation threshold so that, for both affected and directed participants, the threshold applies per event rather than per trading interval.

Background

The interventions framework in the 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 system strength or voltage). The interventions framework - the system's "safety net" - includes the RERT, directions and instructions. The interventions framework has always been available to AEMO as a last resort to maintain security and reliability.

When AEMO intervenes in the market, it is required to compensate both directed participants and those affected by the direction or RERT activation (i.e. dispatched differently). If a provision known as the "regional reference node test" (RRN test) is met, AEMO also implements "intervention pricing". This is a practice designed to minimise market distortion by preserving the price signals the market would have seen but for the intervention.

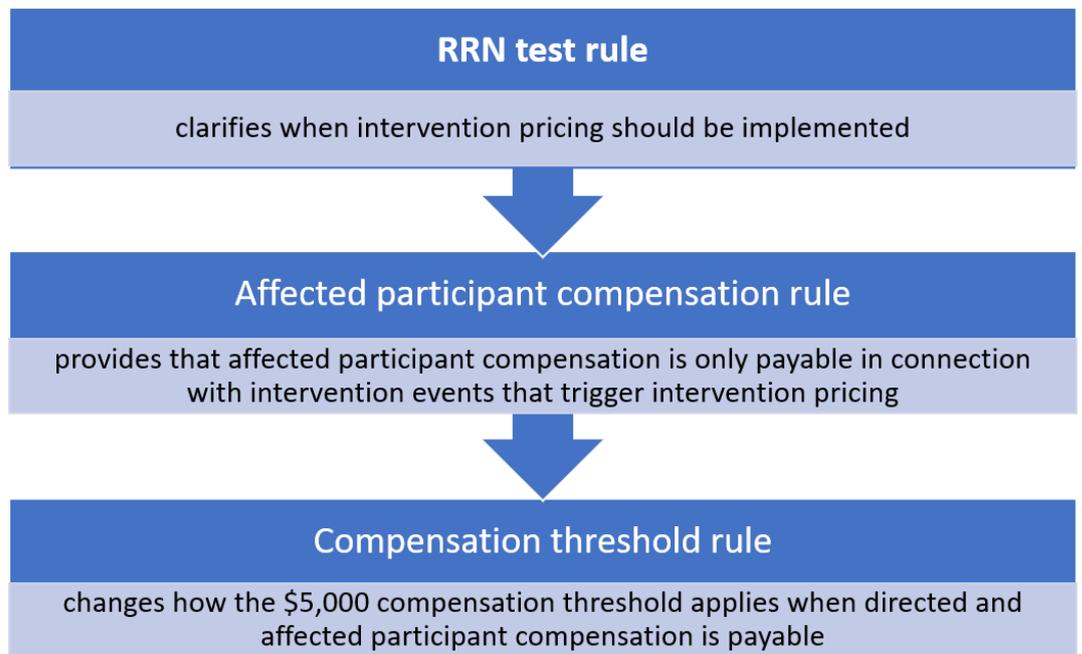
Intervention pricing determines the price at which the market clears during an AEMO intervention event - not just in the region in which the intervention occurred but across the NEM. Previously, the RRN test applied only to directions and not to the RERT, meaning that intervention pricing was applied whenever the RERT was activated. The test also included language that has caused considerable confusion and is not well suited to deliver consistent pricing outcomes across the NEM.

The increased use of system strength directions and intervention pricing in South Australia has important implications for wholesale electricity prices, both in South Australia and across the NEM. It affects energy price signals to market participants and investors and the energy costs passed through to consumers. Consumers also bear the cost of compensation payments to directed and affected participants.

This package of rules limits the use of intervention pricing and the payment of affected participant compensation, and changes the compensation threshold which previously limited the payment of compensation to affected and directed participants. Together, this package of rules strikes a better balance between the interests of market participants and consumers, lowering costs and reducing market distortion.

An overview of the three rules

On 19 December 2019, the Commission published three final rules which will commence on 20 December 2019. The interaction of these three rules is set out below.



The RRN test rule extends the RRN test so that it applies to both directions and the RERT. It also sets out the circumstances when intervention pricing will apply and makes clear that intervention pricing will not apply when the purpose of the intervention is to obtain a service for which there is no relevant market price. For example, system strength directions will no longer trigger intervention pricing. This will reduce market distortion and costs to consumers. Further information is available at: <https://www.aemc.gov.au/rule-changes/application-regional-reference-node-test-reliability-and-emergency-reserve-trader>

The affected participant compensation rule narrows the circumstances in which affected participant compensation is payable and provides that affected participant compensation will no longer be payable in connection with intervention events that do not trigger intervention pricing in accordance with the revised RRN test. For example, affected participant compensation will no longer be payable in connection with system strength directions. Further information is at <https://www.aemc.gov.au/rule-changes/application-compensation-relation-aemo-interventions>

Finally, the compensation threshold rule changes the compensation threshold which previously limited the payment of compensation to affected participants and to directed participants who lodged a claim for additional compensation. While the previous threshold applied on a per trading interval basis, the final rule amends the threshold so that it applies per event. This means that, where affected participant compensation remains payable (namely, in connection with interventions that trigger intervention pricing), affected participants will not incur loss due to the application of a per trading interval threshold. For directed participants, the revised threshold will help make sure they do not incur loss if they lodge a claim for additional compensation. Further information is at <https://www.aemc.gov.au/rule-changes/threshold-participant-compensation-following-market-intervention>

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