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Dear Emily

### **Compensation for market participants affected by intervention events (ERC0284)**

AEMO welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) published directions paper as part of the ongoing consultation into the rule change request relating to compensation for market participants affected by intervention events.

AEMO's submission outlines its support of the AEMC's preferred approach to calculating compensation for affected participant and affected market customers with scheduled loads. Further, AEMO provide comment on the proposals to clarify the objectives of the compensation framework and those considerations relating to bi-directional units moving forward.

We welcome the opportunity to discuss our submission further with the AEMC if needed. Should you have any questions on the matters in our submission please contact Kevin Ly, Group Manager Regulation at [kevin.ly@aemo.com.au](mailto:kevin.ly@aemo.com.au).

Yours sincerely



Tony Chappel

Chief External Affairs Officer

Attachment 1: AEMO'S Consideration of the Directions Paper

## ATTCHMENT 1: AEMO'S CONSIDERATION OF THE DIRECTIONS PAPER

### 1. AEMO's views on the options for calculating compensation

AEMO welcomes the AEMC's preliminary view that the target-based approach in the draft determination (Option 1) is no longer considered appropriate. As AEMO outlined in its submission there is a risk that this approach may over-compensate participants that choose to use less energy than required by their dispatch targets.

In terms of the alternative options AEMO considers that Option 3 has merit given that it puts the onus on the participant to justify their actual, incurred costs that result from an intervention. However, AEMO recognises that this would create an asymmetry in the compensation process for a battery where it would be entitled to automatic compensation as a scheduled generator but would need to apply for compensation as a scheduled load. AEMO is also acutely aware of the number of compensation claims that are currently being referred to an independent expert and the associated costs of processing those claims.

Therefore, AEMO supports the AEMC's preferred approach (Option 2) for calculating compensation for affected participant and affected market customers with scheduled loads.

AEMO also supports the AEMC including a new clause such that, where a participant's targets in both the dispatch and intervention pricing run of NEMDE are identical, no compensation will be payable under clause 3.12.2 of the NER. This is consistent with AEMO's approach to calculating compensation and removes any perceived ambiguity in the rules.

Further, AEMO supports the efforts to minimise the incentives for market participants to stray from their dispatch targets and the inclusion of an additional paragraph consistent with Clause 3.15.10C(c).

The implementation of the new volume-weighted formula in Option 2 will require AEMO to modify its systems to perform an ex-post allocation of both actual settlement volumes and what-if volumes to each bid band in each dispatch interval to calculate the  $QD_b$  terms. There will also need to be development of AEMO's systems to automate FCAS compensation.

AEMO reiterate its previous comments that implementation of the rule change will require up to five months from when the final rule is made in order to complete necessary development and testing. AEMO continues to support the inclusion of transitional arrangements providing for:

- If an AEMO intervention event which triggers intervention pricing is ongoing at the time the rule comes into effect, the rule will not take effect until such time as that intervention event has concluded.
- Where an AEMO intervention event occurs (and concludes) prior to commencement of the rule, compensation for participants affected by that event will be determined under clauses 3.12.2 and 3.12.3 as they existed prior to commencement of the rule.

## 2. Clarifying the objective of the compensation framework

AEMO agrees with the AEMC that there is a need to clarify the objective of the compensation framework with regards to scheduled loads and AEMO supports the proposed drafting of an overarching objective statement for clause 3.12.2 as copied below.

*"The compensation framework established by this clause 3.12.2 applies to participants which are dispatched differently as a result of an AEMO intervention event in respect of which AEMO has set dispatch prices and ancillary service prices in accordance with clause 3.9.3(b). The objective of the framework is, as far as practicable, to put such participants in the position they would have been in had the AEMO intervention event not occurred. The approach to calculating compensation acknowledges the different manner in which scheduled generators and scheduled loads are dispatched."*

## 3. Considerations relating to bi-directional units in the compensation framework

AEMO agrees with the AEMC that there may be some benefit to providing greater clarity as to the compensation framework applicable to a bi-directional unit within the rules.

The approach of using the MW target to determine whether the affected participant or scheduled load compensation framework should apply is logical, easily implemented and importantly, consistent with our current practices.

In the case where the dispatch target is zero the AEMC's suggestion of looking instead at the intervention targets to determine the applicable framework makes sense but AEMO agrees that the rules should not be overly prescriptive in this area given the need to address a range of potentially complex scenarios that are currently hard to envisage.

Whilst the sign of the target will determine the relevant framework for compensating a bi-directional unit the level of compensation will depend on various factors including the magnitude of the dispatch and intervention targets, price outcomes and the measurement of actual generation or consumption. Again, there could be unanticipated situations such that AEMO suggests that the rules do not need to be more rigidly defined and instead AEMO should be able to calculate the compensation so that it meets the clarified objective in 3.12.2.

Furthermore, as a backstop an affected participant or scheduled load may be able to lodge a claim to seek additional compensation if costs are sufficiently material as to exceed the \$5,000 threshold.