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Australian Energy Market Commission

Submitted online

Submission to draft report on compensation frameworks review

Alinta Energy welcomes the opportunity to make a submission on this consultation paper and thanks the AEMC for initiating this review following feedback to the Improving Security Frameworks (ISF) rule change.

Key points:

- **The alignment of compensation frameworks for different types of intervention will decrease complexity and maintain appropriate incentives for affected participants.**
- **Compensation for opportunity costs is an important safety net for participants and extending it to apply in all cases of market intervention will improve confidence in the compensation frameworks.**
- **The lack of compensation for constrained on generation leads to operational difficulties for both AEMO and participants and is not adequately addressed by the ISF rule change.**

It is pleasing that the AEMC's draft recommendations have largely addressed Alinta Energy's concerns with the current NEM compensation framework for market suspension, administered pricing, and directions. Alinta Energy supports the AEMC progressing its draft recommendations into a rule change with the following two caveats:

1. Calculation of volume-weighted average price

The proposal to use a volume-weighted average price (VWAP) as an input into the assessment of upfront payments market suspension and to determine the upfront payment for directions is an improvement to the existing framework. The AEMC has noted that periods in which generators have been directed would need to be excluded from consideration as an input into the VWAP. Alinta Energy agrees with this but notes that the same approach should be used to exclude periods when generators are constrained on in dispatch (whether pursuant to an underlying ancillary service contract or not).

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In addition to the above consideration, we note that there may be a need in the future to separate the calculation of VWAPs between regions if significant and sustained differences in input costs arise (for example, if significant price separation in the gas markets occurs between northern and southern regions for gas fired generators).

2. The lack of compensation for constrained on generation continues to create operational difficulties in the NEM for both AEMO and participants

The AEMC's draft decision proposes not to make changes to the treatment of constrained on generation on the basis that the ISF rule change addresses the concerns raised by participants. We disagree for the following reasons:

1. The occurrence of generators being constrained on (or off) in dispatch for power system security is broader than the example provided of system strength shortfalls in South Australia and is an emerging issue. An example of this problem as an emerging issue is covered in the recent industry discussions held by AEMO around their proposed management of minimum system load in the Victorian region.

2. While in theory all circumstances of constrained on dispatch could be contracted for under the new transitional contracts, they are not and will not be because:
   - Not all circumstances are foreseeable or common enough to warrant the cost associated with negotiating a contract for service.
   - There is no hard requirement on AEMO to enter such contracts. To be clear, we do not suggest that there should be – but participants should not be punished for a failure to enter a contract for a transitional service with AEMO when they have no absolute right to do so.

3. The lack of compensation for being constrained on creates inefficiency in bidding behaviours and reduces AEMO's flexibility in managing the power system. Generators invariably respond to being constrained on by bidding unavailable (as they must unless they wish to incur a loss) which then forces AEMO to issue directions and lose valuable time in the process. See again the example of the recent discussions held between AEMO and participants on the preparation for a potential Victorian minimum system load event where this sequence of events has been recognised as an inevitable consequence of using constraints, leading to directions being now considered as the first and only option available to AEMO to manage such events. We think that providing compensation for constrained on generators that is aligned with the directions compensation framework would largely prevent this type of scenario, leading to better operational outcomes for AEMO and likely similar or identical financial outcomes for participants.

We urge the AEMC to reassess this element of NEM design.

Finally, Alinta Energy has observed an expansion in recent years in the use of constraints in dispatch on participant facilities (either to constrain on or off) for the management of power system security. It is unclear to what extent the use of these sorts of constraints is intended under NER 3.8.1(b) as an alternative to directions. The

AEMC should consider reviewing this area of the rules in light of this practice and whether more guidance is required.

If you would like to discuss this submission, please contact me at hugh.ridgway@alintaenergy.com.au.

Yours sincerely,

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