



Australian Energy Market Commission

APPLICATION AND OPERATION OF ADMINISTERED PRICE PERIODS, FURTHER CONSULTATION

National Electricity Amendment (ERC0121) Rule 2011

Rule Proponent(s)

Australian Energy Market Operator

Commissioners

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23 September 2011

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For and on behalf of the Australian Energy Market Commission

**RULE
CHANGE**

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About the AEMC

The Council of Australian Governments, through its Ministerial Council on Energy (MCE), established the Australian Energy Market Commission (AEMC) in July 2005. The AEMC has two principal functions. We make and amend the national electricity and gas rules, and we conduct independent reviews of the energy markets for the MCE.

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1 Introduction

On 4 January 2011, the Australian Energy Market Operator (AEMO, Rule Proponent) made a request to the Australian Energy Market Commission (Commission) to make a Rule regarding the Application and Operation of Administered Price Periods (Rule Change Request).

The Commission subsequently published a Consultation Paper on 31 March 2011 and its draft Determination on 21 July 2011. The draft Determination explains the Commission's intentions regarding the key issues raised in the Rule Change Request, and submissions to that paper closed on 1 September 2011.

The Commission has decided to extend the period of time within which it must make its Final Rule Determination until 10 November 2011 and publish this additional Consultation Paper. Section 107A of the National Electricity Law (NEL) permits the Commission to extend the period of time for making of a final Rule determination "*when a person or body raises an issue in ... a submission or comment in relation to a draft Rule determination ... and the AEMC considers the issue raised by the person or body requires further public consultation in relation to the proposed Rule or draft Rule determination.*"

Under Section 107A of the NEL, the Commission has decided to conduct a further round of consultation on the Rule Change Request regarding the issues raised by AEMO in their submission to the draft Determination, that relate to the 'Miscellaneous Amendments' described in the draft Determination. Specifically, this paper addresses the clauses relating to the constraining of prices in neighbouring Regions during the application of price caps and floors within a Region.

2 Issues for Additional Consultation

This section describes the issues the Commission is consulting on in addition to those covered in the Consultation and draft Determination papers. Mark-ups of the proposed changes to the Rules are presented in Chapter 3.

2.1 Draft Determination and issues already consulted on

In its submission to the Consultation Paper, the National Generators Forum (NGF) identified what it considered a logical error in the drafting of Clause 3.14.2(e)(4), and proposed that the clause be amended as part of the Rule Change. The submission argued that the wording "... *that have an energy flow towards that regional reference node ...*" is incorrect and should instead refer to flows away from the Regional Reference Node (RRN) at which the Administered Floor Price (AFP) has been used to set the dispatch price. This issue is explored in further detail in Chapter 9 - 'Miscellaneous Amendments' - of the draft Determination.

In Section 9.2 of the draft Determination, the Commission stated its view that the proposal had merit, and that following liaison with AEMO, a corresponding error in clause 3.9.6A(c), which describes constraining of price in neighbouring regions when a Market Floor Price (MFP) is applied, also required a similar amendment. The Commission stated its intention to make a final Determination in relation to the two clauses to correct the drafting errors and invited comment from respondents on this intention.

2.2 New issues raised

No respondents indicated an opposition to the amendments in submissions received to the draft Determination. However, AEMO in its submission has identified additional clarifications that it believes should be made to the two clauses in relation to the application of loss factors. AEMO has also proposed that similar amendments should be made to the clauses that describe the inter-regional constraining of prices under the application of a Market Price Cap (MPC) or an Administered Price Cap (APC) (clauses 3.9.5(c) and 3.14.2(e)(2) respectively). AEMO contend that the clauses "*require that the Market Price Cap (MPC), Administered Price Cap (APC), Market Floor Price (MFP) or Administered Floor Price (AFP) is multiplied by the average loss factor without referring to the direction of energy flow that the loss factor relates to.*"¹ AEMO also contend that the use of both the terms 'product of' and 'multiplied by' in the clauses is unnecessary.

AEMO propose to introduce wording to the relevant clauses that stipulates that the loss factors to be used in constraining the prices apply for the energy flow in "that" direction referred to earlier in the clause ("toward" in the case of Caps, "away from" in the case of Floors, see next chapter for detailed drafting). In addition, AEMO propose to explicitly stipulate the arithmetic operation to be applied in each case (divide-by in the case of Caps, multiply-by in the case of Floors). This text will replace the generic and more

¹ AEMO, *Application and Operation of Administered Price Periods – ERC0121* [Response to draft Determination].

ambiguous wording at the end of the clauses that refers to the loss factors "between" the two RRNs.

In subsequent discussions following AEMO's submission, it was identified that a similar issue was present in clause 3.14.5(m), which describes the inter-regional constraining of prices under Suspension of one or more regions from the NEM.

The Commission is of the view that the application of loss factors in each case is technically correct under AEMO's proposed wording, and should yield economically efficient outcomes and act to prevent the creation of negative residues during periods of interventionary pricing. The Commission considers that the existing clauses are ambiguous in relation to the application of loss factors.

The Commission considers that, as changes to the Electricity Market Management Systems (EMMS) will be required in order to implement these amendments as described by AEMO in their submission, and as the clauses relating to the APC, MPC and Suspension did not feature in its draft Determination, that it is preferable to consult with stakeholders prior to coming to a final Determination on these additional amendments.

The Commission invites written submissions regarding the additional amendments proposed by AEMO. Issues that the Commission is particularly eager to receive views on include:

- ascertaining that the proposed amendments have technical merit;
- whether the amendments affect the rights of parties to the Rules;
- whether the changes should be made as part of the Rule Change request relating to the Application and Operation of Administered Price Periods.

While the Commission considers the issues described in this paper to be largely separable from the core components of the Rule Change Request relating to the Application and Operation of Administered Price Periods, respondents may wish to refer to those issues in considering their responses.

3 Additional Rules Amendments Proposed by AEMO

3.9.5 Application of the Market Price Cap

- (c) If the *dispatch price* at any *regional reference node* is set to the *market price cap* under clause 3.9.2 or clause 3.9.5 then *dispatch prices* at all other *regional reference nodes* connected by a *regulated interconnector* or *regulated interconnectors* that have an *energy flow* towards that *regional reference node* must not exceed the ~~product of the~~ *market price cap* ~~multiplied~~ divided by the *average loss factor* that applies for energy flow in that direction for that *dispatch interval* ~~between that regional reference node and the regional reference node at which dispatch prices have been set to the market price cap~~ and determined in accordance with clause 3.9.5(d).

3.9.6A Application of the Market Floor Price

- (c) If the *dispatch price* at any *regional reference node* is set to the *market floor price* under clause 3.9.6A then *dispatch prices* at all other *regional reference nodes* connected by a *regulated interconnector* or *regulated interconnectors* that have an *energy flow* ~~towards~~ away from that *regional reference node* must be equal to or greater than the ~~product of~~ *market floor price* multiplied by the *average loss factor* that applies for energy flow in that direction for that *dispatch interval* and determined in accordance with clause 3.9.6A(d). ~~between that regional reference node and the regional reference node at which dispatch prices have been set to the market floor price in accordance with clause 3.9.6A.~~

3.14.2 Application of Administered Price Cap

- (e) If during an *administered price period* the *dispatch price*:
- (2) at any *regional reference node* is set to the *administered price cap* under clause 3.14.2, the *dispatch prices* at all other *regional reference nodes* connected by a *regulated interconnector* or *regulated interconnectors* that have an *energy flow* towards that *regional reference node* must not exceed the ~~product of the~~ *administered price cap* ~~multiplied~~ divided by the *average loss factor* that applies for energy flow in that direction for that *dispatch interval* ~~between that regional reference node and the regional reference node at which dispatch prices have been set to the administered price cap~~ and determined in accordance with clause 3.14.2(e)(5).
- (4) at any *regional reference node* is set to the *administered floor*

price under clause 3.14.2, then *dispatch prices* at all other *regional reference nodes* connected by a *regulated interconnector* or *regulated interconnectors* that have an energy flow ~~towards~~ away from that *regional reference node* must be equal to or greater than the ~~product of the administered floor price~~ multiplied by the average *loss factor* that applies for energy flow in that direction for that *dispatch interval* ~~between that regional reference node and the regional reference node at which dispatch prices have been set to the administered floor price~~ and determined in accordance with clause 3.14.2(e)(5).

3.14.5 Pricing during market suspension

- (m) If a *spot price* is set in accordance with clause 3.14.5(g) or clause 3.14.5(j) at a *regional reference node* (**suspension node**), *spot prices* at all other *regional reference nodes* connected by an *interconnector* that has an actual flow towards the suspension node must not exceed the *spot price* in the *suspended region* ~~multiplied~~ divided by the average *loss factor* ~~between that regional reference node and the suspension node~~ that applies for energy flow in that direction for that *trading interval*.

4 Lodging a Submission

The Commission has published a notice under section 107A of the NEL for this Rule change proposal inviting written submission. Submissions are to be lodged online or by mail by 7 October 2011 in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on Rule change proposals.² The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Paul Bell on (02) 8296 7800.

4.1 Lodging a submission electronically

Electronic submissions must be lodged online via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code ["ERC0121"]. The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within 3 business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

4.2 Lodging a submission by mail

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Or by Fax to (02) 8296 7899.

The envelope must be clearly marked with the project reference code: ERC0121.

Except in circumstances where the submission has been received electronically, upon receipt of the hard copy submission the Commission will issue a confirmation letter.

If this confirmation letter is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

² This guideline is available on the Commission's website.

Abbreviations

AEMO	Australian Energy Market Operator
AFP	Administered Floor Price
APC	Administered Price Cap
EMMS	Electricity Market Management Systems
MFP	Market Floor Price
MPC	Market Price Cap
NEL	National Electricity Law
NGF	National Generators Forum
RRN	Regional Reference Node