



Australian Energy Market Commission

CONSULTATION PAPER

National Electricity Amendment (Cost recovery for “Other Services” directions) Rule 2009

Rule Proponent
NEMMCO (now AEMO)

23 July 2009

This staff paper has been prepared to facilitate public consultation on the Rule change proposal and does not represent the views of the Commission or any individual Commissioner 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, established the Australian Energy Market Commission (AEMC) in July 2005 to be the Rule maker for national energy markets. The AEMC is currently responsible for Rules and policy advice covering the National Electricity Market. It is a statutory authority. Our key responsibilities are to consider Rule change proposals, conduct energy market reviews and provide policy advice to the Ministerial Council as requested, or on AEMC initiative.

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Introduction

On 13 March 2009 NEMMCO¹ submitted a Rule change proposal to the Australian Energy Market Commission (Commission) seeking to change the way costs for “other services” directions were recovered from participants in the NEM.

This consultation paper has been prepared to facilitate public consultation on the Rule change proposal. The paper does not represent the views of the Commission or any individual Commissioner.

In relation to the Rule change proposal this paper sets out:

- some background information, including information on the allocation of costs for directions generally;
- an outline of AEMO’s proposed changes to the method that costs for directions for other services are allocated;
- some questions for consultation that we encourage stakeholders to consider when making their submissions.

Background

This section of the paper provides some background information on AEMO’s power to issue directions.

AEMO has a power under the Rules to direct a scheduled plant or a market generating unit to do an act or thing if it is satisfied that it is necessary to do so to maintain or re-establish the power system to a secure, satisfactory or reliable operating state.² Where AEMO issues a direction it is required to pay compensation to the relevant scheduled plant or market generating unit.

AEMO issues directions for three kinds of services, these being for “energy”, “market ancillary services” and other services. Energy in this context refers to providing electrical energy. Market ancillary services refers to services to correct an increase or decrease in power system frequency beyond system operating limits. Directions for other services includes directions for:

- network support services (to remove a localised power system security violation that is remote from the regional reference node);
- reactive power, where the delivery of reactive power and any attendant change in active power is considered to be one all-inclusive service;

¹ On 1 July NEMMCO became AEMO.

² Clause 4.8.9 (a1) of the Rules

- a reduction in generation;
- manual or local frequency control; and
- an increase in scheduled load.³

From 2002 to 2008 the total amount of costs recovered for directions for other services (predominantly for network support services and manual frequency control services) has ranged from approximately \$4.4 million to \$2 million per annum.

Cost recovery for directions generally

This section of the paper provides information on how the costs (including costs of compensation) for directions are currently allocated and recovered. The cost allocation methodology is different for the different types of directed services.

Directions for energy

For directions for energy, costs of the direction are allocated to Market Customers in regions that benefit from the direction, in proportion to the amount of energy that the Market Customer consumes.⁴

Directions for market ancillary services

Costs for market ancillary services provided as a result of AEMO directions are allocated in the same way as if the market ancillary services were provided in the normal course of market operations. Costs for regulation market ancillary services, are allocated to Market Generators and Market Customers in the regions that were subject to the direction constraint requirement, on a causer pays basis. The contribution that Market Participants made to the requirement for the direction is assessed and published in advance by AEMO in accordance with the Rules.⁵

Costs for contingency market ancillary services are allocated to Market Generators (for services to correct a reduction in power system frequency below power system operating limits) and Market Customers (for services to correct an increase in power system frequency above power system operating limits) in each region that contributed to the requirement for the direction in proportion to the amount of energy that the Market Participant trades during the direction.⁶

Directions for other services

Costs for directions for other services are currently recovered from all Registered Participants in the NEM, in the same proportion as the largest single fixed

³ AEMO Rule change proposal p3

⁴ Rules clause 3.15.8(b)

⁵ Rules clause 3.15.6A(k)

⁶ Rules clause 3.15.6A(a) –(g).

component of Participant Fees.⁷ AEMO's participant fee structure has changed since this provision was introduced in the Rules. The structure no longer identifies fixed fees and is not regionally selective.⁸ AEMO's Rule change proposal seeks to alter this cost allocation and recovery methodology for other services.

AEMO's proposed change to the cost recovery methodology for "other services" directions

AEMO proposes that costs for other services directions be recovered from Market Customers and Market Generators in the regions benefiting from the direction in proportion to their relevant energy.

Relevant energy is described by AEMO as:

"the sum of the generator energy and (the absolute value of) the customer energy recorded in the metering data for that participant in the period of the direction." ...

..."The relevant energy of Market Customers and Market Generators in a region is approximately equal. The main cause of variation is the net import or export of power that may occur at the time of the direction. Thus if the region is a net exporter, the share of recovery costs for a direction in that region will be up to 55% for market generators, and down to 45% if the region is a net importer."⁹

Costs for other services are currently recovered from all Registered Participants in the NEM, in the same proportion as the largest single fixed component of Participant Fees. AEMO states that the issues with the current Rules are that:

"The current methodology does not take into account the regions to which the benefits of the direction accrue. Thus, the costs are inappropriately allocated between regions. This results in the costs being inequitably recovered from Registered Participants across regions that do not benefit from the direction. Typically, only Registered Participants trading within the region involved in the direction benefit through improved system security."¹⁰

and:

⁷ AEMO Rule change proposal p 2 and Rules clause 3.15.8(g)

⁸ NEMMCO Determination and Report, "Structure of Participant Fees under clause 2.11 of the National Electricity Rules", 24 March 2006

⁹ AEMO Rule change proposal p4

¹⁰ AEMO Rule change proposal p4

“the methodology is inconsistent with that for energy and market ancillary services directions. Given the frequency at which other services directions have been issued to date, and the materiality of such transactions, it is important that the compensation methodology used for other services provides an equitable recovery mechanism that is consistent with the methodology used for energy and market ancillary services directions.¹¹”

Data provided by AEMO states that the number of directions for other services, and the amount of compensation paid for these directions outweighs the number of, and compensation paid for energy and market ancillary services directions.¹² AEMO states that directions for other services from 2002 to 2008 have accounted for approximately 90 per cent of issued directions and approximately 99 per cent of the total compensation paid.¹³

There may be other potential ways to allocate costs for other services directions. For example costs are currently allocated on a causer pays basis for directions for regulation market ancillary services. This methodology could apply (if implementable) to directions for other services.

Consultation questions

The questions below are to facilitate consultation on this Rule change proposal. Stakeholders are encouraged to consider these questions when preparing their submissions on AEMO’s Rule change proposal. We welcome comments from stakeholders on whether the allocation of costs for directions for other services should be:

1. from all Registered Participants in the NEM, in the same proportion as the largest single fixed component of participant fees? (which is the current cost allocation methodology); or
2. from Market Customers and Market Generators in the regions benefitting from the direction in proportion to their “relevant energy”? (as proposed by AEMO); or
3. calculated using some other cost allocation methodology ?

Submissions should consider why the methodology preferred by the stakeholder for recovering costs for directions for other services is more likely to contribute to the achievement of the national electricity objective¹⁴ than other methodologies,

¹¹ AEMO Rule change proposal p4

¹² AEMO Rule change proposal p3

¹³ AEMO Rule change proposal p3

¹⁴ National Electricity Law, Section 7.

(including where relevant, the current cost recovery arrangements, and AEMO's proposed amendment).

Consultation

In relation to this Rule change proposal, the Commission has published a notice under section 95 of the NEL inviting written submissions by 5pm (Australian Eastern Standard Time) on 24 August 2009. Submissions may be lodged online or by mail in accordance with the following requirements.

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

All enquiries on this project should be addressed to Nanda Naidu on (02) 8296 7800.

Lodging a submissions electronically

Comments must be lodged online via www.aemc.gov.au. The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic version of the electronic version of 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 successful delivery of the submission has occurred.

Lodging a submission by mail

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

Or mail to:
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Or by Fax: (02) 8296 7899.

The envelope must be clearly marked with the project reference code: "ERC0090".

Except in circumstances where the submission has been submitted electronically, upon receipt of the hardcopy 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.