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By online submission

Dear Mr Gibbs

Draft determination – Settlement under low operational demand ERC0327

AEMO welcomes the opportunity to provide feedback on the AEMC's draft determination on Settlement under low operational demand (low demand rule change), published on 17 June 2021.

AEMO notes that the implementation of the non-energy cost recovery changes proposed in the Integrating Energy Storage Systems (IESS) rule change will provide an effective long-term solution to address the issues raised in the low demand rule change, as well as the settlement issue AEMO raised in its NEM settlement in zero and negative demand conditions rule change (zero demand rule change).

However, the risks associated with unintended settlement outcomes highlighted by Infigen could become more frequent and material in the interim period. AEMO considers that continued acceleration in the uptake rate of distributed energy resources and ongoing potential for high regional non-energy costs are likely to increase these risks.

The equity issues

Infigen's proposal raised two main issues in addition to the prospect of settlement failure addressed by AEMO's zero demand rule change proposal. These were:

1. An increased burden on non-exporting customers, with remaining positive loads in a region paying a higher share of the cost of non-energy services.
2. 'Over-payment' for non-energy services – a smaller pool of Market Customers are paying more than the service cost, because Market Customers with net export (negative load) also receive payments in the recovery calculation, despite not having provided the service.

Infigen's preferred option was to address both issues by national electricity rules (NER) amendments to floor Market Customer cost recovery amounts at zero.

Draft determination

The AEMC's draft determination is not to make a rule on the low demand rule change proposal. The AEMC has, however, made a 'more preferable rule' for the zero demand rule change that increased the substitution threshold from AEMO's proposed 1 MWh to 150 MWh¹. This change addresses the competitive equity issues to an extent. The draft determination stated that the AEMC had not considered the market flooring mechanism as a potential solution, because AEMO had advised early in the consultation process that it was unable to implement this change by 1 September 2021.

The 150 MWh threshold responds primarily to the first of the equity issues described above, by preserving a minimum amount of demand from which to fund the non-energy costs payable by AEMO. To some extent it is also likely to reduce the impact of the second issue in low demand periods, where substituted average Market Customer energy amounts are less likely to be negative, or significantly negative.

The threshold does not, however, directly address the potential for significant payments to be made to individual Market Customers with negative net load at any time, where they have not provided the relevant service. In some circumstances the amount of those costs could significantly increase the payments to be made by what may still be a small number of Market Customers.

Market Customer energy flooring solution

A flooring mechanism for customer energy is the only interim solution that can directly address this issue. As foreshadowed in the draft determination, AEMO was able to design a flooring solution within the zero demand implementation project and has identified the capacity to implement it in market systems by September 2021. Further, while there is ambiguity in the NER that it would be helpful to resolve, AEMO has formed the view that the current NER effectively permit Market Customer energy amounts to be floored for the purposes of determining non-energy cost recovery amounts.

AEMO has undertaken a comprehensive review of the current NER clauses relating to non-energy cost recovery calculations, and concluded that flooring of Market Customer energy values is in fact consistent with those provisions. Except for directions compensation payments under NER clause 3.15.8, which (for different reasons) may be positive or negative amounts, the trading amount under each calculation is expressed to be 'a negative number' or 'payable by' a Market Customer. AEMO interprets this to mean that the calculation in respect of the recovery amount should not result in a payment to a Market Customer in that capacity.

Ambiguity arises because the definitions of generator energy and small generator energy specifically provide for flooring (NER clauses 3.15.6A and 3.15.8), while the definition of customer energy does not. This is presumably because significant export flows at load connection points

¹ Revised to 25 MWh after commencement of 5 minute settlement

was never considered as a realistic possibility. Market settlement systems were therefore established without flooring for Market Customer recovery amounts.

Having formed this view of the NER, which is consistent with the policy intent, and noting the potential for significant over-payments to increase with rapidly reducing net demand at many connection points, AEMO considers it appropriate to implement Market Customer flooring changes in its settlement system. AEMO will be engaging with stakeholders to promote awareness of the proposed changes and identify any participant systems issues that may need to be considered and addressed.

AEMO considers that this will address the equity issues raised by Infigen's rule change request in low demand conditions and for all trading intervals where non-energy service payments occur.

AEMO requests that the AEMC consider amending the current definition of customer energy in NER clauses 3.15.6A(a0) and 3.15.8(a0) to remove the existing ambiguity. The suggested change would align the definition of customer energy with generator/small generator energy:

customer energy in respect of a *Market Customer* for a *trading interval* means the sum of the *adjusted gross energy* figures calculated for that *trading interval* in respect of that *Market Customer's* relevant connection points, provided that, if the sum of those figures is positive, then the *Market Customer's* customer energy for that *trading interval* is zero.

Should you wish to discuss any of the matters raised in this submission, please contact Kevin Ly, Group Manager Regulation on kevin.ly@aemo.com.au.

Yours sincerely



Tony Chappel
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