



Draft determination on settlement under low operational demand published

The Australian Energy Market Commission has made a draft determination not to make a rule to introduce a flooring mechanism for the calculation of non-energy cost recoveries for market customers. The Commission does not consider that there is benefit in making a rule because the issues raised by Infigen Energy in its rule change request have been addressed in the final determination and rule in the *NEM Settlement in low, zero and negative demand conditions* rule change

Infigen's proposed rule

On 15 February 2021, the Commission received a rule change request from Infigen Energy (Infigen) that outlines issues that could arise from the current non-energy cost recovery formulas during periods of low operational demand. These formulas rely on numerators and denominators that include adjusted gross energy (AGE), which is a customer's net flow of electricity at a connection point. In Infigen's view, the current non-energy cost recovery formulas do not consider the possibility of bi-directional resources, such as rooftop solar, which can affect market customers AGE used to calculate the distribution of costs.

Under low net regional demand, some market customers are likely to be net generators (negative AGE values) and under the current formulas they would receive a payment for non-energy costs. The remaining market customers, which are net loads (positive AGE values), would be forced to pay a higher share of non-energy costs to cover this payment. If these market customers are exposed to non-energy costs equal to or above the total amount to be recovered, it would impose substantial costs onto them. Infigen also notes that if operational demand was to fall to zero across a trading interval the current cost recovery formulas would fail from a divide by zero error, preventing settlement across the NEM.

To address this issue, Infigen proposed a 'flooring' solution where any negative AGE values are set at zero in the non-energy costing formulas. This would go some way towards maintaining an equitable non-energy cost recovery from market customers.

AEMO's *NEM settlement in low, zero and negative demand conditions final determination*

Alongside the rule change from Infigen, on 8 February 2021, AEMO submitted the *NEM settlement in low, zero and negative demand conditions* rule change also relating to the non-energy cost formulas. In that rule change, AEMO was seeking to amend the non-energy cost formulas to allow for a substitution of AGE values. This would create numerators and denominators for non-energy cost allocation formulas that will work in AEMO's settlement systems. Infigen also noted in its rule change request that AEMO's approach was a possible solution to the issues Infigen had raised. However, Infigen suggested that the threshold for when AEMO's approach is triggered be raised, from 1 MWh to 150 MWh.

On 17 June 2020, the Commission made a final rule and determination on AEMO's rule change that allows the NEM to settle transactions during low, zero and negative net demand conditions. The rule provides a temporary solution to address the urgent settlement risks and the inequitable payment risks that can take place when net demand is low. The rule implements the alternative solution proposed by Infigen in its rule change request.

The Commission's draft determination

The Commission recognises the importance of the issues surrounding NEM settlement and the distribution of non-energy costs. However, given the final determination and final rule made within the *NEM Settlement in low, zero and negative demand conditions* rule change implemented a solution proposed by Infigen, the Commission does not consider any additional rule would contribute to the achievement of the national electricity objective (NEO).

The Commission has therefore determined to not make the proposed rule change.

Reasons for the Commission's draft determination

In assessing the rule change request the Commission analysed previous low operational demand periods and considered stakeholder feedback to the consultation paper. The Commission considers that the issues outlined by Infigen are adequately resolved for an interim period in the final determination on the *NEM settlement under low, zero and negative demand conditions* rule change.

The Commission is not satisfied that Infigen's proposed rule will, or is likely to, contribute to the achievement of the NEO for the following reasons:

- A threshold of 150 MWh, as suggested by Infigen, allows the continued settlement of the NEM in low operational demand scenarios as the denominator in the cost recovery formulas will no longer be able to fall below 1 MWh during a trading interval.
- Only having one solution to solve the issues raised in both Infigen's and AEMO's rule changes allows for an efficient administrative implementation for both AEMO and the required market customers.
- Not making an additional rule provides greater market certainty of the solution to be implemented by spring 2021, as well as, allowing for efficient administrative implementation of the solution within *NEM settlement under low, zero and negative demand conditions* for both AEMO and the required market customers.
- Implementing a second interim solution above the 150 MWh threshold solution at an additional cost and for limited benefits is not effective or proportionate.
- In the longer term the *Integrating energy storage systems into the NEM* rule change is likely to address the issues raised by Infigen by relying on gross metering flows rather than net metering.

Consultation

Stakeholders are invited to make a submission in response to the draft rule determination by Thursday 29 July 2021.

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