



NEM settlement under low, zero and negative demand conditions

Stakeholder submissions invited on new rule change request

The Australian Energy Market Commission (AEMC) has published a consultation paper on an urgent rule change proposal that seeks to ensure the national electricity market (NEM) can settle when regional demand is below 1 MWh. The rule will allow the Australian Energy Market Operator (AEMO) to substitute numbers into its non-energy cost allocation formulas to ensure that these will continue to calculate.

Overview of the rule change request

On 8 February 2021, the Commission received an urgent rule change request from AEMO which focused on the formulas for certain non-energy cost allocations, to market customers under rule 3.15 of the National Electricity Rules (NER).

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. AEMO notes that if the aggregate AGE for a region falls below 1 MWh for a trading interval, the non-energy cost allocation formulas in rule 3.15 cannot be solved by its market settlement systems.

To address this issue, AEMO proposes to substitute a market customer's average usage from the previous four billing periods into the relevant cost allocation equations when regional demand is less than 1 MWh.

This rule change is a temporary solution to ensure the NEM continues to settle. A long term solution is likely to be introduced by the *Integrating energy storage solutions into the NEM* rule change, which, if made, is likely to allocate costs based on gross energy flows, rather than net energy flows.

Context

Operational demand, which is one measure of wholesale electricity demand AEMO relies on, has been falling in South Australia, and new modelling by AEMO now indicates there is a real risk that it could be negative in South Australia during spring 2021.

This creates risks for AEMO and the NEM as the formulas under the NER that are used to calculate and settle non-energy costs cannot calculate in circumstances where regional demand is less than 1 MWh.

This has broader consequences, as once a recovery amount cannot be allocated by AEMO's systems, AEMO's automated settlement runs will stop working, preventing all other transactions from settling including electricity transactions. This will also impact AEMO's ability to manage prudential assessment processes, as these rely on settlement data to determine the maximum credit limit of each market participant, as well as credit support and margin call requirements.

Issues for consultation

The consultation paper identifies the key issues for stakeholders to provide feedback on to the Commission, including:

- whether the assessment framework is appropriate for considering AEMO's rule change request
- whether the issues identified by AEMO are real and if other risks should also be considered
- whether AEMO's solution is a proportional way to respond to the issue identified in the rule

change request.

Treatment as an urgent rule change request

AEMO has requested that the rule change request be subject to the expedited rule making process on the basis that it is an 'urgent rule'. AEMO states that if a rule is not made the result would include:

- significant disruption to NEM energy and non-energy settlement
- potential for significant market participant margin calls, which may lead to prudential defaults should this disruption coincide with a high pricing event
- AEMO having to choose between either not paying non-energy costs, in breach of the NER, or being left with no avenue to recover them.

The Commission considers that this rule change request is a request for an urgent rule and therefore has decided to use the expedited rule change process, provided that it does not receive any valid requests not to use the expedited process by **6 May 2021**.

Key deadlines

Submissions on this consultation are due by **20 May 2021**. Written requests objecting to the use of the expedited process need to be received by **6 May 2021**. A final determination is expected to be published by **17 June 2021**.

Related rule change request

The AEMC has also released a separate consultation paper on a rule change request from Infigen, which focuses on the potential of low operational demand conditions to distort cost allocation calculations. This occurs when regional net demand approaches zero as, at this point, more market customers are likely to be net generators, while the remaining market customers with net loads will need to pay a higher share of non-energy costs, despite native demand remaining constant. Submissions on this consultation are also due by **20 May 2021**.

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22 April 2021

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