

6 November 2020

Ms Merryn York
Acting Chair
Australian Energy Market Commission
Sydney South NSW 1235

10 Eagle Street
Brisbane QLD 4122
T 07 3347 3100

By online submission

AEMC code: ERC0284

Dear Ms York

**Compensation for market participants affected by intervention events (ERC0284) –
AEMO Submission**

AEMO welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) draft determination on the rule change requests AEMO submitted relating to compensation for market participants affected by intervention events.

AEMO's submission below outlines our views on the AEMC's draft rule. It draws on our experience in calculating compensation for directions and other forms of intervention.

We welcome the opportunity to discuss our submission further with the Commission if needed. Should you have any questions on the matters raised in our submission, please contact Kevin Ly, Group Manager Regulation at kevin.ly@aemo.com.au.

Yours sincerely



Peter Geers
Chief Strategy and Markets Officer

Attachment 1: AEMO submission

ATTACHMENT 1:

Compensation for market participants affected by intervention events (ERC0284)– AEMO Submission

1. Context – AEMO’s rule change requests

AEMO convened the Intervention Pricing Working Group to address a number of issues with the application of intervention pricing. As a result of these discussions AEMO proposed the following rule changes:

- Including FCAS prices as an additional clause amongst other compensable factors to be considered in determining additional compensation in a non-restrictive fashion under Clause 3.12.2(j).
- Amending clause 3.12.2(a)(2) of the NER; specifically, changing the term of BidP in the formula for calculating Affected Participant compensation for a schedule load (Market customer), from the price of the highest priced price band specified in a dispatch bid to the highest priced band the scheduled load is dispatched from.

AEMO considered its proposed rules would:

- Achieve a fairer outcome for Affected Participants that may be negatively impacted by FCAS costs.
- Largely eliminate the potential to under compensate a participant following an intervention.

2. AEMO’s views on the AEMC’s more preferable draft rule

AEMO notes the AEMC has determined to make a more preferable draft rule that (amongst other things):

- Includes FCAS, in addition to energy, in the automatic calculation of affected participant compensation.
- Amends the formula (including the definition of BidP) used to calculate scheduled load compensation so that compensation is based on a volume-weighted approach

AEMO’s views on the draft rule:

- In terms of the solution proposed for FCAS compensation, AEMO supports the overall intent of the AEMC’s draft rule but considers its original proposal better achieves the National Electricity Objective (NEO).
- In terms of the solution proposed for scheduled load compensation, AEMO supports the AEMC’s volume-weighted formula but has concerns with the description of its intent.

More detailed comments are provided below.

FCAS component of the draft rule

The AEMC's draft rule will have greater upfront implementation costs relative to the solution proposed in AEMO's rule change request. AEMO will need to develop a new methodology and change its compensation systems to automatically calculate FCAS affected participant compensation.

AEMO does not consider the draft rule would materially improve the transparency of the compensation process and payments. AEMO considers the current arrangements are as transparent as is possible noting AEMO's confidentiality obligations relating to participant data. AEMO further notes that all independent expert reports (such as those prepared for additional compensation claims) are currently published on AEMO's website and include detailed analysis and explanation.

AEMO supports the position taken by the AEMC in the draft determination, not to adjust compensation to take account of any changes to the recovery of FCAS liabilities as a result of an intervention.

Scheduled load compensation in the draft rule

AEMO agrees that the formula for scheduled load compensation proposed by the AEMC is a reasonable approach but has concerns with the description of its intent in 3.12.2(a)(2). Here, the rules have been amended to say that the intent of the compensation calculation is to put the scheduled load in the position that it would have been in but for the occurrence of the intervention.

Whilst this is consistent with the intent of other intervention clauses, it is inconsistent with the formula-based compensation in 3.12.2(d) which does not deliver that outcome. Unlike other compensation approaches for directions, the compensation in the formula is one sided such that a scheduled load can only receive compensation and does not have to pay back any gains that resulted from the intervention.

Secondly, the formula effectively prescribes that the compensation amount refunds any excess pool purchase costs that might have resulted from the intervention but only down to the scheduled load's bid price step. This means that the bid price step is seen as a proxy for the value of the energy that the scheduled load acquired as a consequence of the intervention. Whilst there is no easy answer to assigning a cost in this situation, the formula is inconsistent with the approach used for compensating generators where their SRMC rather than their bid price is used as the basis of the calculation.

To resolve this AEMO recommends that the purposive description of scheduled load compensation be removed in 3.12.2(a)(2) and simply replaced with a clause referring to an entitlement to compensation as determined by the formula in 3.12.2(d). This would avoid confusion and inconsistency in the interpretation of the rules

Compensation when the scheduled load fails to follow dispatch targets

Consistent with the existing rule, the AEMC's draft rule calculates compensation by comparing the:

- affected participant's dispatch targets in the dispatch run, with
- affected participant's dispatch targets in the intervention pricing run.

AEMO considers that a situation may arise where an intervention occurs and a scheduled load does not follow its dispatch instructions. This is most likely to occur where the intervention price is significantly above the price at which the scheduled load expected to be dispatched. In this situation a scheduled load (particularly a battery which does not actually need the energy for an end use) could decide not to consume energy so would incur no actual pool purchase costs and yet it would still receive automatic compensation via this formula. In effect, it can make a profit out of not following dispatch instructions.

However, the assessment of whether or not a scheduled load has followed its dispatch instructions is highly problematic, particularly for a battery which is also likely to be dispatched to provide regulation FCAS services. AEMO has provided a comparison of batteries' performance against their target in Appendix A of this submission which shows that there can be significant variations from the energy target. Further investigation of some of the largest deviations reveals that they were providing regulation FCAS at this time. In some instances the regulation FCAS requirement was greater than their load dispatch such that they ended up generating rather than consuming.

Given that there is a risk of over-compensation when the load fails to follow dispatch targets and given that it is very hard to identify this behaviour it would seem more appropriate to only pay compensation where a party can demonstrate that it has incurred a cost that it would not have incurred but for the intervention.

Clarity of QD_b formulas

The proposed rule defines QD_b as the "difference" between two quantities. This could create ambiguity given that the difference can be defined as the larger number less the smaller number. Given that the sign of the outcome is important it would be better to be explicit as to what the intention of this formula is.

QD_b is also defined in relation to a trading interval but batteries are capable of rebidding multiple times with a trading interval by moving quantities between the bid bands. This means that it would be better to define QD_b as the sum of the energy differences at the dispatch interval level i.e. $QD_b = \sum_i QD_{b,i}$ where i represents each dispatch interval within a trading interval.

3. Implementation

To implement the AEMC's draft rule, AEMO will require five months from when the final rule is made.

This time is required to enable AEMO to:

- Develop and thoroughly test the new methodology required by the rule.
- Incorporate automatic FCAS compensation in AEMO's compensation systems.

- Verify the updated systems.

In terms of transitional arrangements, AEMO supports the inclusion of the following provisions:

- If an AEMO intervention event which triggers intervention pricing is ongoing at the time the rule comes into effect, the rule will not take effect until such time as that intervention event has concluded.
- Where an AEMO intervention event occurs (and concludes) prior to commencement of the rule, compensation for participants affected by that event will be determined under clauses 3.12.2 and 3.12.3 as they existed prior to commencement of the rule.

AEMO welcomes the opportunity to work with the AEMC and provide further input as the AEMC looks to finalise the rule.

Appendix A

The chart below compares the performance of grid connected batteries against their targets during the 2019 calendar year.

Batteries' 5-minute dispatch targets were compared with their initial MWs for the next dispatch interval. The chart shows data the distribution of outcomes for batteries that were below their target when their regional dispatch price was greater than \$100/MWh. Some of the largest deviations were investigated further and were found to be associated with the battery providing regulation FCAS.

