15 July 2020

Mr John Pierce
Mr Charles Popple
Ms Michelle Shepherd
Ms Allison Warburton
Ms Merryn York
Australian Energy Market Commission
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Dear Commissioners,

NATIONAL ELECTRICITY AMENDMENT (COMPENSATION FOR MARKET PARTICIPANTS AFFECTED BY INTERVENTION EVENTS) RULE 2020

EnergyAustralia (EA) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC's) National Electricity Market (NEM) Amendment consultation paper.

EA is one of Australia's largest energy companies with around 2.5 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. EA owns, contracts and operates an energy generation portfolio that includes coal, gas, battery storage, demand response, solar and wind assets. Combined, these assets comprise 4,500MW of generation capacity.

EA is dedicated to building an energy system that lowers emissions and delivers secure, reliable and affordable energy to all households and businesses. EA is therefore appreciative of the AEMC's efforts to examine the compensation framework relating to intervention events. Ensuring this framework is fit for purpose will be a vital enabler of a rapid and robust energy market transition.

Broadly, EA agrees with the assessment principles and intent of the rule changes proposed. Adopting the same compensation protocols for scheduled loads, generation and hybrid plant will make the compensation framework clearer, fairer and more congruent. It will also help to improve efficiency by minimising the potential for market distortions from inconsistent rule settings.

Responses to specific questions are provided below, and we would welcome the opportunity to discuss this submission further with you. Should you have any questions, please contact me on 03 8628 1293 or via bradley.woods@energyaustralia.com.au.

Regards,

Bradley Woods
Industry Regulation Lead

QUESTION 1: Is the assessment framework appropriate for considering the proposed rule changes? Are there other principles that should be considered in assessing the proposed rule changes?

EA considers the assessment framework is appropriate.

QUESTION 2: Should clause 3.12.2 be amended so that affected participant compensation is payable in respect of FCAS?

As the AEMC notes, the original intent of clause 3.12.2 would seem to cover ancillary services payments given the reference to clause 3.15.6A. However, this is not entirely definitive. Making this so would align the affected compensation framework with other cost recovery provisions in the National Electricity Rules (NER). Given this, and the fact the AEMC considers there is likely to be little cost impact to customers from this change, EA considers that affected participant compensation for FCAS losses should be payable under clause 3.12.2.

QUESTION 3: Do Stakeholders consider it appropriate for FCAS to be included only in clause 3.12.2(j) - the provision relating to adjustment claims - as proposed by AEMO? Alternatively, should consideration be given to including FCAS in the automatically calculated compensation determined in accordance with clause 3.12.2(c)(1), in addition to including FCAS in paragraph (j)?

EA considers that FCAS compensation should be automatically calculated in accordance with clause 3.12.2(c)(1), with amendments to include FCAS in paragraph (j). This option is not expected to be overly administratively burdensome, would align FCAS treatment with energy compensation protocols and accord with the AEMC's consistency assessment principle.

QUESTION 4: If FCAS compensation is included in clause 3.12.2, should the calculation of affected participant compensation take into account the impact on FCAS liabilities of changed dispatch targets resulting from an intervention event? Should this be considered in each case as part of the automatic calculation of compensation or be an option available to participants via an adjustment claim?

In principle, EA considers that affected participant compensation should be calculated net of FCAS costs (liabilities) incurred or avoided. As noted in consultation paper, the FCAS contingency recovery mechanism is based on the total energy generated in the trading interval. Accordingly, this cost forms part of the total short run costs of operation. Compensating affected participants for this would, therefore, be consistent with protocols already adopted for energy costs such as fuel, maintenance and staffing.

In practice, the AEMC has highlighted that incorporating these expenses may not have net market benefits. This is based on previous Australian Energy Market Operator (AEMO) analysis of similar changes proposed under the demand response rule change. EA considers this analysis should be revisited to assess whether this still holds when the potential benefits from this rule change are included. To the extent that net market benefits remain negative, EA considers adjustment claims should be the preferred option for participants to be compensated for FCAS liabilities incurred or avoided.

QUESTION 5: Should the definition of BidP in clause 3.12.2(a)(2) be amended to avoid under-compensation of scheduled loads affected by interventions? If so, how should BidP be defined? Is there a need to clarify the value of QD in the compensation formula in clause 3.12.2(a)(2)? Are there any other issues that should inform consideration of this proposal?

EA supports the intent of the AEMO rule change to make compensation fairer for scheduled loads. Per the response to question eight, however, EA considers compensation should be two way. This means that both 'BidP' and 'QD' will need to be amended to facilitate this approach.

QUESTION 6: Should compensation for scheduled loads also include compensation for changes to FCAS enablement targets resulting from an intervention event?

EA does not consider there is any reason that generation, load and hybrid plant such as batteries and pumped hydro should be treated differently in relation to compensation for changes in FCAS enablement targets. EA therefore supports this proposal.

QUESTION 7: Do stakeholders consider that compensation for scheduled loads should be net of direct costs incurred or avoided, consistent with the approach to affected participants? If so, what costs should be considered? Should some or all of these costs be factored in as part of the automatic calculation of compensation or via the capacity of a market customer with scheduled load to lodge an adjustment claim?

EA does not consider there are strong arguments for treating compensation for scheduled loads differently to that of affected participants when impacted by the same event. To this end, EA supports the same costs being considered and the same mechanism being used to facilitate this, whether automatic or via an adjustment claim. Please see the response to question four for further comments in this regard.

QUESTION 8: Do stakeholders consider that there is value in adopting a symmetrical approach to compensation for scheduled loads and affected participants, such that scheduled loads may receive compensation or be required to repay revenue to AEMO?

Consistent with the foregoing responses, EA considers the same compensation treatment of loads and affected participants is vital for ensuring a transparent and equitable compensation framework. EA, therefore, supports adoption of a symmetrical approach to compensation for scheduled loads.