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MARKET SUSPENSION AMENDING RULES – EXPOSURE DRAFT

Alinta Energy appreciates the opportunity to provide feedback on the exposure draft of the market suspension amending rules.

Alinta Energy notes that the exposure draft “sets out proposed amendments to the WEM Rules to enable settlement in the event AEMO suspends the Real-Time Market or fails to use the Dispatch Algorithm for the Central Dispatch Process”.

Alinta Energy understands that if AEMO suspends the Real-Time Market the following settlement processes will apply:

- Energy prices will be calculated using a rolling 28-day average energy price. However, however if a generator is dispatched when the energy price is less than its offered price, it will be kept whole with an Energy Uplift Payment, similar to payments for generators who are dispatched at a price below their marginal cost of generation due to a binding constraint.
- FCESS prices will be calculated using the rolling 28-day average price which, during October 2023, would be:
 - the current administered price i.e. the margin values for contingency ESS; and
 - the LFAS up and down prices for regulation ESS.
- However, unlike energy prices, the current amending rules do not allow for an FCESS Uplift Payment for no other reason than “because the information required to calculate the FCESS Uplift Payment is determined by the Dispatch Algorithm”.

Alinta Energy supports the inclusion of an Energy Uplift Payment. However, we note that the calculation of such a payment relies on a participant being able to continue to submit offers under all three WEMDE failure states (intermittent, temporary and extended) as presented at the 15 August 2023 WRIG).

Noting this, we strongly recommend that the amending rules should be further amended to:

- Include a mechanism to ensure that FCESS providers are also kept whole, particularly given the margin values would likely under-estimate the cost of provision of contingency ESS and FCESS is likely to be used more during a suspension; and

- Include a back-up compensation process that allows market participants to seek compensation where the difference between the default payments made under the proposed market suspension arrangements and the true economic cost exceeds a certain threshold. Given the limited time available to develop rules and systems, this could be via an off-market process whereby applications for compensation are assessed by an independent body, such as the ERA, who then advises AEMO the amount to settle.

An FCESS uplift payment, or appropriate alternative, is required in addition to the Energy Uplift payment.

AEMO recently recommitted to a 1 October 2023 start date for the new WEM. They have stated that beyond this point, an orderly delay to market start will be very difficult. Given the current issues with AEMO's dispatch engine and the inability for it to be properly tested before market start, we perceive a substantial risk of a prolonged market suspension from the new WEM commencement date onwards.

The amending rules must not cause participants to anticipate, or to actually experience, significant losses on their costs of providing energy or ESS. During such events, it is imperative that participants are focused on supporting the system operator rather than protecting themselves from losses associated with inadequate compensation. This is particularly relevant given that AEMO's outline for a suspension event, published on Friday 11 August 2023, indicates that during a longer suspension event, additional reserves of scheduled generation and FCESS will likely be required, given AEMO will need to apply more conservative standards and limit intermittent generation.

Unlike energy prices, the current amending rules do not allow for an FCESS Uplift Payment during a Real-Time Market Suspension. The exposure draft states that this is "because the information required to calculate the FCESS Uplift Payment is determined by the Dispatch Algorithm".

During a market suspension, AEMO should consider implementing a simplified method to keep generators whole while providing FCESS to the market. A pricing method that can be applied could be the higher of \$0 and the highest price associated with any scheduled Price-Quantity Pair in respect of a participant's RTM submission for FCESS less the FCESS Price.

If the data for determination of quantity for FCESS uplifts is not sufficient, AEMO could consider using the existing quantities for LFAS, Spinning Reserve and Load Rejection to determine peak and off -peak parameters.

If the data is still insufficient to calculate an FCESS Uplift Payment, participants should be able to claim additional compensation for FCESS provision per the following section.

A back-up compensation process should be designed that allows market participants to seek additional compensation in certain circumstances.

Alinta Energy considers that significant learnings can be made from the 2022 East Coast market suspension to ensure that the WEM market suspension and compensation mechanism is robust and durable.

Alinta Energy is concerned that the current proposal may not allow market generators and ESS providers to fully cover the costs to supply (even with the Energy Uplift Payment) and could, if the event of a longer-term suspension, lead to a market participant failure. For example:

- If AEMO has suspended the Real-Time Market, clause 7.11D.2A allows AEMO to issue directions to Rule Participants to operate Registered Facilities at a particular level or in a particular way. These directions may differ from the assumptions that a participant made in making its energy offers, which could lead to a shortfall even with the Energy Uplift Payment;
- Without provision for an FCESS Uplift Payment during a real-time market suspension there is a very real concern that an ESS provider would not fully cover the costs to supply.

- Even if the FCESS Uplift Payment was reinstated during a real-time market suspension, clause 7.11D.2A allows AEMO to direct any Rule Participant to provide Essential System Services where they can do so. Similarly, to energy, these directions may differ from the assumptions that a participant made in making its offers, which could lead to a shortfall even with the uplift payment.

Given this, Alinta Energy strongly recommends that EPWA consider adding an additional compensation mechanism into the WEM rules to ensure that generators can cover their costs to supply if a market suspension applies.

This back-up compensation process should allow market participants to seek additional compensation where the difference between the market administered compensation and economic cost of supplying energy or ESS exceeds a certain threshold.

While EPWA could model this off one of two NEM compensation frameworks:

- AEMC's Administered Price Cap/Floor Price Compensation Framework; or
- AEMO's Market Suspension Pricing and Compensation Frameworks,

we consider that this additional compensation process should be modelled off the AEMC process, given the complexity of the AEMO Market Suspension Pricing/Compensation Framework.

This is an "off-market" process whereby applications are assessed by an independent body, such as the ERA, who then provides AEMO with an amount to settle. This is likely to be the simplest rule drafting and require little consequential amendments to the settlement systems (which could be developed after 1 October 2023, given the likelihood that an ERA assessment would take some time).

A high-level summary of the AEMC framework is outlined below, with additional detail in table 1.

AEMC Administered Pricing compensation:

- Clause 3.14.6 of the NER (copied in appendix 1) and the AEMC compensation guidelines set out a process for eligible market participants to claim compensation for any losses during an administered pricing period.
- Parties eligible to make a claim can claim compensation if they supplied energy or other services during an administered pricing period and incurred a net loss. That is, their direct and/or opportunity costs exceeded their total revenue over an entire "eligibility period" (the period from the first trading interval of a trading day where the spot price is set by the administered price cap, until the end of that trading day).
- Opportunity cost is the value of the best alternative opportunity for eligible participants during the application of a price limit event or at a later point in time.
- The AEMC [APC compensation guidelines](#) sets out how participants can make a claim for compensation for direct costs and opportunity costs, which requires a claimant to sufficiently detail all costs incurred, with evidence; and issue a statement acknowledging all information is accurate, can be verified and can be shared with the AEMC.
- Compensation claims under this framework are initiated by eligible participants via a notice of intent to claim with the AEMC within five days of the event.
- Following its assessment, the AEMC will notify AEMO of its final decision. AEMO will then recover the cost of compensation from market customers who purchased energy in the relevant eligibility periods in the region(s) in which the administered price period applied and compensate the generator appropriately. This will occur through AEMO's settlement processes, in accordance with the NER.

Table 1: Summary of AEMC compensation mechanism

AEMC administered pricing Compensation Framework	
Applies to:	Registered Participants who are 'bid into the market'.
Recoverable costs	<ul style="list-style-type: none"> • Base: Administered Price Cap • Additional compensation: Net Direct and Opportunity Costs
Calculation	Compensation paid when total costs exceed total revenue from the spot market (i.e. a net loss) over an entire 'eligibility period' – a Trading Day
Process	<p>Eligible participants must initiate claims process.</p> <p>Step 1: Lodge written notification with AEMO and AEMC within 5 Business Days of end of the Administered Price Period - AEMC clarified via a market notice¹ that it will accept weekly claims, if the APC applies for an extended period.</p> <p>Step 2: AEMC publish a notice of receipt and seek information from the claimant to enable assessment of the claim. If the claim includes opportunity costs this means asking for the methodology used to determine its opportunity costs.</p> <p>Step 3: The claimant subsequently provides substantiation. There is no set time for this step.</p> <p>Step 4: The AEMC will commence formal assessment as soon as practicable and publish a notice once it has done so.</p> <p>Step 5: The claimant will be notified of the outcome as soon as practical, noting that the compensation processes differ depending on whether the claimant is seeking direct costs only, or also opportunity costs.</p>
Public disclosure	Public information on general nature of claim i.e. is it direct only, and final amount of compensation.

Thank you for your consideration of our submission. We would be happy to assist with the development of any additional compensation regime and share our learnings from the NEM suspension and compensation regimes. If you would like to discuss this further, please contact Oscar Carlberg at oscar.carlberg@alintaenergy.com.au or on 0409 501 570.

Yours sincerely



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¹ [Compensation claims for losses during administered pricing period | AEMC](#)

3.14.6 Compensation due to the application of an administered price cap or administered floor price

Definitions

(a) For the purposes of this clause 3.14.6:

compensation guidelines means the guidelines made by the *AEMC* under paragraph (e).

direct costs means the costs directly incurred by the claimant due to a price limit event

direct cost only claim means a claim made under paragraph (i) that does not include a claim for opportunity costs.

draft opportunity cost methodology has the meaning given to it in clause 3.14.6(o)(2).

eligibility period means the period starting at the beginning of the first *trading interval* in which the price limit event occurs in a *trading day* and ending at the end of the last *trading interval* of that *trading day*.

opportunity costs means the value of opportunities foregone by the claimant due to the price limit event as defined in the compensation guidelines.

price limit event means:

- (1) for *Scheduled Generators, Non-Scheduled Generators* and *Demand Response Service Providers*
 - (i) the *spot price* for a *trading interval* is set by the *administered price cap* during an *administered price period*; or
 - (ii) the *spot price* for a *trading interval* is set as a result of the application of clause 3.14.2(e)(2);
- (2) for *Market Participants* in respect of *scheduled load*:
 - (i) the *spot price* for a *trading interval* is set by the *administered floor price* during an *administered price period*; or
 - (ii) the *spot price* for a *trading interval* is set as a result of the application of clause 3.14.2(e)(4); and
- (3) for *Scheduled Network Service Providers*:
 - (i) the *spot price* for a *trading interval* for a *region* towards which the *Scheduled Network Service Provider* is transporting power is set by the *administered price cap* during an *administered price period*; or
 - (ii) the *spot price* for a *trading interval* for a *region* towards which the *Scheduled Network Service Provider* is transporting power is set as a result of the application of clause 3.14.2(e)(2).
- (4) for *Ancillary Service Providers*, in respect of an *ancillary generating unit* or an *ancillary service load*, the *ancillary service price* for a *trading interval* is set by the *administered price cap* during an *administered price period*.

relevant region means a *region* in which the *spot price* or *ancillary service price* (as relevant) is set by the price limit event.

submission closing date has the meaning given to it in clause 3.14.6(o)(3).

total costs means the direct costs and opportunity costs determined in accordance with the compensation guidelines provided that, in the case of a

claimant that is a *Market Network Service Provider*, the total costs must be the costs incurred due to transporting power towards the relevant region and must not include costs incurred, or revenues earned, due to transporting power away from the relevant region.

Eligibility for compensation

- (b) If a price limit event occurs then the following are eligible to claim *Registered Participants* compensation for the eligibility period:
- (1) a *Scheduled Generator, Non-Scheduled Generator* or *Demand Response Service Provider* in the relevant region;
 - (2) a *Market Participant* in respect of a *scheduled load* that has been *dispatched* in the relevant region in that eligibility period;
 - (3) a *Scheduled Network Service Provider* that transported power towards the relevant region; and
 - (4) an *Ancillary Service Provider* that provided *market ancillary services* in the relevant region in the eligibility period,

provided that the relevant claimant has incurred total costs during the eligibility period that exceed the total revenue it received from the *spot market* during that period.

Compensation - objective and basis

- (c) The objective of the payment of compensation under this clause 3.14.6 is to maintain the incentive for:
- (1) *Scheduled Generators, Non-Scheduled Generators* and *Scheduled Network Service Providers* to supply *energy*;
 - (2) *Ancillary Service Providers* to supply *ancillary services*;
 - (3) *Market Participants* with *scheduled load* to consume *energy*; and
 - (4) *Demand Response Service Providers* to supply *wholesale demand response*,
- during price limit events.
- (d) The amount of compensation payable in respect of a claim under this clause 3.14.6 must be based on direct costs and opportunity costs.

Compensation guidelines

- (e) The *AEMC* must, in accordance with the *transmission consultation procedures*, develop and *publish* [guidelines](#) (**compensation guidelines**) that are consistent with paragraphs (c) and (d) and that:
- (1) define the types of opportunity costs in relation to which a person can make a claim under this clause 3.14.6;
 - (2) outline the methodology to be used to calculate the amount of any compensation payable in respect of a claim under this clause, including the methodology for calculating direct costs and opportunity costs; and
 - (3) set out the information *AEMO* and a claimant must provide to enable the *AEMC* to make a determination as to compensation under this clause 3.14.6.
- (f) The *AEMC* must ensure that there are compensation guidelines in place at all times.³

Note:

The first compensation guidelines were made on 30 June 2009 and have been amended from time to time since that date. The current version of the compensation guidelines are available on the AEMC's website www.aemc.gov.au.

- (g) The *AEMC* may from time to time, in accordance with the *transmission consultation procedures*, amend or replace the compensation guidelines.

Process for making a claim

- (h) A person who is eligible under paragraph (b) may make a claim for compensation by providing the *AEMC* and *AEMO* with written notice of its claim in the form required by the compensation guidelines.
- (i) A claim under paragraph (h) must be made within 5 *business days* of notification by *AEMO* that an *administered price period* has ended.

Initial steps on receipt of claim

- (j) Following its receipt of a notice under paragraph (h), the *AEMC* must promptly:
 - (1) publish a notice on its website stating that it has received a claim under paragraph (h). The notice must:
 - (i) provide information on the general nature of the claim;
 - (ii) state whether or not the claim is a direct cost only claim; and
 - (iii) state that the *AEMC* will publish a notice when it commences formal assessment of the claim; and
 - (2) seek such information from the claimant that the *AEMC* reasonably considers is required to enable assessment of the claim including, in the case of a claim other than a direct cost only claim, the methodology used by the claimant to determine its opportunity costs.

Formal commencement of claim

- (k) As soon as practicable after the *AEMC* is reasonably satisfied that it has sufficient information from the claimant to assess its claim, the *AEMC* must publish a notice on its website that it has formally commenced its assessment of the claim specifying whether or not the claim is a direct cost only claim.

Determination of direct cost only claims

- (l) Not later than 45 *business days* after publication of the notice under paragraph (k) in respect of a direct cost only claim, the *AEMC* must *publish* its final decision as to:
 - (1) whether compensation should be paid by *AEMO* in relation to the claim; and
 - (2) if so, the amount of compensation that should be paid.
- (m) Before making its final decision under paragraph (l) the *AEMC* must consult with the claimant.
- (n) In making its final decision under paragraph (l), the *AEMC* must apply the compensation guidelines unless it is satisfied that there are compelling reasons not to do so.

Determination of claims other than direct cost only claims

- (o) In relation to a claim other than a direct cost only claim, the *AEMC* must, as soon as practicable but not later than 35 *business days* after publication of the notice under paragraph (k) *publish*:

- (1) the claimant's proposed methodology for determining the claimant's opportunity costs;
 - (2) the methodology the *AEMC* proposes to use in determining the claimant's opportunity costs (**draft opportunity cost methodology**); and
 - (3) an invitation for written submissions to be made to the *AEMC* on the draft opportunity cost methodology by a date not less than 20 *business days* after the invitation is made (**submission closing date**).
- (p) Any person may make a written submission to the *AEMC* on the draft opportunity cost methodology by the submission closing date.
- (q) Not later than 35 *business days* after the submission closing date the *AEMC* must *publish* its final decision on:
- (1) the methodology it will use in determining the claimant's opportunity costs; and
 - (2) whether compensation should be paid by *AEMO* in relation to the claim; and
 - (3) if so, the amount of compensation that should be paid.
- (r) Before making its decision on the matters referred to in paragraph (q), the *AEMC* must consult with the claimant.
- (s) In making its final decision as to the matters referred to in paragraph (q), the *AEMC* must:
- (1) take into account the submissions made in response to the invitation to in subparagraph (o)(3); and
 - (2) apply the compensation guidelines unless it is satisfied that there are compelling reasons not to do so.

Extensions of time

- (t) Despite anything to the contrary in this clause 3.14.6, the *AEMC* may extend a period of time specified in this clause if it considers the extension reasonably necessary to enable it to properly assess the claim because of the complexity or difficulty of assessing the claim or because of a material change in circumstances.
- (u) The *AEMC* must publish any extension of time made under paragraph (t).

Costs of claim

- (v) The *AEMC* may recover from a claimant for compensation under this clause any costs that are incurred by the *AEMC* in carrying out their functions under this clause in respect of that claim. For this purpose the *AEMC* may require the claimant to pay all or a proportion of those costs to the *AEMC* prior to the claim being considered or determined.