

Workshop on Constrained Off Payments for Potential Rule Change Proposal

24 October 2018

Workshop aims

Discuss and agree on

- The issue to be addressed
- The scope of a potential Rule Change Proposal
- Options for the proposed solution and the preferred option
- Next steps

Issues with constrained off payments

Issue: unpredictable and excessive constrained off payments

Desired outcome:

- Remove the potential for excessive constrained off payments
- Make constrained off payments more predictable

There are different reasons for constrained off payments, maybe not all issues can be addressed

Constrained off payments

Constrained off payments

= Constrained quantity * (Balancing Price - offer price)

Due to:

- Network outages
- Forecast errors
- Security/network constraint under system normal conditions

Constrained off payments

High constrained off payments in March/April related to constrained off dispatch due to network outages

- With negative prices down to $-\$1,000$, payments can get very high
- Payments don't necessarily reflect appropriate compensation

Government reform program is likely to remove constrained off payments with introduction of constrained network access and ex-ante pricing

But: Problem is of a sufficient scale to warrant resolution prior to the introduction of constrained access

When is compensation appropriate?

Network outage (system non-normal conditions)

Affected Facilities have no firm access rights

There appears to be no reason why consumers should pay for compensation to Generators under these circumstances

Removal of constrained off compensation under these circumstances

- Consistent with direction of WEM Reform Program
- No conflict with current Government policy
- Appears consistent with Wholesale Market Objectives

When is compensation appropriate?

Forecasting error

Constrained off compensation appears reasonable given ex-post pricing

- How much compensation is reasonable is more complex to assess and changes may require policy direction
- Justification for constrained off compensation will disappear with ex-ante pricing

When is compensation appropriate?

Network and security constraints not due to a network outage

- Grey area because of interaction with firm access
 - More complex to assess if compensation is appropriate and any rule changes may require policy direction
- Where compensation is appropriate, separate question of how much compensation is reasonable
 - More complex to assess what is reasonable and any rule changes may require policy direction
- Issue likely to increase if generators connect in a way affecting Spinning Reserve Requirements (several generators form largest contingency)
- Justification for constrained off compensation will disappear with constrained network access

How to achieve desired outcome

Main issue appears to be constrained off compensation due to network outage

- Rule Change Proposal focusing on this main issue can be progressed relatively quickly and at minimum cost

Additional issues: various compensations under system normal conditions

- Addressing these issues may significantly delay rule change process
- Suggest not progressing as part of the same Rule Change Proposal

Options considered

AEMO, the PUO and RCP Support have considered 3 main options to remove constrained off payments caused by network outages

Option 1 – Consequential Outage

Option 2 – Change NSG output estimate

Option 3 – Operating Instruction

Option 1 – Consequential Outage

Involves two components

- Requiring logging of Consequential Outage or Forced Outage for constrained off dispatch due to network outage
- Change TES calculation for NSGs to account for outages, similar to Scheduled Generator TES calculation

Would require

- Significant rule change development work
- Significant system changes

Option 2 – change NSG output estimate

Require that AEMO's estimate of NSG generation does not exceed the actual output of the Facility for NSGs that are constrained off due to network outage

Would reduce constrained off compensation to zero

Would require

- Medium rule change development work
- No system changes

Problem with this option

- Addresses issue only for NSGs, not for Scheduled Generators

Option 3 – Operating Instruction

AEMO to issue an Operating Instruction if Facility is constrained off due to network outage

- No constrained off payments if Facility received Operating Instruction (for the relevant Trading Interval)
- Minor Rule change development work
- Minimal system changes expected (AEMO to confirm)
- Addresses issue for NSGs and Scheduled Generators

AEMO, the PUO and RCP Support agree that this is a workable option and the best of the three considered

Additional Options

RCP Support is interested in any additional options that stakeholders may identify

If you have an additional option please provide us with details via email so we can circulate them to attendees before the meeting

Making constrained off payments more predictable

AEMO has open MAC action items to investigate and report on

- Options to provide early warning to Market Customers of their constraint payment costs
- What information can be published about constraint payments under the current Market Rules

Removing the main source of high constraint payments reduces the need for advance warning

Complex publication requirements could delay implementation of a Rule Change Proposal

Summary and next steps

Do attendees agree on the scope of a Rule Change Proposal?

If so, do the attendees have a preferred option?

Agree on responsibility for development of the Rule Change Proposal and timeframe

- RCP support is available to provide advice
- AEMO will be available to assess system impact

If desired to expedite

- MAC meeting on 20 November 2018 – can discuss status or Pre-Rule Change Proposal
- Pre-Rule Change Proposal can also be circulated to MAC out of session