

Final Rule Change Report:  
Removal of constrained off compensation for  
Outages of network equipment (RC\_2018\_07)

Standard Rule Change Process

30 April 2019

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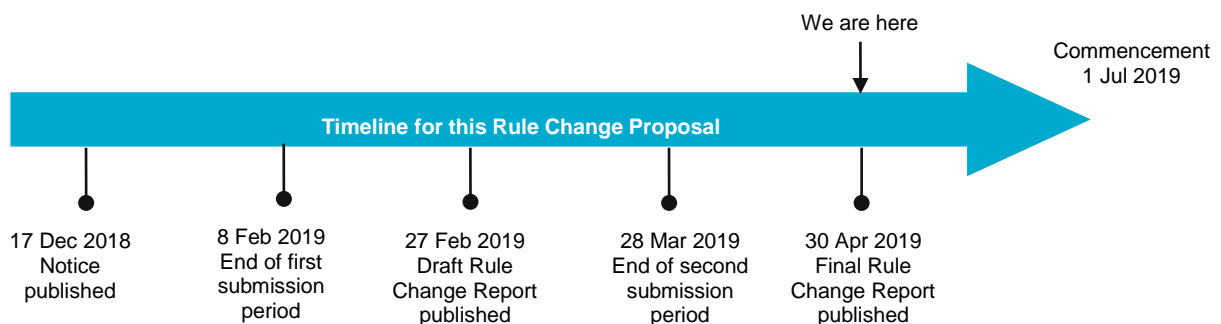
## 1. Rule Change Proposal, Process and Timeline

On 14 December 2018, the Public Utilities Office (**PUO**) submitted a Rule Change Proposal titled “Removal of constrained off compensation for Outages of network equipment” (RC\_2018\_07).

This Rule Change Proposal seeks to remove the payment of compensation to Market Generators when their Balancing Facilities are dispatched downwards Out of Merit<sup>1</sup> due to an outage of any network equipment.

This Rule Change Proposal is being processed using the Standard Rule Change Process, described in section 2.7 of the Market Rules. In accordance with the Rule Change Notice, the timeframes for the first submission period were extended beyond the usual 30 Business Days to account for the Christmas period.

The key dates for progressing this Rule Change Proposal are:



All documents related to this Rule Change Proposal can be found on the Rule Change Panel’s website at [Rule Change: RC\\_2018\\_07 - Economic Regulation Authority Western Australia](#).

## 2. The Rule Change Panel’s Decision

The Rule Change Panel’s final decision is to accept the Rule Change Proposal in a modified form as set out in section 8 of this Final Rule Change Report.

### 2.1 Reasons for the Decision

The Rule Change Panel has made its decision on the basis that the Amending Rules:

- are expected to result in a net benefit to the market by removing a large, unpredictable and unwarranted cost that is currently imposed on Market Customers, using a mechanism that can be implemented in a short timeframe and at low cost to the market;
- will impose no additional administrative burden on Market Participants;
- will allow the Market Rules to better achieve Wholesale Market Objectives (a), (b), (c) and (d), and are consistent with Wholesale Market Objective (e); and

<sup>1</sup> Out of Merit dispatch of a Balancing Facility means the dispatch of a Balancing Facility for a quantity different to that specified for the Facility in the Balancing Merit Order (**BMO**), taking into account the Ramp Rate Limit and the Relevant Dispatch Quantity in the applicable Trading Interval for the Balancing Facility.

- are supported by the majority of MAC members and six of the seven submissions received during the first and second submission periods.

Additional detail outlining the analysis behind the Rule Change Panel's decision is provided in section 7 of this report.

## 2.2 Commencement

The amendments to the Market Rules resulting from this Rule Change Proposal will commence at **8:00 AM on 1 July 2019**, immediately after the Amending Rules for the Rule Change Proposal: Removal of Resource Plans and Dispatchable Loads (RC\_2014\_06).

## 3. Proposed Amendments

### 3.1 The Rule Change Proposal

Under the Market Rules, a Market Generator whose Balancing Facility is dispatched downwards Out of Merit due to an outage of an item of network equipment receives compensation for its Downwards Out of Merit Generation<sup>2</sup> for the relevant Trading Intervals. This compensation (**constrained off compensation**) is recovered from Market Customers.

The PUO considers that Western Power does not, nor should it be required to, provide 100% reliable network services to a Facility as part of its connection agreement. This means that Market Generators accept a certain level of unavailability of their Balancing Facilities as a result of network outages, and consistent with this should not be paid constrained off compensation by the market in these circumstances.

For this reason, the PUO sought in this Rule Change Proposal to remove constrained off compensation for Balancing Facilities that are dispatched downwards Out of Merit due to an outage of any network equipment.

To facilitate the change, the PUO proposed to allow AEMO to issue a retrospective Operating Instruction to a Balancing Facility that is dispatched downwards Out of Merit because of a network outage. Under clause 6.16A.2(b) of the Market Rules, the Operating Instruction will cause the Downwards Out of Merit Generation for the Balancing Facility to be set to zero for the relevant Trading Intervals, preventing the payment of any constrained off compensation for those Trading Intervals.

Full details of the Rule Change Proposal are available on the Rule Change Panel's website.

### 3.2 The Rule Change Panel's Initial Assessment of the Proposal

The Rule Change Panel decided to progress this Rule Change Proposal on the basis of its preliminary assessment that the proposal is consistent with the Wholesale Market Objectives.

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<sup>2</sup> A Balancing Facility's Downwards Out of Merit Generation in a Trading interval is, subject to various exceptions (e.g. where the Balancing Facility was complying with an Operating Instruction, is undergoing a Test, or is non-compliant with its Dispatch Instruction), the difference between its:

- Minimum Theoretical Energy Schedule (**Minimum TES**) (which is the minimum MWh that the Balancing Facility could have generated in the Trading Interval if it had been dispatched consistently with its Balancing Submission, starting MW output level and the Balancing Price); and
- the actual MWh sent out generation of the Balancing Facility in the Trading Interval.

## 4. Consultation

### 4.1 Market Advisory Committee (MAC) Consultation

On 29 August 2018, the MAC Chair met with representatives from Kleenheat to discuss Kleenheat's concerns about the high and unexpected level of constrained off payments in previous Trading Months, and in March and April 2018 in particular. Following this discussion, the Chair invited Kleenheat to raise its concerns at the 12 September 2018 MAC meeting.

#### 12 September 2018 MAC meeting

The MAC discussed a letter from Kleenheat explaining its concerns, which was sent to the MAC Chair on 4 September 2018. A summary of the relevant discussion is provided below; the meeting papers (including a copy of Kleenheat's letter) and meeting minutes are available on the Rule Change Panel's website at <https://www.erawa.com.au/rule-change-panel/market-advisory-committee/market-advisory-committee-meetings>.

The following points were discussed:

- Ms Rebecca Banks of Kleenheat explained that Kleenheat was surprised by the very high constrained off costs in its March 2018 invoice; and was further surprised when its investigations determined the method used to calculate constrained off compensation amounts.  
  
Ms Banks described the compensation amounts as a 'lotto win' for the generators involved, and considered the calculation method was inconsistent with the Wholesale Market Objectives. In particular, the resulting costs were inefficient and actively discouraged retail competition. Ms Banks considered that there was a very high potential, if the relevant constraints were to apply for a long period of time, for the costs to bankrupt a retailer or, if the payments are passed through, to bankrupt an end-customer.
- Ms Banks also noted that retailers received very little information or advance warning about these payments. Ms Banks considered that the payments should be able to be predicted by retailers in terms of quantum and certainty well before the amounts appear on a monthly invoice.
- Ms Jenny Laidlaw noted that the issue of potentially unwarranted constrained off compensation was not new, and that the former Independent Market Operator (**IMO**) had developed a Pre-Rule Change Proposal: Outages and the Application of Availability and Constraint Payments to Non-Scheduled Generators (PRC\_2013\_16) to prevent unwarranted constrained off payments. The IMO had not progressed the proposal because of the Minister's freeze on the progression of Rule Change Proposals during the Electricity Market Review.
- In response to a question from Mr Shane Cremin, Ms Laidlaw clarified that under the Market Rules a Non-Scheduled Generator would still receive constrained off compensation for Out of Merit dispatch if it updated its Balancing Submissions to reduce its forecast output quantity. Mr Cremin suggested that this constituted a manifest error because there was clearly no intention to pay Intermittent Generators that are unable to generate due to a network constraint. Mr Geoff Gaston considered that the payments were excessive and agreed with Mr Cremin that the current arrangements were a manifest error in the Market Rules.

- Mr Cremin suggested that, to avoid going through a lengthy rule change process to resolve the issue, the Economic Regulation Authority (**ERA**) could consider whether the very low offer prices that were causing the large payments constituted a market power issue. Dr Natalie Robins explained that an ERA compliance investigation into low offer prices would not provide a quick solution to the problem, as the investigation would require an assessment of matters such as good faith bidding, which would be a lengthy process to ensure it was done properly. Dr Robins considered that there were probably other, quicker ways to address the issue.
- Ms Laidlaw noted that the payments were usually caused by System Management placing a constraint on an Intermittent Generator in the Real-Time Dispatch Engine because of a network outage. Ms Laidlaw questioned whether in these circumstances, where none of the generators involved had firm network access rights, the appropriate level of compensation that consumers should pay to a generator was an amount based on their short run marginal cost or zero.

Mr Cremin considered that any compensation in these circumstances should be covered by the commercial agreement between the generator and Western Power, not the market. Mr Andrew Stevens noted that Market Participants could protect themselves from the commercial impacts of being constrained off for extended periods through business interruption insurance. Mr Stevens considered that when Market Participants connected to the network they accepted that occasionally they would be constrained by a network outage and they would not receive any compensation for this. The current constrained off payments were not appropriate and not the intent of the market.

- There was general agreement to include the issue in the MAC Market Rules Issues List as a Potential Rule Change Proposal with an urgency rating of High.
- Ms Erin Stone suggested that PRC\_2013\_16 could be used as a starting point for the development of a Rule Change Proposal. Ms Laidlaw replied that, while this was an option, PRC\_2013\_16 involved extensive changes to AEMO's IT systems, and in the current circumstances it would be quicker and cheaper if an option could be found that avoided the need for IT changes.
- Mr Will Bargmann noted that he was advised by Mr Ben Williams that the problem will be addressed in part by an open Rule Change Proposal. Ms Laidlaw replied that RCP Support would be interested in discussing the matter with Mr Williams; and Mr Bargmann agreed to facilitate this discussion.
- The Chair agreed to update the MAC once the planned discussion between Synergy and RCP Support had taken place. Ms Laidlaw considered that depending on the outcomes of the discussions with Synergy it might be helpful for RCP Support to organise a workshop with interested stakeholders to discuss the options for the development of a Rule Change Proposal.

### **10 October 2018 MAC update via email**

On 10 October 2018, RCP Support advised the MAC that it had discussed the constrained off issue with Mr Williams on 9 October 2018 and confirmed that the rule change he was thinking of when he discussed the issue with Mr Bargmann was the IMO's Pre-Rule Change Proposal PRC\_2013\_16. RCP Support noted that:

- the IMO had discussed PRC\_2013\_16 with the MAC on several occasions (the final occasion being the 19 March 2014 MAC meeting), but had not progressed the proposal due to potential conflicts with the Electricity Market Review; and

- as discussed at the 12 September 2018 MAC meeting, PRC\_2013\_16 involves fairly extensive IT changes that are likely to make its progression problematic at this time.

## 24 October 2018 MAC workshop

On 24 October 2018, RCP Support held a MAC workshop to discuss the issue of constrained off payments. A summary of the relevant points discussed at the workshop is provided below; the workshop slides and minutes are available on the Rule Change Panel's website.

Attendees agreed that the issue to be addressed in the workshop was unpredictable and excessive constrained off payments, as experienced in March and April 2018. Mr Williams noted that Synergy was of the opinion that the desired outcome should also result in equitable constrained off compensation for all Facilities.

Ms Laidlaw clarified that, where a Market Generator knew in advance when and by how much its Facility would be constrained due to an outage of an item of Network equipment (**network outage**), it would usually not bid the constrained capacity into the Balancing Market. However, the Market Generator could not take such action if the timing of the network outage or the magnitude of the constraint was uncertain.

Attendees agreed that:

- the high constrained off payments in March and April 2018 were related to network outages; and
- Facilities have no firm network access rights during periods when they are affected by a network outage.

Mr Williams noted that, if System Management constrained a Facility off due to a network outage, the constrained quantity may be larger than the physical constraint of the network outage. There was some discussion about the effect of inaccuracies in System Management's dispatch process on the magnitude of constraints during network outages.

Ms Laidlaw considered that a Rule Change Proposal focusing on removing constrained off compensation related to network outages could be progressed relatively quickly, but the inclusion of additional issues in that proposal could significantly slow down the rule change process.

Attendees agreed that a Rule Change Proposal should be developed to remove constrained off payments to Market Generators that are dispatched downwards Out of Merit by System Management because of a network outage.

Attendees discussed three options to achieve this outcome that were considered by AEMO, the PUO and RCP Support during their preparation for the workshop:

- Option 1, which involved two components:
  - requiring the logging of a Consequential Outage or Forced Outage if a Balancing Facility is dispatched downwards Out of Merit due to a network outage; and
  - changes to the Minimum TES calculation for Non-Scheduled Generators to account for these Outages, to align that calculation with the calculation for Scheduled Generators;
- Option 2, which would require System Management, if it dispatched a Non-Scheduled Generator downwards Out of Merit due to a network outage, to set its estimate of the output of the Facility had it not received the Dispatch Instruction to its actual output,

which would cause the Downwards Out of Merit Generation for the Facility to be set to zero; and

- Option 3, which would require System Management to issue a retrospective Operating Instruction if it dispatched a Balancing Facility downwards Out of Merit due to a network outage.

Attendees did not suggest any additional options to address the issue.

Attendees agreed that Option 1 would require significant rule and system changes and therefore should not be considered further.

It was noted that Option 2 only addressed the issue for Non-Scheduled Generators. There was some discussion about whether a Scheduled Generator that was dispatched downwards due to a network outage is required to log a Consequential Outage. Ms Laidlaw indicated that this was not clear for cases where the Balancing Facility was affected indirectly by the network outage.

Attendees agreed that Option 3 was the preferred option because this solution would:

- require only minor work to develop a Rule Change Proposal;
- require only minor changes to AEMO's systems; and
- address the issue for both Scheduled Generators and Non-Scheduled Generators.

Mr Paul Arias and Mr William Street noted that it would be important to avoid imposing any unnecessary administrative burden on Market Participants for this solution. For example, Market Participants are currently required to respond to Operating Instructions via email, which would not make sense for retrospective Operating Instructions. Ms Laidlaw agreed that this should be avoided.

Mr Matthew Martin volunteered for the PUO to develop a Rule Change Proposal to implement Option 3, and attendees supported this approach.

## **20 November 2018 MAC Meeting**

The PUO presented a Pre-Rule Change Proposal: Removal of constrained off compensation for Network Outages (RC\_2018\_07). A summary of the discussion is provided below, and further details are available on the Rule Change Panel's website at <https://www.erawa.com.au/rule-change-panel/market-advisory-committee/market-advisory-committee-meetings>.

Mr Martin noted that the PUO had engaged Ms Stone to assist it with the development of the Rule Change Proposal. The PUO hoped that, with high-level support from the MAC, the proposal could be implemented by around April 2019, to address any issues that may arise if there is a seasonal aspect to the network outages that caused the high constraint payments in 2018.

Ms Stone provided the MAC with an overview of the Pre-Rule Change Proposal. Ms Stone noted that the proposal would need to be progressed using the Standard Rule Change Process and reiterated Mr Martin's suggestion that it be progressed as quickly as possible under that process. The following points were discussed.

- Ms Wendy Ng asked whether Operating Instructions were to be issued for all or only some network outages. Ms Laidlaw noted that the intention discussed at the workshop was that if System Management dispatched a Scheduled Generator or Non-Scheduled Generator down out of merit because of a network outage, then afterwards it would



issue an Operating Instruction for the period to the Market Generator, which would switch off any constrained off compensation.

- Mrs Jacinda Papps asked whether a Market Generator might receive an Operating Instruction that dealt with some past intervals and some future intervals. Ms Laidlaw questioned the need to issue Operating Instructions in advance because the current Dispatch Advisory and Dispatch Instruction mechanisms were sufficient to meet the operational requirements. Ms Laidlaw agreed with Mrs Papps that the use of Operating Instructions was intended to be a retrospective settlement solution rather than an operational tool.

There was some discussion about where the retrospective nature of these Operating Instructions should be clarified (e.g. in the text of the Rule Change Proposal, in the Power System Operation Procedure (**PSOP**): Dispatch, or in the Market Rules themselves).

- Mrs Papps questioned whether the proposed amendments would have an adverse effect on the certification of a Non-Scheduled Generator. There was general agreement that the output of a Non-Scheduled Generator should be estimated for the relevant certification Trading Intervals in the same way as if it had an approved Consequential Outage.
- Ms Laidlaw questioned whether Operating Instructions were issued to the Balancing Portfolio; and whether Synergy should be made ineligible for constraint payments because the output of one of its generators was reduced, since in most cases the output of another Synergy generator would be increased by a corresponding quantity. Mr Sharafi agreed to confirm how and whether Operating Instructions were used for the Balancing Portfolio and report back to the PUO and the MAC.<sup>3</sup>
- Ms Ng asked whether consideration had been given to the implications of the proposal on a contracted Scheduled Generator that was constrained down because of a network outage and then obliged to buy energy from the Balancing Market to meet its contracted position. Ms Laidlaw noted that the proposed outcome is similar to the outcome for a Scheduled Generator that is disconnected by a network outage, in that the Market Generator does not have to pay Capacity Cost Refunds but is not eligible for any compensation.
- Mr Patrick Peake suggested that Western Power should be required to pay compensation in these circumstances as an incentive to optimise its maintenance. Ms Kei Sukmadjaja noted that Western Power tries to minimise the impact of its outages as much as possible, but there are sometimes inevitable situations where network outages have to happen.
- In response to a question from Mr Cremin, Ms Stone and Mr Martin Maticka confirmed that AEMO considered the implementation costs would be low.
- Mr Daniel Kurz noted that Market Generators had specific obligations to respond to Operating Instructions and questioned whether the same obligations should apply to the proposed retrospective Operating Instructions. Ms Laidlaw replied that RCP Support was

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<sup>3</sup> System Management subsequently confirmed that Operating Instructions are issued to individual Facilities within the Balancing Portfolio for some specific purposes (e.g. for Commissioning Tests and Reserve Capacity Tests) but are not issued to the Balancing Portfolio or to Facilities within the Balancing Portfolio under the scenarios contemplated in this Rule Change Proposal.

aware of the issue but considered it should be relatively easy to specify different response obligations for the retrospective Operating Instructions.

The MAC supported the submission of RC\_2018\_07 into the formal rule change process once the PUO had considered the issues raised during the MAC discussion. The MAC confirmed the High urgency rating it previously assigned to the proposal.

## 4.2 Submissions Received During the First Submission Period

The first submission period for this Rule Change Proposal was held between 17 December 2018 and 8 February 2019. The Rule Change Panel received submissions from AEMO, Bluewaters Power (**Bluewaters**), Change Energy, Community Electricity and ERM Power.

Although the Rule Change Panel has summarised the submissions in accordance with clause 2.7.7 of the Market Rules, the Rule Change Panel has reviewed the submissions in their entirety and taken into account each matter raised by the submitting parties in making its decision on this Rule Change Proposal.

AEMO, Bluewaters, Change Energy and Community Electricity all supported the Rule Change Proposal.

Community Electricity considered that the Rule Change Proposal was a quick, simple, cheap and broadly supported solution to a relatively expensive and unwarranted market cost. Community Electricity agreed that, as a general principle, generators are not entitled to be compensated by the market in respect of being constrained off because of a network outage, especially when they are expressly subject to being curtailed as part of the terms of their network access.

AEMO expressed support for the intent of the Rule Change Proposal and suggested two refinements that the Rule Change Panel has incorporated into the Amending Rules.

Bluewaters broadly supported the intent of the Rule Change Proposal, considering that the materiality of the payments involved (approximately \$6 million over the first half of 2018) was a clear unintended consequence of the market design with adverse impacts on Market Customers and consumers.

Bluewaters considered that the existing rule requirements for Scheduled Generators provide adequate protection against constrained off payments in network outage situations (because a Market Generator in these situations is required to log a Consequential Outage that is taken into account in the calculation of the Scheduled Generator's Minimum TES, which limits its Downward Out of Merit Generation and constrained off compensation accordingly); and that the issue is partly due to the inconsistency of the rules applied to Non-Scheduled Generators (because a Consequential Outage logged for a Non-Scheduled Generator in the same situation does not affect the Minimum TES calculation and prevent the payment of constrained off compensation).

While Bluewaters felt the 24 October 2018 MAC workshop's Option 1 (Consequential Outages) was the best option to align all generators, it acknowledged that the rule and system changes needed to implement that option would be more complex; and therefore supported Option 3 (i.e. this Rule Change Proposal) as the most appropriate option to fast track the required changes.

ERM Power also noted the discrepancy in the Minimum TES calculations for Scheduled Generators and Non-Scheduled Generators, and considered that this discrepancy was the issue to be addressed. ERM Power, like Bluewaters, considered the existing rules were

sufficient for Scheduled Generators and expressed a preference for Option 1, while noting the advice regarding its high cost.

ERM Power considered that Option 3, if adopted, should only apply to Non-Scheduled Generators, because the option as proposed “imposes a market rule on Scheduled Generators that has no immediate impact whatsoever, so why impose it in Scheduled Generators at all when it is not required”.

ERM Power also expressed concerns about the PUO making policy declarations about the future of constrained off compensation that had not been previously discussed with Market Participants and should be managed under the Wholesale Electricity Market (WEM) Reform Program rather than this Rule Change Proposal. ERM Power noted the statement made by the PUO in the Rule Change Proposal that “constrained off compensation payments will not exist once firm access rights are removed” and suggested that the PUO, based on this view, believed the market should not be paid constrained off compensation now in advance of the adoption of the fully constrained network access environment.

The assessment by submitting parties as to whether the proposed amendments would better achieve the Wholesale Market Objectives is summarised below:

Submitter	Wholesale Market Objective Assessment
AEMO	Agreed with the PUO’s assessment that the proposed amendments will be consistent with the Wholesale Market Objectives and generally allow the Market Rules to better achieve Wholesale Market Objectives (a), (c) and (d).
Bluewaters	Agreed with the PUO’s assessment.
Change Energy	Agreed with the PUO’s assessment.
Community Electricity	Agreed with the PUO’s assessment.
ERM Power	Not provided.

Copies of all submissions received during the first submission period are available on the Rule Change Panel’s website.

### 4.3 The Rule Change Panel’s Response to Submissions Received During the First Submission Period

The Rule Change Panel’s response to each of the specific issues raised in the first submission period is presented in Appendix A of the Draft Rule Change Report for this Rule Change Proposal, which is available on the Rule Change Panel’s website. A more general discussion of the Rule Change Proposal, which addresses the main issues raised in the submissions and the Rule Change Panel’s response to these issues, is available in section 5.2 of the Draft Rule Change Report (which is reproduced in Appendix A of this Final Rule Change Report).

### 4.4 Submissions Received During the Second Submission Period

The second submission period was held between 27 February 2019 and 28 March 2019. The Rule Change Panel received submissions from AEMO and Bluewaters.

The two submissions were supportive of, and raised no issues with, the proposed Amending Rules as modified in the Draft Rule Change Report.

The assessment by submitting parties as to whether the proposed amendments would better achieve the Wholesale Market Objectives is summarised below:

Submitter	Wholesale Market Objective Assessment
AEMO	Agreed with the Rule Change Panel's assessment in the Draft Rule Change Report that the proposed amendments will better achieve Wholesale Market Objectives (a), (b), (c) and (d).
Bluewaters	Agreed with the Rule Change Panel's assessment in the Draft Rule Change Report that the proposed amendments will better achieve Wholesale Market Objectives (a), (b), (c) and (d).

Copies of the submissions received during the second submission period are available on the Rule Change Panel's website.

#### 4.5 Public Forums and Workshops

No public forums or workshops were held for this Rule Change Proposal.

### 5. The Rule Change Panel's Draft Assessment

The Rule Change Panel's draft assessment against clauses 2.4.2 and 2.4.3 of the Market Rules and analysis of the Rule Change Proposal are provided in section 5 of the Draft Rule Change Report.

### 6. The Rule Change Panel's Proposed Decision from the Draft Rule Change Report

The Rule Change Panel's proposed decision in the Draft Rule Change Report was to accept the Rule Change Proposal in a modified form, as set out in section 7 of the Draft Rule Change Report.

The reasons for the Rule Change Panel's proposed decision are set out in section 6.1 of the Draft Rule Change Report.

### 7. The Rule Change Panel's Final Assessment

#### 7.1 Assessment Criteria

In preparing its Final Rule Change Report, the Rule Change Panel must assess the Rule Change Proposal in light of clauses 2.4.2 and 2.4.3 of the Market Rules.

Clause 2.4.2 of the Market Rules states that the Rule Change Panel "*must not make Amending Rules unless it is satisfied that the Market Rules, as proposed to be amended or replaced, are consistent with the Wholesale Market Objectives*". Additionally, clause 2.4.3 of the Market Rules states that, when deciding whether to make Amending Rules, the Rule Change Panel must have regard to:

- any applicable statement of policy principles the Minister has issued to the Rule Change Panel under clause 2.5.2 of the Market Rules;
- the practicality and cost of implementing the proposal;
- the views expressed in submissions and by the MAC; and
- any technical studies that the Rule Change Panel considers necessary to assist in assessing the Rule Change Proposal.

In making its final decision, the Rule Change Panel has had regard to each of the matters identified in clauses 2.4.2 and 2.4.3 of the Market Rules as follows:

- the Rule Change Panel's assessment of the Rule Change Proposal against the Wholesale Market Objectives is available in section 7.4 of this report;
- the Rule Change Panel notes that there has not been any applicable statement of policy principles from the Minister in respect of this Rule Change Proposal;
- the Rule Change Panel's assessment of the practicality and cost of implementing the Rule Change Proposal is available in section 7.6 of this report;
- a summary of the views expressed in submissions and by the MAC is available in section 4 of this report. The Rule Change Panel's response to these views is available in section 5.2 and Appendix A of the Draft Rule Change Report, and section 7.2 and Appendix A of this report; and
- the Rule Change Panel does not believe a technical study in respect of this Rule Change Proposal is required and therefore has not commissioned one.

The Rule Change Panel's assessment is presented in the following sections.

## 7.2 Assessment of the Proposed Changes

The Rule Change Panel's assessment of the proposed amendments has not differed from the assessment detailed in section 5.2 of the Draft Rule Change Report (which is reproduced in Appendix A of this Final Rule Change Report).

## 7.3 Additional Amendments to the Proposed Amending Rules

### 7.3.1 Additional Amendments following the First Submission Period

Following the first submission period, the Rule Change Panel made some additional changes to the proposed Amending Rules. A summary of these changes is provided below. The additional amendments are shown in detail in Appendix B of the Draft Rule Change Report.

The Rule Change Panel:

- modified proposed clause 7.7.11 to:
  - refine the specification of the relevant network outages, as discussed in section 5.2.3 of the Draft Rule Change Report;
  - make the obligation on System Management to issue a retrospective Operating Instruction mandatory, as discussed in section 5.2.4 of the Draft Rule Change Report;
  - set a deadline for the issue of the retrospective Operating Instruction;

- clarify that the Operating Instruction should apply to all the Trading Intervals affected by the triggering Dispatch Instruction;
- more precisely specify the reference to clause 6.16A.2(b)(ii); and
- remove redundant wording;
- modified proposed clause 7.7.6 to improve its readability and clarify that:
  - the clause does not apply in the circumstances specified in clauses 7.7.7, 7.7.7A and 7.7.7B; and
  - the “advice and confirmation” mentioned in the last sentence of clause 7.7.6(b) are those provided by the Market Participant under that clause;
- removed redundant wording in clauses 7.7.3A(e), 7.7.7B and the definition of Operating Instruction; and
- made a number of minor changes to align with drafting standards for the Market Rules.

### **7.3.2 Additional Amendments following the Second Submission Period**

The Rule Change Panel has not made any additional changes to the proposed Amending Rules that were presented in the Draft Rule Change Report.

## **7.4 Assessment against the Wholesale Market Objectives**

The Rule Change Panel considers that the Market Rules as a whole, if amended as presented in section 8 of this report, will better achieve the Wholesale Market Objectives (a), (b), (c) and (d).

The payment of constrained off compensation to Market Generators dispatched downwards Out of Merit due to a network outage imposes an unpredictable, unwarranted and inefficient cost on Market Customers, creating an effective cross subsidy from Market Customers to Market Generators and leading to various adverse outcomes, such as increases in prudential obligations and the need to incorporate larger risk premiums in retail prices. The Rule Change Panel therefore considers that the removal of constrained off compensation in these circumstances will better achieve Wholesale Market Objective (a) through improved economic efficiency.

As noted by Kleenheat in its 4 September 2018 letter, this type of constrained off compensation imposes a material, unpredictable and unhedgeable financial risk on Market Customers, which makes participation in the WEM more challenging, particularly for smaller retailers. The Rule Change Panel considers that the removal of these payments will better achieve Wholesale Market Objective (b) by removing this disincentive to the participation of Market Customers in the WEM.

Under the current Market Rules, Consequential Outages can reduce the Minimum TES (and therefore the level of constrained off compensation) for Scheduled Generators but not for Non-Scheduled Generators. The Rule Change Panel considers the proposed amendments will better achieve Wholesale Market Objective (c) by better aligning the compensation paid to Scheduled Generators and Non-Scheduled Generators that are affected by network outages.

The financial costs and risks imposed on Market Customers by this type of constrained off compensation are eventually borne by consumers, either directly for some large industrial customers, or indirectly through the inclusion of increased risk premiums in contract prices. The Rule Change Panel therefore considers that the proposed amendments will better

achieve Wholesale Market Objective (d) by helping to reduce the long-term cost of electricity supplied to customers from the SWIS.

The Rule Change Panel considers that the proposed changes will not affect and so are consistent with Wholesale Market Objective (e).

## 7.5 Protected Provisions, Reviewable Decisions and Civil Penalties

This Rule Change Proposal does not affect any Protected Provisions or Reviewable Decisions.

Clause 7.7.6(b)(i), which requires a Market Participant to confirm receipt of a Dispatch Instruction or Operating Instruction, is a civil penalty provision. However, the Rule Change Panel considers that the proposed amendments to clause 7.7.6 do not affect the meaning of clause 7.7.6(b)(i) or the rationale for its selection as a civil penalty provision.

## 7.6 Practicality and Cost of Implementation

### 7.6.1 Cost

AEMO has advised that it will need to make relatively minor amendments to its market systems and related processes to implement the proposed amendments. AEMO increased its cost estimate to \$80,000 in its second period submission, noting that the increase from the estimate provided in AEMO's first period submission (\$50,000) was due to an increase in the testing requirement of several supporting systems identified as being impacted.

Bluewaters advised in its first and second period submissions that it would require system procedural changes to incorporate the amendments but considered the cost to be minimal. Bluewaters expected that the change would bring only a slightly increased administrative burden, which would be offset to some extent by a reduction in time spent (as a Market Customer) attempting to verify its allocated constrained off charges.

No other implementation or ongoing costs were identified by stakeholders.

### 7.6.2 Practicality

In its first period submission, AEMO estimated that it will require two months from the publication of the Final Rule Change Report to deliver the required system changes. In its second period submission, AEMO confirmed that the Rule Change Panel's proposed commencement date of 1 July 2019 was achievable. AEMO confirmed in subsequent discussions with RCP Support that it would not be able to implement the proposed amendments any earlier than 1 July 2019.

No stakeholders have raised any issues about the practicality of implementing the changes.

The proposed Amending Rules include changes to the Glossary definition of Operating Instruction, which is also being amended by RC\_2014\_06. As the Amending Rules for RC\_2014\_06 will commence at 8:00 AM on 1 July 2019, the Rule Change Panel:

- has used the RC\_2014\_06 definition of Operating Instruction as the base for the proposed Amending Rules; and
- proposes to commence the Amending Rules for this Rule Change Proposal immediately after the Amending Rules for RC\_2014\_06.

### 7.6.3 Amendments to Associated Market Procedures

The Rule Change Panel notes that the proposed changes may require some minor amendments to the PSOP: Dispatch.

## 8. Amending Rules

The Rule Change Panel has decided to implement the following Amending Rules (~~deleted text~~, added text):

7.7.3A. Each Operating Instruction must contain the following information:

- (a) details of the Registered Facility to which the Operating Instruction relates;
- (b) the time the Operating Instruction was issued;
- (c) the time at which the response to the Operating Instruction is required to commence and an estimate of when the Operating Instruction will cease to apply;
- (d) if applicable, the required level of sent out generation or consumption; and
- (e) whether the Operating Instruction relates to a Network Control Service Contract, an Ancillary Service Contract, a Test, ~~or~~ a Supplementary Capacity Contract, or a Dispatch Instruction that meets the criteria specified in clause 7.7.11.

...

7.7.6. Subject to ~~clause 7.7.7~~ clauses 7.7.7, 7.7.7A and 7.7.7B:

- (a) ~~and clause 7.7.7A,~~ System Management must issue a Dispatch Instruction or an Operating Instruction by communicating it to the relevant Market Participant in accordance with the Power System Operation Procedure. System Management must develop a Power System Operation Procedure which prescribes a communication method or methods which allow sufficient time for the Market Participant to confirm and to respond to that Dispatch Instruction; and
- (b) a Market Participant must:
  - i. confirm receipt of the Dispatch Instruction or Operating Instruction; and
  - ii. advise if it cannot comply or cannot fully comply with the Dispatch Instruction or Operating Instruction.

The advice and confirmation under this clause 7.7.6**(b)** must be made in the time and manner set out in the Power System Operation Procedure.

...

7.7.7B. Clause 7.7.6 does not apply where the Operating Instruction has been issued retrospectively under clause 7.7.11, in which case System Management may communicate the Operating Instruction to the relevant Market Participant at a later



time, and the Operating Instruction is deemed to have been confirmed by the relevant Market Participant.

...

7.7.11. If:

- (a) System Management has issued a Dispatch Instruction to a Balancing Facility to reduce its output under clauses 7.6.1C(b) or 7.6.1C(c) in response to an outage of an item of equipment that is part of:
  - i. a Network; or
  - ii. a transmission system or distribution system owned by Western Power; and
- (b) the required level of sent out generation specified in the Dispatch Instruction is lower than it would have been if the outage did not occur, then System Management must issue a retrospective Operating Instruction to the Facility for the relevant Trading Intervals no later than the time necessary for the Operating Instruction to be included in the schedule specified in clause 7.13.1, and for the purposes of clause 6.16A.2(b)(ii) the Facility is deemed to have been complying with that Operating Instruction in each of those Trading Intervals.

...

**Operating Instruction:** Means an instruction issued by System Management ~~requiring a Facility to increase or decrease its output or decrease its consumption to meet the requirements of:~~

- (a) requiring a Facility to increase or decrease its output or decrease its consumption to meet the requirements of:
  - ~~(a)~~i. a Network Control Service Contract;
  - ~~(b)~~ii. an Ancillary Service Contract;
  - ~~(c)~~iii. a Test under these Market Rules;
  - ~~(d)~~iv. a Supplementary Capacity Contract; or
  - ~~(e)~~v. Ancillary Services, other than LFAS but including Backup LFAS Enablement, to be provided by Facilities other than Facilities in the Balancing Portfolio; or
- (b) retrospectively under clause 7.7.11.

...

## Appendix A. Assessment of the Proposed Changes from the Draft Rule Change Report

### A.1 General Concept of the Rule Change Proposal

The Rule Change Panel agrees with the premise of this Rule Change Proposal that Market Generators should not receive constrained off compensation from the market if their Balancing Facilities are dispatched downwards Out of Merit due to a network outage. The payment of compensation in these circumstances imposes large and unpredictable costs on Market Customers that cannot be justified in terms of a service provided to, or a failure of the market.<sup>4</sup>

The Rule Change Panel agrees with the PUO and attendees at the 24 October 2018 MAC workshop that Market Generators have no firm network access rights under the current network access regime during periods when their Balancing Facilities are affected by a network outage.

The question of how or whether Market Generators may be compensated in the future for the loss of any existing firm network access rights is not relevant to the Rule Change Panel's assessment of this Rule Change Proposal. This is because the proposed amendments do not apply to scenarios in which a Market Generator might have firm network access rights under the current, unconstrained network access regime.

### A.2 Use of Retrospective Operating Instructions (Option 3)

The Rule Change Panel agrees that the use of retrospective Operating Instructions (Option 3) is the best available option to prevent the payment of constrained off compensation in these circumstances, because this solution:

- only requires minor amendments to AEMO's systems;
- addresses the issue for both Scheduled Generators and Non-Scheduled Generators;
- provides for equitable treatment of Scheduled Generators and Non-Scheduled Generators; and
- imposes no additional administrative burden on either Scheduled Generators or Non-Scheduled Generators.

The current mechanism for limiting constrained off compensation for Scheduled Generators requires the logging of a Consequential Outage when a Balancing Facility is dispatched downwards in response to a network outage. However, the Rule Change Panel notes that the Market Rules do not place an explicit obligation on Market Generators to log a Consequential Outage in all such circumstances.

For example, an unexpected network outage may cause a constraint on a transmission line that requires the curtailment of one or more of a group of Balancing Facilities connected to that line. In this situation, System Management will use the BMO to determine which Balancing Facility or Facilities to constrain off, since each of the Balancing Facilities may still be capable of generating under the constraint. The Rule Change Panel considers that the

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<sup>4</sup> The Rule Change Panel notes the observation made by Mr Williams at the 24 October 2018 MAC workshop about the potential for System Management to constrain a Balancing Facility off during a network outage by a quantity that is larger than the physical constraint of the network outage. While acknowledging that this is a risk, the Rule Change Panel does not consider that the payment of constrained off compensation is a necessary or appropriate tool to manage that risk.

current Market Rules do not clearly require a Market Generator to report a Consequential Outage if it is dispatched downwards in this situation.

While Option 1 involves establishing an explicit obligation to log a Consequential Outage, this may not necessarily be the most efficient solution, given the administrative burden that processing Consequential Outages places on Market Generators and System Management. In any case, the Rule Change Panel considers that the high implementation cost of Option 1 makes it an inferior alternative to Option 3.

Given the absence of an explicit obligation in the Market Rules for Market Generators to log the required Consequential Outages, the Rule Change Panel does not agree with Bluewaters and ERM Power that the current obligations on Scheduled Generators provide adequate protection against constrained off compensation in network outage situations; nor does it agree with ERM Power that Option 3 need only apply to Non-Scheduled Generators.

The Rule Change Panel also considers that Option 2 is undesirable because it only provides a solution for Non-Scheduled Generators and may lead to inconsistent treatment of Scheduled Generators and Non-Scheduled Generators.

### A.3 Specification of Relevant Network Outages

The proposed Amending Rules in this Rule Change Proposal allow the issue of a retrospective Operating Instruction under proposed clause 7.7.11 if an applicable Dispatch Instruction is issued “in response to an Outage of any network equipment”. While supportive of the intent of the provision, the Rule Change Panel has some concerns with the wording of this phrase:

- As noted by AEMO in its first period submission, the defined term “Outage” means “a Forced Outage, a Planned Outage or a Consequential Outage”, i.e. an outage requested or reported under the outage scheduling and reporting rules in sections 3.18 to 3.21 of the Market Rules. The use of this defined term limits “network equipment” to items that are included on the list of equipment subject to outage scheduling by System Management (**Equipment List**). However, not all network equipment, and in particular not all components of Western Power’s transmission and distribution systems, are included on the Equipment List, so the Rule Change Panel shares AEMO’s concern that the use of the defined term ‘Outage’ may be overly restrictive.
- On the other hand, while a “Network” is a transmission system or distribution system that is registered under the Market Rules, “network” has no specific meaning in the Market Rules and could be taken to mean a private electrical network or a different type of network altogether, such as the Internet. The Rule Change Panel considers that to avoid an overly broad definition that could lead to unintended and perverse outcomes, the applicable network equipment should be limited to components of a transmission system or distribution system that is registered as a Network under the Market Rules.
- However, Western Power is yet to register its transmission and distribution systems as Networks under the Market Rules. The Rule Change Panel considers that it will be necessary to reference these systems explicitly in the proposed Amending Rules to avoid the farcical exclusion of outages of Western Power’s network equipment.

To address its concerns, the Rule Change Panel proposes to replace the phrase “in response to an Outage of any network equipment” with “in response to an outage of an item of equipment that is part of:

- a Network; or

- a transmission system or distribution system owned by Western Power”.

#### **A.4 Obligation on AEMO to Issue Operating Instructions**

In its first period submission, AEMO suggested that System Management should be required, rather than just allowed to issue a retrospective Operating Instruction if the criteria specified in proposed clause 7.7.11 are satisfied.

The Rule Change Panel agrees with AEMO that this should be a mandatory obligation, to ensure that the removal of constrained off compensation in these circumstances is a transparent and equitable process.

The Rule Change Panel has not identified any scenarios satisfying the criteria in proposed clause 7.7.11 in which a Market Generator should remain eligible for constrained off compensation from the market.