20 July 2020

public interest ADVOCACY CENTRE

Katy Brady
Senior Advisor
Australian Energy Market Commission

Submitted via email.

Dear Ms Brady,

Submission concerning compensation for market participants affected by intervention events

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact upon people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to make a submission regarding a rule change to allow market participants affected by intervention events to be compensated for Frequency Control Ancillary Services (FCAS) losses.

PIAC broadly supports improving the consistency, transparency, predictability and efficiency of compensation mechanisms for participants and scheduled loads affected by intervention events, however, we are concerned this rule change may result in considerable increased costs for consumers as it introduces a new type of compensation. This cost could be significant as the number of intervention events and scheduled loads increases. In light of this we recommend further examination of the likely costs of this rule change be undertaken.

We stress any compensation process should be transparent and consistent, reduce unnecessary costs to consumers, allocate risks to those best placed to manage them and costs to those who benefit from them, and not discourage the adequate provision of necessary market services.

We support adopting a two-way compensation process to limit the net compensation paid out to affected participants and to ensure compensation is sending efficient and transparent signals to market participants and scheduled loads.[1] We support calculating FCAS in the compensation

1 Under two way compensation affected participants and scheduled loads would repay gains made due to an AEMO intervention as well as be compensated for losses.

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automatically calculated by AEMO, rather than requiring participants or scheduled loads to lodge a claim for additional compensation to recoup FCAS losses. We consider FCAS compensation should be net of any adjustment required in relation to FCAS liabilities. All these proposed changes may reduce administrative costs for AEMO and help ensure the compensation process is two-way and balanced.

We stress interventions by AEMO, and any compensation for them, should not discourage other market mechanisms, such as demand response, which may achieve similar outcomes at a lower cost to consumers.

PIAC supports the proposed assessment framework for considering the rule change. We consider this approach balances reducing unnecessary administrative costs with ensuring there are adequate incentives for providing ancillary services.

We recommend the rule-change is also assessed with regard to whether costs are allocated to those who benefit from them as we are concerned this rule change could result in large compensation costs if market interventions increase considerably.

Under this ‘beneficiary-pays’ principle:

- Where there are multiple beneficiaries, the costs should be recovered proportionally to their share of the benefits.
- Where it is not practical and transparent to identify the beneficiaries and measure the benefits, a causer-pays approach should be used.
- Cross-subsidies should only be permitted where they are accepted by informed preferences of the providers of that subsidy, or where they are immaterially small.

We consider under-compensation of scheduled loads affected by interventions should be avoided and we welcome further exploration of how to achieve this. It is not clear from the consultation that altering BidP is the best or only means of achieving this outcome. We also welcome further consideration of whether the definition of QD provides sufficient detail as to whether the value of QD should be expressed as positive or negative.

We welcome the opportunity to discuss this matter in further detail with the AEMC.

Yours sincerely

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