

PROCEDURES FOR ISSUE OF DIRECTIONS AND CLAUSE 4.8.9 INSTRUCTIONS

FINAL REPORT

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1. STAKEHOLDER CONSULTATION PROCESS

As required by clause 4.8.9(b) of the NER, AEMO has consulted on changes to the Procedures for Issue of Directions and Clause 4.8.9 Instructions (Procedures) in accordance with the Rules consultation process in rule 8.9.

AEMO's timeline for this consultation is outlined below.

Deliverable	Date
Notice of first stage consultation and Issues Paper published	18 April 2019
First stage submissions closed	05 June 2019
Draft Report & Notice of second stage consultation published	04 July 2019
Submissions due on Draft Report	25 July 2019
Final Report published	06 September 2019

The publication of this Final Report marks the conclusion of this process.

2. BACKGROUND

2.1. NER requirements

Clause 4.8.9(b) of the NER requires AEMO to develop procedures for the issuance of *directions*, which may be amended from time to time in accordance with the Rules consultation procedures.

The Procedures must reflect the following principles:

1. AEMO must use its reasonable endeavours to minimise any cost related to directions and compensation to Affected Participants, Market Customers and Directed Participants.
2. A direction should be revoked as soon as AEMO determines that the direction is no longer required.
3. AEMO must take into account any applicable guidelines issued by the Reliability Panel.
4. AEMO must observe its obligations under clause 4.3.2 concerning sensitive loads.
5. AEMO must expressly notify a Directed Participant that AEMO's requirement or that of another person authorised by AEMO pursuant to clause 4.8.9(a) is a direction.

2.2. Context for this consultation

Since late 2016, the number of directions issued by AEMO has significantly increased, especially for power system security (system strength) requirements within South Australia. This has increased the need for greater clarity and information in the Procedures.

As noted by the Australian Energy Regulator (AER) in its December 2018 compliance report on the South Australian black system event of September 2016, the Procedures do not explicitly address one of the underlying principles set out in clause 4.8.9(b) of the NER, namely that the costs of a direction should be minimised.

AEMO also identified that the existing Procedures described a number of processes that are already adequately addressed in the NER, while providing limited detail on the process of determining a direction or clause 4.8.9 instruction, or the difference between them.



2.3. First stage consultation

AEMO issued a Notice of First Stage Consultation on 18 April 2019¹. The accompanying Issues Paper² explained the development of the Procedures for Issue of Directions and Clause 4.8.9 Instructions, including the requirements of the NER, and invited submissions on alternative approaches.

AEMO received one written submission in the first stage of consultation. A copy has been published on AEMO's website: <https://www.aemo.com.au/Stakeholder-Consultation/Consultations/Procedures-For-Directions-And-Instructions>

In addition, the AER provided AEMO with a number of suggested drafting changes to the Procedures, which were extracted in Appendix A of AEMO's Draft Report.

2.4. Second stage consultation

AEMO issued a Notice of Second Stage Consultation on 4 July 2019 as part of the Draft Report. The Draft Report addressed the issues raised in the submission received in the first stage of consultation, and the drafting suggestions from the AER. There were minor modifications to the draft Procedures as a result.

The changes incorporated additional provisions in relation to rebidding when a directed participant wishes to make its plant commercially available, clarification of the process for confirming verbal directions and some minor drafting changes from the version published with the Issues Paper.

AEMO received no further submissions in the second stage of consultation.

3. DISCUSSION OF MATERIAL ISSUES

AEMO identified two material issues with the Procedures that required amendment – the need to better reflect how AEMO would apply the principle of minimising the costs of a direction, and to clarify the requirement for directed participants to rebid their availability in accordance with a direction. These issues are discussed in this section.

The Procedures have also been largely rewritten to reduce unnecessary overlap with requirements already specified in the NER and generally make them clearer and more informative. Those amendments are discussed in section 4 of this Final Report.

3.1. Reflect principle of minimising costs

3.1.1. Issue summary and submissions

Section 5(3) of the Procedures indicated that AEMO will aim to minimise the effect on interconnector flows and minimise the number of Affected Participants. In doing this, the implicit objective would be to minimise the cost of the direction, consistent with the principle in clause 4.8.9(b)(1) of the NER that AEMO must use reasonable endeavours to minimise the costs relating to directions and associated compensation payments.

¹ https://www.aemo.com.au/-/media/Files/Stakeholder_Consultation/Consultations/NEM-Consultations/2019/Procedures-for-Directions-and-Instructions/SO_OP_3707-Notice-of-First-Stage-Consultation.pdf

² https://www.aemo.com.au/-/media/Files/Stakeholder_Consultation/Consultations/NEM-Consultations/2019/Procedures-for-Directions-and-Instructions/Directions-and-Instructions-Procedures-Issues-Paper-Apr-19.pdf



To better meet the requirements of clause 4.8.9(b) of the NER, AEMO considered it was necessary to include in the Procedures an explicit description of the factors AEMO would consider with a view to minimising costs and compensation amounts, where possible.

3.1.2. AEMO's assessment and conclusion

AEMO will amend the procedures to indicate the factors likely to be relevant to cost considerations. These may include:

- Technical availability of the plant during the possible direction period.
- Lead time required for the plant to deliver a response sufficient to address the requirement.
- Minimum or maximum output and run times.
- Estimated costs of the relevant registered participant in complying with a relevant direction, if issued.

AEMO will use this information to minimise the costs arising from the likely compensation to directed participants, and any other relevant information available to AEMO, to determine which registered participant(s) should be the subject of a direction.

In its Draft Report, AEMO explained why it did not propose to specifically exclude consideration of short run marginal costs in its direction costs assessment, as suggested in the first-stage submission from AGL.

AEMO is of the view that these changes are flexible enough to accommodate the reasonably foreseeable range of direction scenarios, and are likely to facilitate a fair balance between the interests of market participants and consumers in respect of the cost of electricity.

No further submissions were received on this issue, and AEMO has made no changes from the version of the Procedures published in the Draft Report.

3.2. Maximum availability during directions

3.2.1. Issue summary and submissions

AEMO identified that not all generators were aware of the need to rebid their availability once AEMO has issued them with a direction, so that the maximum availability of the directed units reflects the directed quantity of energy or ancillary services.

AEMO proposed to include a requirement in the Procedures for market participants to submit or vary their dispatch offers or bids for scheduled plant once directed, so that the maximum bid availability of energy or ancillary services is equal to the relevant directed quantity for the duration of the direction.

3.2.2. AEMO's assessment and conclusion

It is necessary for generators to rebid their availability once AEMO has issued them with a direction, so that the maximum availability of the directed units reflects the directed quantity of energy or ancillary services, for both market and operational transparency and efficiency. This is required to create consistency with participant bid parameters during directions and for AEMO's NEM dispatch engine (NEMDE) to identify with key constraint violation penalty (CVP) values that prioritise the direction.

After considering the first-stage submission from AGL, AEMO explained in the Draft Report why it did not propose to allow directed participants to rebid their maximum availability to a level beyond the directed quantity. However, AEMO did include additional provisions in the draft Procedure to specify the process to be followed by a directed participant wishing to bid commercially during the direction period.

No further submissions were received on this issue, and AEMO has made no changes from the version of the Procedures published in the Draft Report.



4. OTHER AMENDMENTS

4.1. Expansion of content

The Procedures restated some NER processes and requirements, but with little detail of the steps AEMO takes in relation to each requirement. AEMO proposed to revise and expand the content of the Procedures to provide a more detailed description of the process AEMO follows before and after issuing a direction, showing how these steps tie in with relevant NER requirements. The additional detail is intended to help set participants' expectations and understanding of the information AEMO may request from them, and how that information is used.

AEMO proposed to remove the existing section on intervention pricing, as the rules comprehensively cover the circumstances in which AEMO is required to apply intervention pricing.

The AER suggested a number of minor drafting changes on the expanded content. AEMO agreed with the majority of those suggestions, and published further drafting changes in the Draft Report to increase clarity and remove the potential for inconsistency. .

No further submissions were received on the proposed amendments, and AEMO has made no changes from the version of the Procedures published in the Draft Report.

4.2. Clarify difference between directions and clause 4.8.9 instructions

Under clause 4.8.9(b) of the NER, the Procedures are only required to provide for the issue of *directions* (as defined in the NER). However, the existing Procedures also address *clause 4.8.9 instructions*.

AEMO considered it would be helpful for the Procedures to continue to reference clause 4.8.9 instructions. However, it was necessary to amend the Procedures to clarify the difference between the two categories of direction, and to identify the processes and requirements that apply to each of them.

AEMO determined not to adopt one drafting change suggested by the AER in the first stage of consultation, as set out in the Draft Report. No further submissions were received on the proposed amendments, and AEMO has made no changes from the version of the Procedures published in the Draft Report.

5. FINAL DETERMINATION

Having considered the matters raised in submissions, AEMO's final determination is to amend the Procedures for Issue of Directions and Clause 4.8.9 Instructions in the form published with this Final Report, in accordance with clause 4.8.9(b) of the NER. The amended Procedures take effect on 06 September 2019.