

5 November 2020

Andrew Pirie
Senior Adviser
Australian Energy Market Commission

Submitted via website: www.aemc.gov.au/contact-us/lodge-submission

Dear Mr Pirie

**Compensation following directions for services other than
energy and market ancillary services (ERC0287)**

Stanwell appreciates the opportunity to provide feedback on the Australian Energy Market Commission's (Commission's) draft rule determination on compensation following directions for services other than energy and market ancillary services (other services).

Please note, this submission contains the views of Stanwell Corporation Limited in relation to the compensation following directions for other services information provided to date and should not be construed as being indicative of or representing Queensland Government Policy.

Proposed rule change

Stanwell commends the Commission on making a more preferable draft rule that considers the feedback provided by participants on the June 2020 consultation paper.¹ Of particular interest to Stanwell is that the draft rule addresses a number of issues we raised in our submission to the consultation paper, including:

- clarifies the definition of "other services";
- requires compensation be determined on a case by case basis;
- increases the input of the directed participant into both determining whether a compensable service was provided and the amount of compensation;
- dictates the circumstances under which the Australian Energy Market Operator (AEMO) or an independent expert determines compensation; and
- increases the transparency of AEMO's decisions.²

¹ www.aemc.gov.au/sites/default/files/2020-06/Consultation%20Paper.PDF

² www.aemc.gov.au/sites/default/files/documents/stanwell_0.pdf

These changes will simplify and clarify the compensation process and give directed participants confidence that they will have appropriate input into the proposed one-step process. They will also improve the transparency of the process and ensure consumers are not adversely affected by over-compensating directed participants.

Valuing essential system services

Stanwell is concerned that the more preferable draft rule does not place a value on the essential system services (ESS) provided by directed participants. Under the proposed rule change there is still no payment for the essential system service/s provided by directed participants, as is the case under the current compensation process. A directed participant's best-case outcome is that they will be made whole with respect to their net direct costs and loss of revenue associated with complying with a direction.

Stanwell acknowledges that the Energy Security Board (ESB) is currently working on developing a framework for procuring and paying for ESS as part of its post 2025 market design project.³ As detailed in its submission to the ESB's post-2025 market design consultation paper:

“Stanwell sees the valuing of ESS as a top priority for the ESB’s reform program and is supportive of the ESB’s focus on this MDI. We contend that transparent and technology neutral market mechanisms must be designed and implemented to ensure their continued provision at least cost to consumers.”⁴

The development of market-based procurement to explicitly value system services would be expected to incentivise their provision and potentially reduce AEMO's reliance on directions to maintain the network in a secure, reliable state. However, Stanwell notes that under the ESB's work program, which system services will be procured, through what mechanism/s they will be procured and the timing of the implementation of these mechanism/s is yet to be finalised.

Stanwell suggests that there is a golden opportunity presented by the coincidence of the ESB's work and the Commission's preferable draft rule change to address a key market shortcoming – compensation for essential system services.

Stanwell urges the Commission to take this opportunity to investigate alternatives to the proposed compensation process that ensure the ESS provided by participants under an AEMO direction are appropriately compensated. This compensation would reflect the value of these services in maintaining a reliable, secure network and incentivise their continued provision. This is particularly important in the period prior to the implementation of any potential market mechanisms for ESS resulting from the ESB's current work.

Any such mechanism would need to be developed recognising the ESB's ESS market design initiative to ensure consistency between the Commission's and ESB's ESS mechanisms, and that any inconsistencies, interdependencies or perverse incentives are identified and addressed.

Conclusion

Stanwell supports the changes to the proposed rule change made in the more preferable draft rule but remains concerned that ESS provided to the market under direction are not being valued or compensated, outside of direct costs and lost revenue. Stanwell strongly recommends the Commission takes this opportunity to address this in its final rule determination.

³ ESB, Post 2025 market design consultation paper

⁴ <https://yhejtitl3sl24wn203q4vn14z-wpengine.netdna-ssl.com/wp-content/uploads/Stanwell-submission-ESB-Post-2025-Consultation-Paper-October-2020-FINAL.pdf>, p5

Stanwell welcomes the opportunity to further discuss this submission. Please contact Evan Jones on (07) 3228 4536 or at evan.jones@stanwell.com.

Yours sincerely

A handwritten signature in blue ink, appearing to read 'I. Chapman', with a long horizontal flourish extending to the right.

Ian Chapman
Manager Market Policy & Regulatory Strategy