



Australian Energy Market Commission

FINAL REPORT

COMPENSATION CLAIM FOR DIRECT COSTS

Basslink Pty Ltd
Basslink

15 DECEMBER 2022

DETERMINATION

INQUIRIES

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CITATION

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ABOUT THE AEMC

The AEMC reports to the Energy Ministers' Meeting (formerly the Council of Australian Governments Energy Council). We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the Energy Ministers' Meeting.

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SUMMARY

- 1 The National Electricity Rules (NER) under clause 3.14.6 and the Australian Energy Market Commission (AEMC) compensation guidelines set out a process for market participants to claim compensation for certain losses during an administered price period where the administered price cap (APC) or administered floor price is applied. The administered pricing compensation framework is designed to protect participants such as generators, scheduled network service providers, scheduled loads, ancillary service providers and demand response service providers from losses during a price limit event to maintain the incentive for them to continue to supply (or consume) energy or services (as the case may be). In this way, administered pricing compensation supports a reliable supply of electricity to customers during price limit events.
- 2 Basslink Pty Ltd (Basslink) has made a compensation claim for direct costs in respect of its Basslink interconnector for all periods between 6:55pm on 12 June 2022 and 2pm on 15 June 2022 where Victorian pricing was impacted by scaling as a result of another region being capped at the administered price cap, or was directly capped by the application of the administered price cap in Victoria.
- 3 Basslink is a different category of registered participant from other claimants such as scheduled generators who sell electricity into the market. Basslink is a scheduled network service provider, and its role involves transporting energy between Tasmania and Victoria via the Basslink interconnector. During the market event in June 2022, the 500MW interconnector performed an important service that contributed to the reliability of supply for consumers and was operating at full capacity when transporting electricity to the mainland. This involved purchasing energy for the market at the higher uncapped price in Tasmania and transporting that energy into the mainland regions that needed the energy, and receiving a lower price. This resulted in Basslink incurring net losses. Administered pricing compensation is available to Basslink as a scheduled network service provider and it provided the incentive to Basslink to continue providing energy during the market event.
- 4 Basslink has claimed a total amount of [REDACTED] plus financing costs at [REDACTED] for direct costs incurred between [REDACTED] and the date of payment, which is [REDACTED], which includes costs of transporting energy from an uncapped region towards a region impacted by the application of the APC or price scaling. Basslink has provided evidence to support its claim and the Commission has verified certain information with AEMO.
- 5 The Commission is required under clause 3.14.6 of the NER to publish its final decision as to whether compensation should be paid by AEMO in relation to the claim and if so, the amount of compensation that should be paid.
- 6 The Commission has determined that Basslink is eligible for compensation in respect of its compensation claim for direct costs, and that the amount of compensation payable is \$15,257,754. This amount is consistent with Basslink's claim, including the interest rate for financing costs. It is further noted that the financing costs are a consequence of Basslink incurring a loss during the period and the timing of relevant revenues that would have been earned had the compensation events not occurred.

- 7 The Commission is satisfied that:
- Basslink is eligible to claim compensation in respect of its Basslink interconnector during the administered price period outlined above, for the eligibility periods comprising the trading days of 12, 13, 14 and 15 June 2022;
 - Basslink notified the AEMC and AEMO of its intention to claim compensation in accordance with clauses 3.14.6(h) and (i) of the NER;
 - the information provided by Basslink to support and substantiate its claim complies with the compensation guidelines;
 - the direct costs claimed by Basslink are consistent with the categories of cost permitted in the compensation guidelines;
 - the financing costs claimed by Basslink are permitted in accordance with the compensation guidelines.
- 8 This total compensation amount for this direct cost only claim is calculated as follows:
- direct costs incurred in the eligibility period(s) which included the costs of transporting power into a region where the administered price cap is being applied in the amount of [REDACTED]
 - plus an adjustment made for financing costs accepted by the Commission for this claim in the amount of [REDACTED]
 - minus actual revenue from the spot market in the amount of [REDACTED].
- 9 The Commission will write to AEMO to advise of the total amount of compensation payable to Basslink for each relevant eligibility period by trading interval, exclusive of GST. AEMO will then recover the cost of compensation from market customers who purchased energy from the spot market in the relevant eligibility periods in the region(s) in which the administered price period applied.¹

¹ Clause 3.15.10 of the NER.

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1 INTRODUCTION

Administered pricing compensation

The National Electricity Rules (NER) under clause 3.14.6 and the Australian Energy Market Commission (AEMC) compensation guidelines (published by the AEMC under clause 3.14.6(e) of the NER) set out a process for market participants to claim compensation for certain losses during an administered price period where the administered price cap (APC) or administered floor price is applied.

The administered pricing compensation framework is designed to protect participants such as generators, scheduled network service providers, scheduled loads, ancillary service providers and demand response service providers from losses during a price limit event to maintain the incentive for them to continue to supply (or consume) energy or services (as the case may be).

Market events in June 2022

On 12 June 2022, the cumulative price threshold (CPT) was exceeded for the Queensland region and the APC of \$300/MWh was applied under clause 3.14.2(d1) of the NER from 6:55pm on that day. Price scaling applied to the other mainland National Electricity Market (NEM) regions when energy was flowing towards Queensland. On 13 June 2022, the CPT was exceeded in the NSW, Victoria and South Australia regions (from 6:35pm in NSW, 10:00pm in South Australia and 10:05pm in Victoria). The APC of \$300/MWh was therefore applied in each mainland NEM region.

The application of the APC in those regions coincided with reductions in the amount of generation bid into the market, resulting in a requirement for AEMO to intervene to maintain system reliability. Ultimately AEMO determined at 2:05pm on 15 June 2022 that it was necessary to suspend the spot market in all regions of the NEM under clause 3.14.3 of the NER. During this period of market suspension, spot prices were no longer set by the APC but rather, were set in accordance with the market suspension pricing schedule published by AEMO. On 22 June 2022, AEMO released its criteria and process for lifting market suspension.

Administered price periods officially ended when the CPT was no longer exceeded. In South Australia, this occurred on 22 June 2022 and in NSW, Queensland and Victoria, this occurred on 23 June 2022. Normal dispatch pricing resumed on 23 June 2022. The market suspension was formally lifted by AEMO in all regions from 2:00pm on 24 June 2022.

Structure of this document

This document is set out as follows:

- Chapter 2: Details of Basslink's claim
- Chapter 3: Commission's assessment of claim
- Appendix A: Background, context and purpose of administered pricing compensation
- Appendix B: AEMC's role and process for administered pricing compensation

- Appendix C: Chronology of events in Basslink’s compensation assessment process

2 BASSLINK'S CLAIM

2.1 Basslink's claim

On 22 June 2022, Basslink provided notification of its intent to claim compensation in relation to the administered price period in Queensland and Victoria between 12 June and 15 June 2022. For the purposes of this claim, this is the administered price period to which the claim relates. This notification was received within the prescribed timeframe in the NER.²

Basslink is claiming compensation for the Basslink interconnector, which connects the regions of Tasmania and Victoria. This high voltage direct current (HVDC) link provides scheduled network services and is registered to Basslink. As a market network service provider (MNSP), Basslink earns spot market revenues in a different way to scheduled generators or other participants.³ Basslink earns revenue in the spot market by bidding its capacity to deliver energy into the spot market, with the returns being determined by price differences and the energy flows between Victoria and Tasmania.⁴ This is also set out in clause 3.8.6A of the NER.⁵ In a situation where Basslink is transferring electricity from Tasmania to Victoria, and the Tasmanian spot price is higher than the Victorian spot price, Basslink makes a loss in the spot market.

Basslink is claiming direct costs incurred as a result of net losses incurred when transporting power towards a region in which the spot price is set by the APC or as a result of price scaling during the period commencing 6:55pm on 12 June 2022 and ceasing at 4:00am on 16 June 2022. Each trading day (or part of a trading day) within this period is a separate eligibility period for the purposes of this claim.⁶

The diagram in figure 2.1 below shows how Basslink incurred a loss from transporting power towards the mainland during the period in June when the administered price cap applied in Queensland.

2 Clause 3.14.6 of the NER.

3 <https://www.aemc.gov.au/sites/default/files/content/6be88ba6-2dc3-499e-8c9d-9bd6068c4a71/Consultation-Paper.pdf>

4 Electricity Supply Industry Expert Panel, *Basslink: Decision making, expectations and outcomes*, P. 20
http://www.electricity.dpac.tas.gov.au/__data/assets/pdf_file/0011/155297/Basslink_-_Decision_Making,_Expectations_and_Outcomes.pdf

5 Clause 3.8.6A(g) of the NER.

6 Clause 3.14.6(a) of the NER.

Figure 2.1: How Basslink incurred a loss in the spot market during the June event when the administered price cap applied in Queensland.



Source: Figure Source
Note: Figure Note

Basslink provided notice that it also intends to claim compensation for opportunity costs in relation to this administered price period but has requested that its claims for direct costs and opportunity costs be treated by the Commission and assessed as if they were two separate claims. The Commission has proceeded on this basis.

2.2 Information provided by Basslink and AEMO

Basslink provided information to the AEMC in accordance with the requirements in the compensation guidelines on 19 August 2022.

The Commission verified certain information provided by Basslink with AEMO and received information confirming the spot market revenue earned by Basslink in this period, including dispatch targets.

The Commission commenced formal assessment of the compensation claim on 15 September 2022. A chronology of this compensation assessment process is provided in Appendix C.

2.3 Assessment framework

Basslink made a claim for confidentiality in respect of the financial information included in its compensation claim, including revenues and financing costs. The basis for seeking confidentiality over this information is that it is commercially sensitive and subject to confidential agreements.

As set out in the compensation guidelines, when performing its functions under clause 3.14.6 of the NER, the AEMC is required to take all reasonable measures to protect from unauthorised use or disclosure information given to it in confidence.⁷

⁷ Section 24 of the *Australian Energy Market Commission Establishment Act 2004*; Section 31 of the National Electricity Law.

3 THE COMMISSION'S ASSESSMENT OF BASSLINK'S CLAIM

In assessing Basslink's claim for compensation, the Commission has had regard to:

- its functions under clause 3.14.6 of the NER
- the compensation guidelines⁸
- its powers under the National Electricity Law
- the information and documents provided by Basslink to support its claim (including any further information and documents provided in consultation with Basslink pursuant to clause 3.14.6(m) of the NER)
- the information provided by AEMO in accordance with the compensation guidelines

3.1 Application of the compensation guidelines

In making this decision, the Commission is required to apply the compensation guidelines unless it is satisfied that there are compelling reasons not to do so.⁹ Basslink has not identified any compelling reasons for the Commission to depart from the compensation guidelines in assessing its claim.

3.2 Eligibility

The Commission confirms that Basslink's claim meets the eligibility criteria set out in the NER for the eligibility periods comprising the trading days of 12, 13, 14 and 15 June 2022.¹⁰

Basslink is registered with AEMO as a network service provider and is a party eligible to apply for compensation with respect to scheduled network services.¹¹ Basslink is claiming compensation in relation to its Basslink interconnector.¹²

Basslink's claim arises out of a price limit event during an administered price period.¹³ For the purposes of clause 3.14.6 of the NER, and for scheduled network service providers, a price limit event occurs when the spot price for a trading interval for a region towards which the scheduled network service provider is transporting power is set by the APC during an administered price period or as a result of price scaling.¹⁴

8 The guidelines can be found at:
https://www.aemc.gov.au/sites/default/files/documents/final_amended_compensation_guidelines.pdf

9 Clause 3.14.6(n) of the NER.

10 Clause 3.14.6(b) of the NER.

11 Clauses 2.5.1 and 2.5.3 of the NER.

12 Under AEMO's NEM Registration and Exemption List dated 4 October 2022, the station name is noted as 'Basslink HVDC Link'. The Basslink HVDC Link is otherwise known as the Basslink interconnector. This decision refers to the Basslink interconnector for consistency with Basslink's claim.

13 Clause 3.14.6(a) of the NER.

14 In accordance with clause 3.14.2(e)(2) of the NER.

Under the NER and compensation guidelines, a claimant is eligible for compensation if it has incurred total costs during the eligibility period that exceed the total revenue it received from the spot market during that period.¹⁵

Clause 3.14.6(a) of the NER provides that a scheduled network service provider that transported power towards the relevant region is eligible to claim compensation if it has incurred total costs during the eligibility period that exceed the total revenue it received from the spot market during that period. For a claimant that is a market network service provider, the total costs must be the costs incurred due to transporting power towards the relevant region and must not include the costs incurred, or revenues earned, due to transporting power away from the relevant region.¹⁶ Basslink is currently the only MNSP to which this part of the NER would apply. This is different from the arrangements that apply to other participants, where the AEMC must include all costs and revenues over the entire eligibility period, regardless of the direction of power flows.

An eligibility period is the period starting at the beginning of the first trading interval in which the price limit event occurs in a trading day and ending at the end of that trading day (i.e. at 4:00am on the following day).¹⁷ As a result, the following eligibility periods are relevant for determining claims for compensation under clause 3.14.6:*

Table 3.1: Eligibility periods for compensation in each region

TRADING DAY	QUEENSLAND	NSW	SOUTH AUSTRALIA	VICTORIA
12 June 2022	From 6:55pm to end of trading day	-	-	-
13 June 2022	Entire trading day	From 6:35pm to end of trading day	From 10pm to end of trading day	From 10:05pm to end of trading day
14 June 2022	Entire trading day	Entire trading day	Entire trading day	Entire trading day
15 June 2022	Entire trading day	Entire trading day	Entire trading day	Entire trading day

Note: * all times specified in this document are in Eastern Standard Time.

Claims for compensation may also be made as a result of price scaling. Price scaling occurs due to the application of clause 3.14.2(e)(2) of the NER. If an adjoining region is exporting energy across a regulated interconnector to a region where the price is capped at the APC, then under clause 3.14.2(e)(2), price scaling is applied to also cap the price in the exporting

¹⁵ Clause 3.14.6(b) of the NER.

¹⁶ Clause 3.14.6(a) of the NER.

¹⁷ Clause 3.14.6(a) of the NER.

region to a level reflecting the importing region’s administered price with an adjustment for interconnector losses.¹⁸

Basslink’s claim is for the eligibility periods from 12 June 2022 to 15 June 2022. For the eligibility period on 12 June 2022, the Basslink interconnector, which is located in the waters between Tasmania and Victoria, was affected by price scaling due to the application of the APC in Queensland on 12 June 2022. This is because the application of the APC in Queensland on 12 June 2022 caused the spot price at all other regional reference nodes connected by a regulated interconnector to be scaled such that the spot price in the connected regions is also capped at the APC minus the interconnector losses. This meant for Basslink that when power was flowing from Tasmania (where the price was uncapped and higher than the APC) into Victoria (where the price was capped), Basslink incurred losses equal to the capped Victorian price minus the uncapped Tasmanian price.

Basslink has demonstrated that the total costs incurred during the relevant eligibility periods exceeded the total revenue received from the spot market during those periods.

This is outlined below:

Table 3.2: Basslink’s claim per eligibility period

ELIGIBILITY PERIOD	DIRECT COSTS	SPOT MARKET REVENUE	LOSS
12/06/2022 (from 6:55pm to end of trading day)	██████████	██████████	██████████
13/06/2022 (entire trading day)	██████████	██████████	██████████
14/06/2022 (entire trading day)	██████████	██████████	██████████
15/06/2022 (entire trading day)	██████████	██████████	██████████

3.3 Components of total claimable amount

In accordance with the compensation guidelines, the total amount of compensation, Total Claimable Amount (TCA), is to be based on the calculation at figure 3.1 below.¹⁹

¹⁸ See clause 3.14.2(e)(2) of the NER.

¹⁹ Section 5.1.1 of the compensation guidelines.

Figure 3.1: Formula for the total compensation amount

$$TCA = \sum_t (DC_t + OC_t + OTH_t - REV_t)$$

Source: Figure Source
Note: Figure Note

Where:

TCA = Total Claimable Amount.

DC_t = Direct costs incurred in the eligibility period(s).

OC_t = Opportunity costs incurred over the relevant period of time.

REV_t = Actual or potential revenue.

OTH_t = Any other adjustments to the amount of compensation payable to be taken into consideration by the Commission.

t = relevant period of time for which a claim is being made. The claimant is to define the time period(s) for which it is making a claim for compensation which should be limited to periods where the price limit event applies. The relevant time period may vary depending on the type of claim. The AEMC would assess whether the claimant has demonstrated the requirements for a claim in the relevant time period(s).

The components used in this basic calculation are to be based on aggregated costs and revenues. This claim is for direct costs only so the parts of the calculation relating to opportunity cost (i.e. OC_t) do not apply in this case.

3.4 Calculation of direct costs

Basslink is claiming compensation for the direct costs it incurred for transporting power towards a region where the spot price was set by the APC during an administered price period or affected by price scaling.

Although not specifically listed as a type of direct cost in section 5.2 of the compensation guidelines, Appendix C.1 of the compensation guidelines contemplate compensation for direct costs for scheduled network service providers due to the application of the administered price cap.²⁰ It states that a scheduled network service provider is eligible to claim compensation due to the application of an administered price cap in a region into which it is transporting

²⁰ See Appendix C.1 of the Compensation guidelines in relation to scheduled network service providers.

power, including where the provider incurs a net loss in transporting power from a region with a higher uncapped spot price to a region with a price capped by the APC.²¹

As noted above, in a situation where electricity is flowing from Tasmania into Victoria, Basslink's spot market revenue is equal to (ignoring losses for simplicity): Spot income = (Victorian RRP – Tasmanian RRP) * flows on Basslink

The application of the administered price cap in Victoria, but not in Tasmania, led to a situation where Basslink was purchasing electricity in Tasmania at the uncapped price, and selling it in Victoria at the capped price. This led to Basslink incurring a loss when transporting this energy.

The amount that Basslink has claimed is [REDACTED].

Basslink has provided evidence, including data relating to its dispatch instructions and metered energy to substantiate the claim.

The Commission has verified this information with AEMO.

The Commission has scrutinised the costs incurred by Basslink in detail and accepted the claimed amount for direct costs.

Excluded costs

In accordance with the compensation guidelines, claimants may not claim compensation for certain categories of costs set out in section 5.2.4 unless they can demonstrate a compelling case based on extraordinary circumstances.

Basslink has not made a claim for any excluded costs.

3.5 Calculation of actual or potential revenue

In accordance with the compensation guidelines, the Commission is required to deduct from the claim the amount of actual or potential revenue (including spot market revenue) earned during the relevant eligibility period(s).

Spot market revenue

Basslink has provided information on its spot market revenue during the application of the APC in the administered price period. AEMO has also provided details of the spot market revenue that Basslink has received in respect of the period over which the claim for compensation has been made.

The Commission has reviewed the information as to spot market revenue by Basslink and confirmed the spot market revenue with the information provided by AEMO.

The Commission has calculated the spot market revenue to be [REDACTED].

3.6 Other adjustments

Financing costs

²¹ Appendix C.1 of the Compensation guidelines.

In accordance with the compensation guidelines, the Commission may recognise reasonable financing costs in respect of the passage of time between the event occurring to which the compensation claim relates and any compensation being awarded.²² The Commission may also have regard to the timing of relevant revenues had the compensation events not occurred. In determining such costs, the Commission can also take into account any unreasonable delays from the claimant in providing the necessary information. The Commission assesses any financing costs on a case-by-case basis.²³

Basslink has claimed financing costs for the net losses incurred during the administered pricing period at an interest rate of [REDACTED] between [REDACTED] and the date of payment by AEMO. Basslink claims that due to the administered price period occurring, the payment of any debts incurred during this period have to be delayed until compensation is paid.

It is noted that these financing costs are a consequence of Basslink incurring a loss from transporting power towards the mainland during the eligibility periods.

Basslink has provided evidence to substantiate the interest rate claimed, including business documents outlining the financing arrangements and interest rate. There was no unreasonable delay in Basslink providing the evidence that the Commission would need to take into account in determining the financing costs.

The Commission has determined that the financing costs being claimed are permitted under the compensation guidelines.²⁴

The Commission has reviewed the information provided by Basslink and considers sufficient evidence has been provided to substantiate the cost being claimed, as evidence was provided from [REDACTED] as Facility Agent of for the Basslink debt facility. AEMO has confirmed that the settlement date for payment of compensation for Basslink's claim is [REDACTED].

Based on the settlement date of [REDACTED], the amount of financing costs allowed by the Commission is equal to [REDACTED].

Other sources of compensation

In determining the amount of compensation payable, the Commission may take into account the value of any other sources of compensation paid, to be paid, or under consideration to be paid, to the claimant where that compensation arises out of the same events and covers the same costs that are the subject of this compensation claim.²⁵

Basslink advised that it has not made any other claims for compensation under the NER during the administered price period for which this claim relates. AEMO has confirmed that Basslink has not made any claims for additional compensation to AEMO arising out of the

²² Section 5.1.5 of the compensation guidelines.

²³ Section 5.1.5 of the compensation guidelines.

²⁴ Clause 3.14.6(e) of the NER and section 5.1.5 of the compensation guidelines.

²⁵ Clause 3.14.6(e) of the NER and section 5.1.5 of the compensation guidelines.

same events the subject of this compensation claim. The Commission notes that the time for Basslink to make any such claims for compensation from AEMO has now expired.

3.7 Recovery of AEMC's costs

The Commission does not seek to recover any administrative and processing costs incurred by the Commission in carrying out its functions in respect of this claim. This is because the Commission has currently decided not to recover costs from claimants for direct cost only claims made in relation to the June 2022 administered price period.

See appendix B for detail on cost recovery.

3.8 Conclusions

The Commission has determined that compensation is payable by AEMO in relation to Basslink's compensation claim.

The Commission is satisfied that:

- Basslink is eligible to claim compensation in respect of its Basslink interconnector during the administered price period outlined above, for the eligibility periods comprising the trading days of 12, 13, 14 and 15 June 2022;
- Basslink notified the AEMC and AEMO of its intention to claim compensation in accordance with clause 3.14.6(h) and (i) of the NER;
- the information provided by Basslink to support and substantiate its claim complies with the compensation guidelines;
- the direct costs claimed by Basslink are consistent with the categories of cost permitted in the compensation guidelines;
- the financing costs claimed by Basslink are permitted in accordance with the compensation guidelines.

The Commission has determined that Basslink is entitled to receive total compensation of \$15,257,754 (exclusive of GST) in respect of its claim.

This total compensation amount for this direct cost claim is calculated as follows:

- direct costs incurred in the eligibility period(s) which included costs for transporting energy into a region where there was a price limit event in the amount of [REDACTED]
- plus an adjustment for financing costs accepted by the Commission for this claim in the amount of [REDACTED]
- minus actual revenue from the spot market in the amount of [REDACTED].

The Commission will write to AEMO to advise of the total amount of compensation payable for each relevant eligibility period by trading interval, exclusive of GST. AEMO will then recover the cost of compensation from market customers who purchased energy from the

spot market in the relevant eligibility periods in the region(s) in which the administered price period applied.²⁶

The NER provide the process and formulas for AEMO to recover the compensation payable from market customers in the region affected by the imposition of an administered price.²⁷

Clause 3.15.10(c) of the NER also requires AEMO to include in preliminary and final settlement statements separate details of any compensation amounts payable by or to market participants within 25 business days of AEMO being notified by the AEMC that compensation is to be paid under clause 3.14.6 of the NER.

²⁶ Clause 3.15.10 of the NER.

²⁷ Clause 3.15.10 of the NER.

ABBREVIATIONS

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
APC	Administered price cap
CPT	Cumulative price threshold
Commission	See AEMC
Compensation guidelines	AEMC, Compensation guidelines, Final guidelines, 21 October 2021
NEM	National Electricity Market
NER	National Electricity Rules

A BACKGROUND AND PURPOSE OF AEMC ADMINISTERED PRICING COMPENSATION PROCESS

Wholesale spot prices in the National Electricity Market (NEM) can vary within a range of between minus \$1,000 per MWh²⁸ and \$15,500 per MWh.²⁹

Persistent high or low prices can create risks for participants and impact the stability of the market. To limit this variation, at times of extreme prices where the cumulative price threshold (CPT)³⁰ is exceeded, the administered price cap of \$600 per MWh and the administered floor price of -\$600 per MWh is applied to spot prices.³¹

At the time of the June 2022 market events to which this claim for compensation relates:

- the MPC was \$15,100/MWh³²
- the CPT was \$1,359,100; and³³
- the APC was \$300/MWh.³⁴

The NER under clause 3.14.6 and the Australian Energy Market Commission (AEMC) compensation guidelines (published by the AEMC under clause 3.14.6(e) of the NER) set out a process for market participants to claim compensation for certain losses incurred during an administered pricing period where the APC or administered floor price is applied.

The purpose of administered pricing compensation is to minimise disincentives during administered price periods

The potential for market participants such as generators, particularly those with high costs, to incur a loss during these administered price periods may create a disincentive for them to supply energy and ancillary services, which could in turn have a negative impact on the security and reliability of the electricity system.

To minimise these disincentives, the NER allow participants to claim administered pricing compensation if they incur a loss during price limit events, being periods in which the spot price is set by the APC during an administered price period.³⁵ The AEMC administers this

28 This amount is the 'market floor price' under clause 3.9.6(b) of the NER.

29 This amount is the 'market price cap' (MPC) under clause 3.9.4 of the NER.

30 The CPT represents the limit of aggregate dispatch prices over a period of seven days (2,016 trading intervals).

31 Clause 3.14.1 of the NER.

32 Under clause 3.9.4(d) of the NER, the MPC must be adjusted in line with the consumer price index each year. As of 1 July 2022, the MPC is \$15,500/MWh.

33 Under clause 3.14.1(e) of the NER, the CPT must be adjusted in line with the consumer price index each year. As of 1 July 2022, the CPT is \$1,398,100.

34 As a result of the making of the *National Electricity Amendment (Amending the administered price cap) Rule 2022*, the administered price cap is \$600/MWh on and from 1 December 2022 until the end of 30 June 2025.

35 See clause 3.14.6 of the NER. A price limit event also includes where the spot price for a trading interval is set as a result of price scaling (i.e. the application of clause 3.14.2(e)(2)), and for market participants in respect of scheduled load where the spot price for a trading interval is set by the administered floor price or the result of price scaling (under clause 3.14.2(e)(4)), for scheduled network service providers the spot price for a trading interval for a region towards which it is transporting power is set by the APC or price scaling, and for ancillary service providers where the ancillary service price for a trading interval is set by the APC during an administered price period.

compensation process. Prior to June 2022, there has only been one claim for compensation arising from an administered price period (which occurred in January/February 2009).^{36[6]}

The administered pricing compensation process is designed to protect participants such as generators, scheduled network service providers, scheduled loads, ancillary service providers and demand response service providers from losses during a price limit event to maintain the incentive for them to continue to supply (or consume) energy or services (as the case may be).

36 AEMC 2010, Compensation claim from Synergen Power Pty Ltd, Final decision, 8 September 2010.
<https://www.aemc.gov.au/markets-reviews-advice/compensation-claim-from-synergen-power>

B AEMC'S ROLE AND PROCESS FOR ADMINISTERED PRICING COMPENSATION

Eligibility to claim for compensation

Parties eligible to make a claim for administered pricing compensation are:

- Scheduled Generators, Non-Scheduled Generators and Scheduled Network Service Providers to supply energy,
- Ancillary Service Providers to supply ancillary services,
- Market Participants with scheduled loads to consume energy, and
- Demand Response Service Providers to supply wholesale demand response

These parties can claim compensation if they supplied energy or other services during an administered pricing period and incurred a net loss. That is, their direct and/or opportunity costs exceeded their total revenue from the spot market over an entire "eligibility period" (the period from the first trading interval of a trading day where the spot price is set by the administered price cap, until the end of that trading day). There may be multiple eligibility periods within an administered price period.

Direct costs are costs directly incurred by eligible participants due to a price limit event.

Opportunity costs are the value of opportunities foregone by eligible participants due to the price limit event as defined in the compensation guidelines.

Making a claim

The compensation guidelines set out how participants can make a claim for compensation for direct costs and opportunity costs following the application of an APC. The AEMC is required to apply the compensation guidelines in assessing claims for compensation unless it is satisfied there are compelling reasons not to do so.

If a party decides to make a claim, the following applies:

- The claimant must provide notification in writing that it is making a claim within five business days of notification by AEMO of the end of the administered price period to both:
 - AEMC at applications@aemc.gov.au
 - AEMO at NEMIntervention@aemo.com.au
 - This notification in writing will include the:
 - administered price period and price limit event (Price limit events(s) refer to a period in which the spot price is set by the APC during an administered price period or as a result of price scaling.
 - Region(s) in which the administered price period and price limit event applied.
- The notification will state whether the claim is a direct cost claim or a claim that includes opportunity costs.

- It is possible to claim direct costs and opportunity costs for the same price limit event.

Commencing formal assessment of a claim

- After receiving the notification to make a claim, the AEMC will publish a notice of receipt. The AEMC will then seek information from the claimant that we consider required to enable assessment of the claim - if the claim includes opportunity costs, this information must include the methodology used by the claimant to determine its opportunity costs.
- The claimant subsequently provides substantiation. The onus is on the claimant to provide evidence and justification. There is no set time period for this step. Any claims of confidentiality in respect of information provided by the claimant to the AEMC must be specified in the claim.
- The AEMC will commence formal assessment as soon as practicable after receiving sufficient information from the claimant.
- A notice will be published on the AEMC website that formal assessment has started.

Assessing and making a final determination with respect to a claim

- The assessment process for direct and opportunity costs is set out in the [guidelines](#). Claims will be assessed in accordance with the statutory timeframes.
- For **direct cost claims**, the following key steps apply:
 - a. Commencement of formal assessment (once sufficient information is received from claimant – see above)
 - b. Assessment of claim
 - c. Consultation with claimant
 - d. Final determination of compensation payable (45 business days after formal commencement)
 - e. AEMC notifies AEMO of final amount payable
 - f. AEMO includes details of amounts payable by or to market participants within 25 days of being notified by the AEMC
- For **opportunity cost** claims the following key steps apply:
 - a. Commencement of formal assessment (once sufficient information is received from claimant see above)
 - b. Assessment of claim
 - c. Publish claimant's proposed methodology and AEMC's draft methodology for public consultation (within 35 business days of formal commencement)
 - d. Close of consultation (minimum of 20 business days after publication of draft methodology)
 - e. Final determination of compensation payable (35 business days after close of submissions)
 - f. AEMC notifies AEMO of final amount payable

- g. AEMO includes details of amounts payable by or to market participants within 25 days of being notified by the AEMC

Recovery of AEMC's costs of claim

Under clause 3.14.6(v) of the NER, the Commission may recover from a claimant any costs incurred by the AEMC in carrying out its functions in respect of its claim. The AEMC may require the claimant to pay all or a proportion of those costs to the AEMC prior to the claim being considered or determined.

The Commission will exercise its discretion in deciding whether to recover processing and administrative costs from the claimant and will assess any costs to be recovered from a claimant on a case-by-case basis.

The Commission has decided not to recover costs from claimants for direct cost claims made in relation to the June 2022 administered price period.

C CHRONOLOGY OF BASSLINK'S COMPENSATION ASSESSMENT PROCESS

The following table sets out the timing of Basslink's compensation assessment process.

Table C.1: Chronology of Basslink's compensation assessment process

DATE	EVENT
22 June 2022	Notice of claim received
1 August 2022	Supporting information received
15 September 2022	Commencement of formal assessment
November 2022	Consultation with claimant
15 December 2022	Final decision published