

Australian Energy Market Commission

## FINAL REPORT

# COMPENSATION CLAIM FOR DIRECT COSTS

Origin Energy Electricity Limited  
Roma Power Station and Mt Stuart Power Station

15 DECEMBER 2022

# DETERMINATION

## INQUIRIES

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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 Origin Energy Electricity Limited (Origin) has made a compensation claim for direct costs in respect of its Roma Power Station between 12 June 2022 and 23 June 2022 and Mt Stuart Power Station between 12 June 2022 and 15 June 2022 (although no costs were claimed by Origin in respect of the 12 June 2022 trading day) following the application of the APC in Queensland, New South Wales, Victoria and South Australia. Roma Power Station and Mt Stuart Power Station are gas peaking generators located in Queensland.
- 3 Origin has claimed a total amount of [REDACTED] for direct costs, which includes fuel costs, variable operating and maintenance costs and frequency control ancillary service (FCAS) costs.
- 4 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.
- 5 The Commission has determined that compensation should be paid by AEMO to Origin in respect of its compensation claim for direct costs, and that the amount of compensation that Origin is entitled to and should be paid is \$1,232,024.
- 6 The Commission has verified the information submitted by Origin with AEMO and made a slight reduction in the amount of compensation payable. This is due to the following reasons:
  - the calculation of the compensation amount excludes any compensation claimed after the trading day of 15 June 2022 as the claimant is not eligible for reasons discussed in section 3.2. This is in respect of the Roma Power Station.
  - a small difference between AEMO's meter data and revenue data and Origin's data. The Commission has decided that it is more appropriate to use AEMO's data in determining the amount of compensation payable as any settlement amounts payable to a participant, including spot market revenue, are ultimately calculated by AEMO based on its data.
  - the calculation of the compensation amount includes additional revenues and costs incurred by Origin on the evening of 15 June 2022 in relation to Mt Stuart Power Station. This is because Origin's claim in relation to Mt Stuart did not extend past 2:05pm on 15 June 2022. The Commission is required to cover the entire trading day because of the

way eligibility period is specified under clause 3.14.6(b) of the NER and section 5.1.4 of the compensation guidelines. This is discussed in section 3.4.

7 The Commission is satisfied that:

- Origin is eligible to claim compensation in respect of its Roma Power Station and Mt Stuart Power Station during the administered price period outlined above, for the eligibility periods comprising the trading days of 13, 14 and 15 June 2022;
- Origin 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 Origin to support and substantiate its claim complies with the compensation guidelines;
- the direct costs claimed by Origin are consistent with the categories of cost permitted in 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 fuel costs, variable operating and maintenance costs and FCAS costs, in the amount of [REDACTED].
- minus actual revenue from the spot market in the amount of [REDACTED]; and
- minus compensation from directions in the amount of [REDACTED].

9 The Commission notes that its decision on the amount of direct costs payable to Origin is less than the amount claimed by Origin.

10 The Commission will write to AEMO to advise of the total amount of compensation payable to Origin 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.<sup>1</sup>

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1 Clause 3.15.10 of the NER.

## CONTENTS

1	Introduction	1
2	Origin's claim	3
2.1	Origin's claim	3
2.2	Information provided by Origin and AEMO	3
2.3	Confidentiality	3
3	The Commission's assessment of origin's claim	5
3.1	Application of the compensation guidelines	5
3.2	Eligibility	5
3.3	Components of total claimable amount	8
3.4	Calculation of direct costs	9
3.5	Calculation of actual or potential revenue	13
3.6	Other adjustments	13
3.7	Recovery of the AEMC's costs	14
3.8	Conclusions	14
	Abbreviations	16
	APPENDICES	
A	Background and purpose of AEMC administered pricing compensation process	17
B	AEMC's role and process for administered pricing compensation	19
C	Chronology of Origin's compensation assessment process	22
	TABLES	
Table 3.1:	Eligibility periods for compensation in each region	6
Table 3.2:	Origin's claim per eligibility period	6
Table C.1:	Chronology of Origin's compensation assessment process	22
	FIGURES	
Figure 3.1:	Formula for the total compensation amount	9

# 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 Origin'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 Origin's compensation assessment process

## 2 ORIGIN'S CLAIM

### 2.1 Origin's claim

On 22 June 2022, Origin provided notification of its intent to claim compensation in relation to the administered price period in Queensland, New South Wales, Victoria and South Australia between 12 June and 23 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.<sup>2</sup>

Origin is claiming compensation for Roma Power Station and Mt Stuart Power Station which are located in Queensland. These scheduled generating units are registered to Origin and are generally operated as peaking generators. Roma Power Station uses natural gas as fuel, and Mt Stuart Power Station uses diesel as fuel.

Origin is claiming direct costs in operating these scheduled generating units during the period commencing at 6:55pm on 12 June 2022 and ceasing at 4:00am on 23 June 2022 (although no costs were claimed by Origin in respect of the 12 June 2022 trading day). Each trading day (or part of a trading day) up to the end of the 15 June 2022 trading day (4:00am on 16 June 2022) is a separate eligibility period for the purposes of this claim.<sup>3</sup> For the reasons set out in section 3.2 below, there are no eligibility periods between 4:00am on 16 June 2022 and 4:00am on 23 June 2022.

Origin 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 Origin and AEMO

Origin provided information to the AEMC in accordance with the requirements in the compensation guidelines on 4 August 2022.

The Commission verified certain information provided by Origin with AEMO and received information confirming the spot market revenue earned by Origin 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 Confidentiality

Origin has made a claim for confidentiality in respect of all price and volume information relating to bilateral agreements, including price and volume information that is derived from these sources. Origin has stated that this information is confidential because it is

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<sup>2</sup> Clause 3.14.6(i) of the NER.

<sup>3</sup> Clause 3.14.6(a) of the NER.



commercially sensitive and because the agreements under which the contracts were made contain confidentiality obligations.

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.<sup>4</sup>

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<sup>4</sup> Section 24, *Australian Energy Market Commission Establishment Act 2004*. Section 31 of the National Electricity Law.

## 3 THE COMMISSION'S ASSESSMENT OF ORIGIN'S CLAIM

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

- its functions under clause 3.14.6 of the NER
- the compensation guidelines<sup>5</sup>
- its powers under the National Electricity Law
- the information and documents provided by Origin to support its claim (including any further information and documents provided in consultation with Origin 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.<sup>6</sup> Origin has not identified any compelling reasons for the Commission to depart from the compensation guidelines in assessing its claim.

### 3.2 Eligibility

Origin is registered with AEMO as a generator and is a party eligible to apply for compensation with respect to its scheduled generating units, being Roma Power Station and Mt Stuart Power Station. Origin is claiming compensation in relation to its Roma and Mt Stuart Power Stations.

Origin's claim arises out of a price limit event in which the spot price for a trading interval was set by the APC during an administered price period.<sup>7</sup> For the purposes of clause 3.14.6 of the NER, a price limit event occurs when the spot price is set by the APC during an administered price period or as a result of price scaling.<sup>8</sup> During AEMO's suspension of the market, prices were set in accordance with the market suspension pricing schedule, and not by the APC.

Origin's claim is for the periods from 12 June 2022 to 23 June 2022. 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).<sup>9</sup> As a result, the following eligibility periods are relevant for determining claims for compensation under clause 3.14.6:\*

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5 AEMC, Compensation guidelines, Final guidelines, 21 October 2021.

6 Clause 3.14.6(n) of the NER.

7 Clause 3.14.6(a) of the NER.

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

9 Clause 3.14.6(a) of the NER.

**Table 3.1: Eligibility periods for compensation in each region**

TRADING DAY	QUEENSLAND	NSW	SOUTH AUS- TRALIA	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 region to a level reflecting the importing region's administered price with an adjustment for interconnector losses.

Origin has demonstrated that the total costs incurred during some eligibility periods exceeded the total revenue received from the spot market during those periods. Although Origin has claimed compensation from 6:55pm on 12 June 2022, Roma Power Station and Mt Stuart Power Station were not dispatched on this trading day. Therefore, Origin is not eligible for compensation on 12 June 2022 (from 6:55pm to the end of the trading day) as it did not have total costs on the day that exceeded its total revenue received from the spot market.

This is outlined below:

**Table 3.2: Origin's claim per eligibility period**

ELIGIBILITY PERIOD	FUEL COSTS	OTHER 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	■■■■■	■■■■■	■■■■■	■■■■■

ELIGIBILITY PERIOD	FUEL COSTS	OTHER COSTS	SPOT MARKET REVENUE	LOSS
(entire trading day)				
15/06/2022 (entire trading day)				

*Reasons why Origin is not eligible for compensation for amounts claimed after the trading day of 15 June 2022*

Part of Origin's claim is for costs incurred in respect of trading days after 15 June 2022, while the market was suspended. However, market participants are not entitled to administered pricing compensation during this period of market suspension.

The objective of administered pricing compensation is to maintain the incentive for market participants to provide services while the prices are capped in order to achieve the policy objective of restoring the normal operation of the spot market and avoiding the need for a market suspension. Once the market is suspended, AEMO may set spot prices in accordance with the market suspension pricing schedule. In these circumstances the framework for compensation due to market suspension pricing schedule periods which is administered by AEMO applies.<sup>10</sup>

This market suspension compensation provides the incentive for participants to provide services during market suspension. The commencement and closing of administered price periods are notified by AEMO.<sup>11</sup> AEMO continued to declare administered price periods during the market suspension as it was required to do because prices in the spot market continued to exceed the CPT.<sup>12</sup>

Even though the administered price period continued through the market suspension period, it is important to note that the spot price was set according to the market suspension pricing schedule published by AEMO rather than by the APC or as a result of price scaling during those administered price periods. Market participants are only eligible for administered pricing compensation in respect of "eligibility periods".<sup>13</sup> A trading day, or part thereof, is an "eligibility period" if a "price limit event" occurs during that day.<sup>14</sup> A "price limit event" occurs when, during one or more trading intervals, the spot price for trading is set by the APC during an administered price period, or as a result of price scaling.<sup>15</sup> The eligibility period

<sup>10</sup> Under clauses 3.14.5A and 3.14.5B of the NER a separate compensation regime is administered by AEMO for scheduled generators, demand response service providers and ancillary service providers due to market suspension pricing schedule periods.

<sup>11</sup> Clause 3.14.2(b) of the NER

<sup>12</sup> Clause 3.14.2(b) of the NER

<sup>13</sup> Clause 3.14.6(b) of the NER.

<sup>14</sup> Definition of "eligibility period" in clause 3.14.6(a) of the NER.

<sup>15</sup> Definition of "price limit event" in clause 3.14.6(a) of the NER. 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 region to a level reflecting

starts at the beginning of the first trading interval in which the price limit event occurs in a trading day, and ends at the end of the last trading interval of that trading day (i.e. at 4:00am on the following day).

During the period of market suspension (from 2:05pm on 15 June 2022), prices in the spot market were set in accordance with clause 3.14.5 of the NER<sup>16</sup> and the market suspension pricing schedule published by AEMO.<sup>17[8]</sup> They were not, in any pricing interval after 15 June 2022, set by the APC<sup>18</sup> or, as a consequence, by price scaling.<sup>19</sup> As a result, no “price limit event” occurred after 15 June 2022, and the trading day of 15 June 2022 is the last possible “eligibility period” for the June 2022 administered price period.

The two different compensation schemes apply in different circumstances and are administered by different agencies. The AEMC is responsible for administering the administered pricing compensation scheme and is unable to consider claims for compensation under the market suspension compensation scheme.

During the process of consultation on its claim<sup>20</sup>, Origin proposed that it should be eligible for compensation between 16 and 23 June 2022 on the basis that the above interpretation of the NER is inconsistent with clause 3.14.5(c)(1) if the NER and paragraph 2.2(f) of AEMO’s Market Suspension Pricing Methodology.<sup>21</sup>

The AEMC disagrees for the reasons set out above. In addition, while the spot prices set by the market suspension pricing schedule determined by AEMO at times equalled the APC, it never exceeded the APC. As a result, spot prices were not set by the APC during this period.<sup>22</sup>

Accordingly, the Commission has determined that Origin is not eligible for any compensation under clause 3.14.6 of the NER relating to the period after the end of the trading day on 15 June 2022. Despite this, the substantial majority of Origin’s claimed amount is still being awarded. The Commission confirms that Origin’s claim meets the eligibility criteria set out in the NER for the eligibility periods comprising the trading days of 13, 14 and 15 June 2022.<sup>23</sup>

### 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.<sup>24</sup>

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the importing region’s administered price with an adjustment for interconnector losses.

16 As required by clause 3.14.4(e)(2) of the NER.

17 Under clause 3.14.5 of the NER.

18 Under clause 3.14.2(d1) of the NER.

19 Clause 3.14.2(e)(2) of the NER.

20 Clause 3.14.6(m) of the NER.

21 Origin noted that its view was that due to the fact that AEMO’s market suspension pricing schedule is limited by the amount of the administered price cap.

22 Clause 3.14.5(c) of the NER provides that when the market is suspended, spot prices “continue to be subject to the application of clause 3.14.2(d1)...in respect of administered price periods”. Clause 3.14.2(d1) requires AEMO to set the spot price to the APC if two conditions are met: firstly, an administered price period has been triggered under clause 3.14.2(c) and, secondly, the spot price (ignoring the effect of clause 3.14.2(d1)) exceeds the APC. The Commission considers that the second condition was not met after 15 June 2022. As a result, clause 3.14.2(d1) had no operation between 16 and 23 June 2022 and spot prices were not set by the APC during this period.

23 Clause 3.14.6(b) of the NER.

24 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<sub>t</sub> = Direct costs incurred in the eligibility period(s).

OC<sub>t</sub> = Opportunity costs incurred over the relevant period of time.

REV<sub>t</sub> = Actual or potential revenue.

OTH<sub>t</sub> = 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<sub>t</sub>) do not apply in this case.

## 3.4 Calculation of direct costs

Origin is claiming compensation for the direct costs it incurred during the application of the APC in the administered price period. The Commission has scrutinised the costs incurred by Origin in detail and its conclusions for each type of direct costs are set out below.

Origin's claim for compensation for Mt Stuart Power Station is for the period commencing 6:55pm on 12 June 2022 and ending on 15 June 2022 at 2:05pm. In accordance with clause 3.14.6(b) of the NER and section 5.1.4 of the compensation guidelines, the Commission is required to determine Origin's eligibility based on its total revenue up to the end of each trading day (i.e. the Commission must include all remaining trading internals after 2:05pm on 15 June 2022 to the end of the trading day, which is 4:00am on 16 June 2022).

Because of this, the calculation of the compensation amount includes additional revenues earned and costs incurred by Origin on the evening of 15 June 2022.

### **Fuel costs**

In accordance with the compensation guidelines, claimants may claim compensation for fuel costs incurred during the relevant eligibility period(s). Higher than normal fuel costs may also be included, with supporting reasoning to explain why they were incurred.<sup>25</sup>

Origin has claimed compensation for fuel costs incurred during the relevant eligibility period.

The amount that Origin has claimed is [REDACTED].

Origin has provided an itemised breakdown of fuel costs on a trading interval basis, along with evidence in the form of usual business documents such as supply contracts and receipts to substantiate the claim.

The Commission has determined that the fuel costs being claimed are permitted under the compensation guidelines.<sup>26</sup>

The Commission has reviewed the fuel cost information provided by Origin and considers sufficient evidence has been provided to substantiate the cost being claimed.

As discussed in section 3.2 above, the claim for Roma Power Station included periods that are not eligibility periods for the purposes of this claim. The Commission has therefore excluded all costs incurred after the 15 June 2022 trading day in determining the amount of compensation. This has led to a reduction in the fuel costs being claimed for Roma Power Station.

As noted above, the Commission has also considered the costs for Mt Stuart Power Station for the entire trading day of 15 June 2022, which has led to an increase in the fuel costs being claimed for Mt Stuart Power Station.

The Commission has calculated the fuel costs to be [REDACTED].

### **Operation and maintenance**

In accordance with the compensation guidelines, claimants may claim compensation to cover operation and maintenance expenses directly attributable to the pattern of operation to provide energy, wholesale demand response or market ancillary services during the relevant eligibility period(s).<sup>27</sup>

Origin has claimed variable operating and maintenance (VOM) costs including the advancement of future maintenance and consumables such as water and chemicals.

The amount that Origin has claimed is [REDACTED].

Origin has referred to AEMO's 2022 Integrated System Plan inputs, assumptions and scenario's workbook to substantiate the claim.

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<sup>25</sup> Clause 3.14.6(e) of the NER and section 5.2.1 of the compensation guidelines.

<sup>26</sup> Clause 3.14.6(e) of the NER and section 5.2.1 of the compensation guidelines.

<sup>27</sup> Clause 3.14.5(e) of the NER and section 5.2.2 of the compensation guidelines.



The Commission has determined that the operation and maintenance costs being claimed are permitted under the compensation guidelines.<sup>28</sup>

The Commission has reviewed the operation and maintenance costs information provided by Origin and considers sufficient evidence has been provided to substantiate the costs being claimed.

As discussed in section 3.2 above, due to the claim for Roma Power Station including periods that are not eligibility periods for the purposes of this claim, the Commission has excluded all costs incurred after the 15 June 2022 trading day.

As noted above, the Commission has also considered the costs for Mt Stuart Power Station for the entire trading day of 15 June 2022, which has led to an increase in the costs being claimed for Mt Stuart Power Station.

The Commission has calculated the VOM costs to be [REDACTED].

### **Ancillary services costs**

Origin has claimed the costs of contingency raise frequency control ancillary services (FCAS) during this period. The amount that Origin has claimed is [REDACTED]. Contingency FCAS correct the supply/demand balance in response to major frequency disturbances causing frequency to move outside the normal operating frequency band, which can occur after contingency events such as the loss of a generating unit or major load. Contingency raise FCAS costs are recovered from market generators and market small generator aggregators in the relevant requirement region.<sup>29</sup> The recovery of contingency raise FCAS is determined for each generator to be the proportion of energy generated by the participant in the requirement region multiplied by the total cost of the FCAS procurement.<sup>30</sup> Because of this, market generators and market small generator aggregators incur raise contingency FCAS costs as a by-product of generating in the market. If a generator had not been generating, they would not have incurred contingency raise FCAS costs.

Origin has provided evidence from AEMO of the FCAS costs it incurred to substantiate the claim.

Both Roma Power Station and Mt Stuart Power station are registered as market generators. When these power stations are operating, they make up a proportion of the total energy generated in the requirement region. Operating during the relevant eligibility periods therefore caused Roma Power Station and Mt Stuart Power Station to incur FCAS costs for contingency raise FCAS based on the formula for contingency raise FCAS cost recovery formula set out in AEMO's settlements guide.<sup>31</sup>

<sup>28</sup> See section 5.2.2 of the compensation guidelines.

<sup>29</sup> Clause 3.15.6A(f) of the NER.

<sup>30</sup> Clause 3.15.6A(f) of the NER. See also AEMO, Settlements guide to ancillary services payment and recovery, [https://aemo.com.au/-/media/files/electricity/nem/data/ancillary\\_services/2020/settlements-guide-to-ancillary-services-payment-and-recovery.pdf?la=en](https://aemo.com.au/-/media/files/electricity/nem/data/ancillary_services/2020/settlements-guide-to-ancillary-services-payment-and-recovery.pdf?la=en)

<sup>31</sup> AEMO, Settlements guide to ancillary services payment and recovery, [https://aemo.com.au/-/media/files/electricity/nem/data/ancillary\\_services/2020/settlements-guide-to-ancillary-services-payment-and-recovery.pdf?la=en](https://aemo.com.au/-/media/files/electricity/nem/data/ancillary_services/2020/settlements-guide-to-ancillary-services-payment-and-recovery.pdf?la=en)



Although not specifically listed as a type of direct cost in section 5.2 of the compensation guidelines when the spot price during an administered price period is set by the APC, the contingency raise FCAS costs incurred by Roma Power Station and Mt Stuart Power Station are directly attributable to the pattern of operation to provide energy during the relevant eligibility periods. If Roma Power Station and Mt Stuart Power Station had not provided energy during the relevant eligibility periods then it would not have incurred any contingency raise FCAS costs. Further, AEMO's directions compensation process generally permits contingency raise FCAS costs as an additional net direct cost which may be recovered by directed participants as a result of being directed to provide services.<sup>32</sup>

For the reasons above, the Commission has determined that the FCAS costs are direct costs under the NER and compensation guidelines.<sup>33</sup>

The Commission has reviewed the FCAS costs provided by Origin and verified this information with AEMO against market data.

As discussed in section 3.2 above, due to the claim for Roma Power Station including periods that are not eligibility periods for the purposes of this claim, the Commission has excluded all costs incurred after the 15 June 2022 trading day.

As noted above, the Commission has also considered the costs for Mt Stuart Power Station for the entire trading day of 15 June 2022, which has led to an increase in the costs being claimed for Mt Stuart Power Station.

The Commission has calculated the FCAS costs to be [REDACTED].

### **General wear and tear**

In accordance with the compensation guidelines, claimants may claim compensation for general wear and tear directly attributable to the pattern of operation during the relevant trading intervals.<sup>34</sup>

Origin has not made a claim for general wear and tear 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.

Origin has not made a claim for any excluded costs.

32 IES Advisory Services, 2022, AEMO Directions to Participants in South Australia, Final Determination Report, [https://aemo.com.au/-/media/files/electricity/nem/market\\_notices\\_and\\_events/market\\_event\\_reports/2021/final-report-sa-directions-billing-weeks-33-36-2021.pdf?la=en](https://aemo.com.au/-/media/files/electricity/nem/market_notices_and_events/market_event_reports/2021/final-report-sa-directions-billing-weeks-33-36-2021.pdf?la=en), Synergies Economic Consulting, 2022, Additional compensation claims arising from AEMO directions during billing weeks 13 to 16, 2022 Final Determination, [https://aemo.com.au/-/media/files/electricity/nem/market\\_notices\\_and\\_events/market\\_event\\_reports/2022/final-report-sa-directions-billing-weeks-13-to-16-2022.pdf?la=en](https://aemo.com.au/-/media/files/electricity/nem/market_notices_and_events/market_event_reports/2022/final-report-sa-directions-billing-weeks-13-to-16-2022.pdf?la=en)

33 See clause 3.14.6(e) of the NER and section 5.2.2 of the compensation guidelines.

34 See clause 3.14.6(e) of the NER and section 5.2.3 of the compensation guidelines.

## 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 period.

### Spot market revenue

Origin has provided some estimated data regarding 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 Origin 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 Origin and confirmed this value with the information provided by AEMO.

As discussed in section 3.2 above, due to the claim for Roma Power Station including periods that are not eligibility periods for the purposes of this claim, the Commission has excluded all revenue earned after the 15 June 2022 trading day.

As noted above, the Commission has also considered the costs and revenues for Mt Stuart Power Station for the entire trading day of 15 June, which has led to an increase in the revenues earned by Mt Stuart Power Station. The Commission has calculated the spot market revenues to be [REDACTED].

## 3.6 Other adjustments

### Financing costs

In accordance with the compensation guidelines, the Commission may recognise reasonable financing costs with respect to the time between the event occurring and any compensation being awarded. 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.<sup>35</sup>

Origin has not made a claim for financing costs.

### 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.<sup>36</sup>

In its claim, Origin noted that it had received automatic directions compensation under clause 3.15.7 of the NER during the administered price period as well as compensation under clause 3.14.5A of the NER during the market suspension period between 2:05pm on 15 June

<sup>35</sup> Section 5.1.5 of the guidelines.

<sup>36</sup> Section 5.1.5 of the guidelines.

and 4:00am on 16 June 2022. AEMO has provided verification of the automatic directions compensation paid to Origin for any directions issued during the administered price period.<sup>37</sup> AEMO has also provided verification of direct compensation paid to Origin for directions issued after 2:00pm on 15 June 2022, which are subject to the market suspension compensation framework.<sup>38</sup>

Origin advised that it has not made any additional claims for compensation under the NER during the administered price period to which this claim relates. AEMO has confirmed that Origin has not made any claims for additional compensation to AEMO arising out of the same events the subject of this compensation claim. The Commission notes that the time for Origin to make any such claims for compensation from AEMO has now expired.

The Commission has calculated the other sources of compensation to be in the amount of [REDACTED].

### 3.7 Recovery of the 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 Origin is eligible to be paid compensation by AEMO in relation to its compensation claim.**

The Commission is satisfied that:

- Origin is eligible to claim compensation in respect of its Roma Power Station and Mt Stuart Power Station during the administered price period outlined above, for the eligibility periods comprising the trading days of 13, 14 and 15 June 2022;
- Origin 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 Origin to support and substantiate its claim complies with the compensation guidelines;
- the direct costs claimed by Origin are consistent with the categories of cost permitted in the compensation guidelines.

**The Commission has determined that Origin is entitled to be paid total compensation of \$1,232,024 (exclusive of GST) in respect of its claim**

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

<sup>37</sup> Under clause 3.15.7 of the NER.

<sup>38</sup> Under clause 3.14.5A of the NER.

- direct costs incurred in the eligibility period(s) which included fuel costs, operating and maintenance costs and FCAS costs in the amount of [REDACTED]
- minus actual revenue from the spot market in the amount of [REDACTED]; and
- minus compensation from directions 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.<sup>39</sup>

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.<sup>40</sup>

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.

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<sup>39</sup> Clause 3.15.10 of the NER.

<sup>40</sup> 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. Note that an updated version of the compensation guidelines were published by the AEMC on 1 December 2022, as a result of making the <i>National Electricity Amendment (Amending the administered price cap) Rule 2022</i> . Claims made in respect of the June 2022 market event will be assessed in accordance with the version of the compensation guidelines that applied at the time.
MPC	Market price cap
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 MWh<sup>41</sup> and \$15,500 per MWh.<sup>42</sup>

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)<sup>43</sup> is exceeded, the administered price cap of \$600 per MWh and the administered floor price of -\$600 per MWh is applied to spot prices.<sup>44</sup>

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

- the MPC was \$15,100/MWh<sup>45</sup>
- the CPT was \$1,359,100; and<sup>46</sup>
- the APC was \$300/MWh.<sup>47</sup>

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.<sup>48</sup> The AEMC administers this

<sup>41</sup> This amount is the 'market floor price' under clause 3.9.6(b) of the NER.

<sup>42</sup> This amount is the 'market price cap' (MPC) under clause 3.9.4 of the NER.

<sup>43</sup> The CPT represents the limit of aggregate dispatch prices over a period of seven days (2,016 trading intervals).

<sup>44</sup> Clause 3.14.1 of the NER.

<sup>45</sup> 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.

<sup>46</sup> 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.

<sup>47</sup> 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.

<sup>48</sup> 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).<sup>49[6]</sup>

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).

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<sup>49</sup> 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](mailto:applications@aemc.gov.au)
  - AEMO at [NEMIntervention@aemo.com.au](mailto: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 ORIGIN'S COMPENSATION ASSESSMENT PROCESS

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

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

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