Australian Energy Market Commission

FINAL REPORT

COMPENSATION CLAIM FOR DIRECT COSTS

Smithfield Power Generation Pty Ltd
Smithfield Power Station

8 DECEMBER 2022

DETERMINATION

INQUIRIES

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Reference: CRP0129

CITATION

AEMC, Compensation claim for direct costs, Final report, 8 December 2022

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.

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 Smithfield Power Generation Pty Ltd (Smithfield) has made a compensation claim for direct costs in respect of Smithfield Power Station following the application of the APC in Queensland and New South Wales between 12 June 2022 and 15 June 2022. Smithfield Power Station is a scheduled generator that is used as a peaking generator.

3 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.[1]

4 The Commission has determined that compensation should be paid by AEMO to Smithfield in respect of its compensation claim for direct costs, and that the amount of compensation that Smithfield is entitled to is $592,256.

5 This is lower than the amount of compensation Smithfield claimed, which was a total of [redacted] for direct costs, which includes fuel costs and operating and maintenance costs. The Commission has verified the data submitted by Smithfield with AEMO and made a reduction in the amount of compensation payable. This is for three reasons.

6 Firstly, the Commission is required to consider Smithfield's eligibility based on total costs and total revenues over each eligibility period.[2] Under the NER, a claimant is only eligible for compensation if it incurs a net loss (i.e. it has incurred total costs that exceed the total revenue it received from the spot market) during an eligibility period. An eligibility period 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 that trading day (i.e. at 4:00am on the following day). On the trading day of 13 June 2022, Smithfield made a net profit and this has resulted in Smithfield not being eligible for compensation for that eligibility period. This is discussed in section 3.2.

7 Secondly, AEMO's meter data was slightly lower than the data submitted by Smithfield. The Commission has decided that given this discrepancy, it is more appropriate to use AEMO's data in determining the amount of compensation payable as any settlement amounts payable

1 Clause 3.14.6(l) of the NER.

2 Clause 3.14.6(b) of the NER.

to a participant including spot market revenue are ultimately calculated by AEMO based on its data.

8 Finally, the Commission has excluded some of the start-up costs claimed, as these costs were incurred outside of the price limit event and, as such, are not recoverable in accordance with the compensation guidelines.

9 The Commission is satisfied that:

- Smithfield is eligible to claim compensation in respect of its Smithfield Power Station during the administered price period outlined above, for the eligibility periods of 12, 14 and 15 June 2022;
- Smithfield provided a compelling reason for the AEMC to depart from the guidelines in relation to the calculation of compensation on 15 June 2022. For further details, see section 3.2;
- Smithfield 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 Smithfield to support and substantiate its claim complies with the compensation guidelines;
- the direct costs claimed by Smithfield are consistent with the categories of cost permitted in the compensation guidelines.

10 The total compensation amount of $592,256 for this direct cost only claim is calculated as follows:

- direct costs incurred in the eligibility periods which included fuel costs and operating and maintenance costs (for example, start-up costs) in the amount of [redacted]
- minus actual revenue from the spot market in the amount of [redacted]

11 The Commission will write to AEMO to advise of the total amount of compensation payable to Smithfield 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 cost recovery region(s).[3]

3 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[4] 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 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 Smithfield'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

4 Published by the AEMC under clause 3.14.6(e) of the NER.

- Appendix C: Chronology of events in Smithfield's compensation assessment process.

2 SMITHFIELD'S CLAIM

2.1 Smithfield's claim

On 17 June 2022, Smithfield provided notification of its intent to claim compensation in relation to the administered price period in Queensland and New South Wales between 12 June 2022 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.[5]

Smithfield is claiming compensation for Smithfield Power Station in New South Wales. Smithfield Power Station is registered as a close-cycle gas turbine (CCGT), however it operates as an open-cycle gas turbine (OCGT). It is a scheduled generator registered to Smithfield.

Smithfield is claiming compensation for direct costs including fuel costs and operation and maintenance costs in operating the Smithfield Power Station during the period commencing 6:55pm on 12 June 2022 in Queensland and ceasing on 15 June at 2:15pm.

2.2 Information provided by Smithfield and AEMO.

Smithfield provided information to the AEMC in accordance with the requirements in the compensation guidelines on 1 August 2022. The Commission received further supporting information from Smithfield on 25 August 2022.

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

The Commission commenced formal assessment of the compensation claim on 8 September 2022. A chronology of this compensation assessment process is provided in Appendix C.

2.3 Confidentiality

Smithfield made a claim for confidentiality in respect of specific elements of its claim, including fuel costs and operation and maintenance costs. The supporting information provided for these costs has also been claimed as confidential. The basis for seeking confidentiality over this information is that it is commercially sensitive.

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.[6]

5 Clause 3.14.6(i) of the NER.

6 Section 24, Australian Energy Market Commission Establishment Act 2004. Section 31 of the National Electricity Law.

3 THE COMMISSION'S ASSESSMENT OF SMITHFIELD'S CLAIM

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

- its functions under clause 3.14.6 of the NER
- the compensation guidelines[7]
- its powers under the National Electricity Law
- the information and documents provided by Smithfield to support its claim (including any further information and documents provided in consultation with Smithfield 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.[8] Smithfield has provided two reasons to depart from the guidelines that it considered were compelling. These reasons relate to determining the eligibility period on the trading day of 13 June 2022 and the calculation of compensation on the trading day of 15 June 2022.[9]

Smithfield's first submission to depart from the guidelines is in relation to determining its eligibility for compensation for the 13 June 2022 trading day. Smithfield submitted that its eligibility should be determined with respect to the direction of power flows. Further details, including the reasons that the Commission is not satisfied that it can or should assess Smithfield's eligibility in this way, are set out in section 3.2 below.

Smithfield's second submission to depart from the guidelines relates to the calculation of the compensation payable for the eligibility period on 15 June 2022. Smithfield submitted that the calculation should end at 2:05pm on 15 June 2022, rather than at the end of the trading day. Further details, including the reasons the Commission is satisfied that there is a compelling reason to depart from the guidelines in this instance, are explained in section 3.2 below.

The Commission has applied the guidelines in assessing this claim except in relation to determining the eligibility period on 15 June 2022.

7 AEMC, Compensation guidelines, Final guidelines, 21 October 2021. https://www.aemc.gov.au/sites/default/files/documents/final_amended_compensation_guidelines.pdf

8 Clause 3.14.6(n) of the NER.

9 Unless the contrary intention appears, references in this document to dates or trading days are to the trading day commencing at 4:00am on the stated date and finishing at 4:00 on the following day.

3.2 Eligibility

Smithfield is registered with AEMO as a generator and is a party eligible to apply for compensation with respect to its scheduled generating unit, being the Smithfield Energy Facility.[10] Smithfield is claiming compensation in relation to its Smithfield Power Station.

Smithfield'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.[11] 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.[12]

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.[13] 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).[14]

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 10:00pm 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,

10 Clauses 2.2.1 and 2.2.2 of the NER. See also AEMO's NEM Registration and Exemption List dated 4 October 2022, which notes the station name as 'Smithfield Energy Facility'. We understand that the Smithfield Energy Facility is otherwise known as Smithfield Power Station. This decision refers to Smithfield Power Station for consistency with Smithfield's claim.

11 Clause 3.14.6(a) of the NER.

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

13 Clause 3.14.6(b) of the NER.

14 Clause 3.14.6(a) of the NER.

then 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.[15]

Smithfield's claim is for the eligibility periods over 12 June 2022 to 15 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.[16] For the eligibility period on 12 June 2022, Smithfield Power Station, which is located in New South Wales, was affected by price scaling due to the application of the APC in Queensland when energy was flowing towards Queensland.

Smithfield has demonstrated that the total costs incurred during some eligibility periods (as discussed in section 3.4 below) exceed the total revenue received from the spot market (as discussed in section 3.5 below) during those periods.

Smithfield is not eligible for compensation on 13 June 2022

Although Smithfield has claimed compensation for the eligibility period of 13 June 2022, it did not make a net loss in this eligibility period.[17] This is because the total revenue it earned from the spot market during that trading day exceeded the total costs it incurred.

As noted in section 3.1, Smithfield requested the Commission consider a compelling reason to not apply the guidelines. Instead of determining Smithfield's eligibility for compensation by considering all costs and revenues during the eligibility period, Smithfield requested that the Commission consider only those costs incurred and revenues received having regard to the direction of power flows towards Queensland (while the APC applied), but not when the direction of power flows was from Queensland to New South Wales, where the APC had not yet been applied.

The Commission considers that Smithfield's request would in fact involve a departure from the NER, rather than a departure from the compensation guidelines and as a result, does not agree that Smithfield's eligibility for compensation on 13 June 2022 can or should be determined in the way proposed by Smithfield.

The NER set out which parties are entitled to claim compensation under clause 3.14.6 and the circumstances in which they are entitled to do so. As noted above, 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 the last trading interval of that trading day.[18] When determining a scheduled generator's eligibility for compensation, the Commission must consider the total costs incurred and total revenues received during each eligibility period.[19] The Commission is required to apply the NER and does not have discretion to assess claims in a manner that is inconsistent with those rules in respect of calculating Smithfield's eligibility for compensation payable on 13 June 2022. The Commission has considered Smithfield's total costs and total revenues and has determined that Smithfield is not eligible for compensation for the eligibility period of 13 June 2022.

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

16 Clause 3.14.6(a) of the NER. See also definition of 'trading day' in Chapter 10 of the NER.

17 As required by clause 3.14.6(b) of the NER.

18 Clause 3.14.6(a) of the NER.

19 Clause 3.14.6(b) of the NER.

This is outlined below:

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

ELIGIBILITY PERIOD	FUEL	START	REVENUE	LOSS
12/06/2022 (from 6:55pm to end of trading day)	[redacted]	[redacted]	[redacted]	[redacted]
13/06/2022 (entire trading day)	[redacted]	[redacted]	[redacted]	[redacted]
14/06/2022 (entire trading day)	[redacted]	[redacted]	[redacted]	[redacted]
15/06/2022 (entire trading day)	[redacted]	[redacted]	[redacted]	[redacted]

The Commission is satisfied there is a compelling reason to depart from the guidelines regarding the calculation of compensation on 15 June 2022

Smithfield's claim is for the eligibility periods commencing at 6:55pm on 12 June 2022 in Queensland and ceasing on 15 June 2022. While the Commission is required to assess Smithfield's eligibility based on whether it has incurred a net loss over the entire eligibility period of 15 June 2022, Smithfield has requested that the Commission calculate its claim for compensation based only on its total revenue and total costs for the period until 2:05pm on 15 June 2022, rather than for the entire trading day. This is because after 2:05pm on the 15 June 2022 trading day, Smithfield was unable to make informed and independent trading decisions as it was under direction from AEMO while still incurring direct costs and earning spot market revenue. Smithfield states that these costs and revenues incurred under direction are being considered by AEMO in accordance with the compensation process set out in clause 3.15.7B of the NER.

The Commission is satisfied that there is a compelling reason not to apply the compensation guidelines in relation calculating the compensation payable to Smithfield in respect of the 15 June 2022 trading day. This is because the compensation guidelines enable the Commission to take into account other compensation amounts payable and to adjust the administrative pricing compensation amount in order to avoid overcompensation, and the proposed departure from the guidelines is consistent with these principles. It is not possible for the Commission to take into account the outcome of AEMO's Independent Expert's assessment of Smithfield's claim for additional compensation because AEMO's process is not yet finalised. This will not be finalised until 30 December 2022. Not being able to adjust the compensation amount to account for the additional compensation that may be awarded from AEMO's independent expert process means that there is a risk of overcompensation.

Smithfield's proposal for an earlier end to the eligibility period on 15 June 2022 avoids an overlap where the period between 2:05pm on 15 June 2022 and 4:00am on 16 June 2022, is being assessed by both the AEMC for the purposes of administered pricing compensation and AEMO for additional compensation for directions.

Taking the approach that Smithfield has suggested will clearly delineate the time periods that are relevant for administered pricing compensation from those that are relevant for AEMO's compensation process. Doing this is preferable compared to delaying the Commission's decision on the Smithfield claim until after the final decision of AEMO's independent expert is known. Delaying the decision for an administrative reason would not allow the Commission to determine the direct cost compensation claims as efficiently as possible. Providing this clarity will also assist AEMO's independent expert decision making process.

Importantly, taking this approach does not involve any departure from the NER. The decision to end the calculation of Smithfield's costs and revenues earlier on 15 June 2022 does not change whether or not Smithfield made a net loss for the eligibility period of 15 Jun 2022, and Smithfield remains eligible for compensation on that day when assessed in accordance with the NER.

Smithfield meets the eligibility criteria (i.e. it has incurred a net loss) based on its total revenue and total costs for the eligibility period of 15 June 2022 regardless of whether those costs and revenues are assessed up to 2:05pm on 15 June 2022, or the end of that trading day. This approach therefore prevents Smithfield being overcompensated in aggregate.

Taking this approach also has the effect of reducing, rather than increasing, the total compensation payable to Smithfield as the compensation payable to Smithfield would be higher if calculated over the entirety of the 15 June 2022 eligibility period.

Therefore, instead of calculating compensation based on Smithfield's costs and revenues over the entire eligibility period on 15 June 2022, the Commission will only consider Smithfield's costs incurred and revenue received up to 2:05pm on 15 June 2022. This decision means that any other costs incurred or revenues received by Smithfield on the remainder of the 15 June 2022 trading day will be considered through AEMO's directions compensation process.

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.[20]

20 Section 5.1.1 of the Compensation guidelines.

Figure 3.1: Formula for the total compensation amount

$$TCA = \sum_{t} (DC_t + OC_t + OTH_t - REV_t)$$

Where:

TCA = Total Claimable Amount.

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

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

REVt = Actual or potential revenue.

OTHt = 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. OCt) do not apply in this case.

3.4 Calculation of direct costs

Smithfield 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 Smithfield in detail and its conclusions for each type of direct costs are set out below.

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.[21]

Smithfield has claimed compensation for fuel costs incurred during the relevant eligibility period. This includes other necessary costs including gas market fees, gas transportation

21 See Clause 3.14.6(e) of the NER and section 5.2.1 of the Compensation guidelines.

costs and other costs involved in the procurement and storage of gas. The amount that Smithfield has claimed is [redacted].

Smithfield has provided an itemised breakdown of fuel costs on a trading interval basis, along with evidence in the form of usual business documents to substantiate the claim. The Commission further engaged with Smithfield to request further information to justify all fuel costs being incurred.

The Commission has determined that the fuel costs being claimed are permitted under the guidelines.[22]

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

In the process of verifying the claim, the Commission noted a small discrepancy between AEMO's meter data and the data provided by Smithfield. The Commission has decided that AEMO's data is appropriate to use to determine the compensation payable. This results in a relatively small deduction in the fuel costs to take account of the differences in the data submitted by Smithfield and as verified by AEMO.

As discussed in section 3.2, the Commission considers that Smithfield is not eligible for compensation for the eligibility period of 13 June 2022. The Commission has therefore excluded any fuel costs incurred in this eligibility period from the calculation of the claim. This has led to a reduction in the amount of fuel costs.

Using AEMO's data, 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).[23]

Smithfield has claimed operating and maintenance costs relating to the advancement of future maintenance requirements which included start-up costs. The amount that Smithfield has claimed is [redacted].

Smithfield has provided evidence including technical documentation to substantiate the claim.

The Commission has determined that most of the operation and maintenance costs being claimed are permitted under the guidelines.[24] Section 5.2.4 of the guidelines specifies that start-up costs incurred outside of the price limit event should be excluded from the calculation of the total claimable amount unless the claimant can demonstrate a compelling case based on extraordinary circumstances. Because the claimant has not provided a compelling reason based on extraordinary circumstances, the Commission has excluded start-up costs claimed prior to the price limit event on 12 June 2022.

22 See Clause 3.14.6(e) of the NER and section 5.2.1 of the Compensation guidelines.

23 See Clause 3.14.6(e) of the NER and section 5.2.2 of the Compensation guidelines.

24 See section 5.2.2 of the Compensation guidelines.

In addition, as discussed in section 3.2, the Commission considers that Smithfield is not eligible for compensation for the eligibility period on 13 June 2022. The Commission has therefore excluded any operation and maintenance costs incurred in this eligibility period from the calculation of the claim. This has led to a reduction in the amount of operation and maintenance costs.

For the operation and maintenance costs that were not excluded, the Commission has reviewed the information provided by Smithfield and considers sufficient evidence has been provided to substantiate the cost being claimed.

The Commission has calculated the operation and maintenance costs to be in the amount of [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.[25]

Smithfield 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.

As noted above in the sub-section on operation and maintenance, Smithfield made a claim for start-up costs, some of which were incurred outside of the price limit event. While the Commission has determined that Smithfield will receive compensation for part of its start-up costs, those start-up costs incurred outside the price limit event have been excluded from the compensation payable.

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

Smithfield 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 Smithfield has received in respect of the period over which the claim for compensation has been made.

Smithfield submitted that its spot market revenue was [redacted] over this period.

In the process of verifying this information, the Commission noted a small discrepancy between AEMO's meter data on the spot market revenue and the data provided by

25 See Clause 3.14.6(e) of the NER and section 5.2.3 of the Compensation guidelines.

Smithfield. As outlined in section 4.1.2 of the guidelines, AEMO provides the AEMC with details of spot market revenue, and metered energy data for the purposes of calculating the spot market revenue. The Commission has decided that given this discrepancy, 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 relevant data.[26] This results in a relatively small deduction in the spot market revenue to take account of the differences in the data submitted by Smithfield and as verified by AEMO.

In addition to this, the compensation guidelines specify that the total level of compensation is based on a claimant's actual or potential revenue and direct costs incurred in the eligibility period(s).[27] However, due to the reasons outlined in section 3.2 above, the Commission has only taken into account the spot market revenue earned by Smithfield until 14:05 for the eligibility period on the 15 June 2022 trading day.

Finally, as discussed in section 3.2, the Commission considers that Smithfield is not eligible for compensation for the eligibility period of 13 June 2022. The Commission has therefore excluded any revenue earned in this eligibility period from the calculation of the claim. This has led to a reduction in the amount of revenue earned.

Using AEMO's data, Smithfield's total spot market revenue for all eligibility periods is [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.[28]

Smithfield 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.[29]

Other than as outlined in section 3.2 above, Smithfield advised that it has not made any other claims for compensation under the Rules during the administered price period for which

26 See clauses 3.15.12 to 3.15.15 of the NER for further details.

27 Section 5.1.1 of the Compensation guidelines.

28 See section 5.1.5 of the Compensation guidelines.

29 See section 5.1.5 of the Compensation guidelines.

this claim relates. AEMO has confirmed that Smithfield has not received any other compensation or 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 Smithfield 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 details on cost recovery.

3.8 Conclusions

The Commission has determined that Smithfield is eligible to be paid compensation by AEMO in relation to it's compensation claim.

The Commission is satisfied that:

- Smithfield is eligible to claim compensation in respect of its Smithfield Power Station during the administered price period outlined above, for the eligibility periods of 12, 14 and 15 June 2022;
- Smithfield provided a compelling reason for the AEMC to depart from the guidelines in relation to the calculation of compensation on 15 June 2022. For further details, see section 3.2;
- Smithfield notofied 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 Smithfield to support and substantiate its claim complies with the compensation guidelines;
- the direct costs claimed by Smithfield are consistent with the categories of cost permitted in the compensation guidelines.

The Commission has determined that Smithfield is entitled to receive total compensation of $592,256 (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 fuel costs and operating and maintenance costs 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.[30]

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.[31]

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.

30 Clause 3.15.10 of the NER.

31 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 was published by the AEMC on 1 December 2022, as a result of the making of the *National Electricity Amendment (Amending the administered price cap) Rule 2022.* 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 that time.
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[32] and $15,500 per MWh.[33]

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)[34] is exceeded, the administered price cap of $600 per MWh and the administered floor price of -$600 per MWh is applied to spot prices.[35]

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

- the MPC was $15,100/MWh[36]
- the CPT was $1,359,100; and[37]
- the APC was $300/MWh.[38]

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.[39] The AEMC administers this

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

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

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

35 Clause 3.14.1 of the NER.

36 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.

37 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.

38 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.

39 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).[40][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).

40 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 SMITHFIELD'S COMPENSATION ASSESSMENT PROCESS

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

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

DATE/TIME	EVENT
17 June 2022	Notice of claim received
1 August 2022	Supporting information received
8 September 2022	Commencement of formal assessment
October 2022	Consultation with claimant
8 December 2022	Final decision published