



Australian Energy Market Commission

## FINAL REPORT

# COMPENSATION CLAIM FOR DIRECT COSTS

Aurora Energy (Tamar Valley) Pty Ltd trading as AETV Power  
Bairnsdale Power Station

23 MARCH 2023

DETERMINATION

## INQUIRIES

Australian Energy Market Commission  
GPO Box 2603  
Sydney NSW 2000

E [aemc@aemc.gov.au](mailto:aemc@aemc.gov.au)

T (02) 8296 7800

Reference: CRP0143

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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 Aurora Energy (Tamar Valley) Pty Ltd trading as AETV Power (AETV) has made a compensation claim for direct costs in respect of its Bairnsdale Power Station following the application of the APC in Queensland, New South Wales and Victoria between 12 June 2022 and 23 June 2022. Bairnsdale Power Station is a scheduled generator that is used as a peaking generator.
- 3 AETV has claimed a total amount of [REDACTED] for direct costs, which includes fuel costs, variable operating and maintenance costs and gas transportation costs.
- 4 The Commission has determined that AETV is entitled to compensation for its direct costs and that the amount that it should be paid by AEMO is \$206,575.
- 5 The Commission has verified the information submitted by AETV with AEMO and made a reduction in the amount of compensation payable. This was 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. This is because the spot price was not set by the administered price cap between 16 June and 23 June 2022. For more details, please see section 3.2.
  - AETV's calculation only included the costs and revenues earned in trading intervals where it made a net loss. The Commission is required to consider AETV's eligibility based on total costs and total revenue over each entire eligibility period. This has resulted in AETV not being eligible for compensation on the trading days of 12 June and 13 June 2022. This is discussed in section 3.2.
- 6 The Commission is satisfied that:
  - AETV is eligible to claim compensation in respect of its Bairnsdale Power Station during the administered price period outlined above, for the eligibility periods comprising the trading days of 14 and 15 June 2022;
  - AETV 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 AETV to support and substantiate its claim complies with the compensation guidelines;

- the direct costs claimed by AETV are consistent with the categories of cost permitted in the compensation guidelines;

7 The total compensation amount for this direct cost only claim is calculated as follows:

- direct costs incurred in the eligibility periods which include fuel costs, operating and maintenance costs and gas transportation costs, in the amount of [REDACTED]
- minus actual revenue from the spot market, in the amount of [REDACTED].

8 The Commission will write to AEMO to advise of the total amount of compensation payable to AETV 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.

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# 1 INTRODUCTION

## **Administered pricing compensation**

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

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

## **Market events in June 2022**

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

The application of the APC in those regions coincided with reductions in the amount of generation bid into the market, resulting in a requirement for AEMO to intervene to maintain system reliability. Ultimately AEMO determined at 2:05pm on 15 June 2022 that it was necessary to suspend the spot market in all regions of the NEM under clause 3.14.3 of the NER. During this period of market suspension, spot prices were 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 AETV'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 AETV's compensation assessment process

## 2 AETV'S CLAIM

### 2.1 AETV's claim

On 22 June 2022, AETV provided notification of its intent to claim compensation in relation to the administered price period in Queensland, New South Wales and Victoria between 12 June 2022 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>

AETV is claiming compensation for Bairnsdale Power Station in Victoria. AETV is registered with AEMO as a generator. The Bairnsdale Power Station is classified as a scheduled generating unit under the NER and is used as a peaking generator.

AETV is claiming direct costs in operating this scheduled generating unit during the period commencing 6:55pm on 12 June 2022 and ceasing at 4:00am on 23 June 2022. 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, the Commission considers that there are no eligibility periods between 4:00am on 16 June 2022 and 4:00am on 23 June 2022.

### 2.2 Information provided by AETV and AEMO

AETV provided information to the AEMC in accordance with the requirements in the compensation guidelines on 1 August 2022. AETV provided subsequent information requested by the Commission on 7 September 2022.

The Commission verified AETV's spot market revenue for the period with AEMO. AEMO also confirmed the dispatch targets.

The Commission commenced formal assessment of the compensation claim on 20 October 2022. A chronology of this compensation assessment process is provided in Appendix C.

### 2.3 Confidentiality

AETV made a claim for confidentiality in respect of any volumes, deliveries and energy quantities that are part of its claim.

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>

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

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

<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 AETV'S CLAIM

In assessing AETV'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 AETV to support its claim (including any further information and documents provided in consultation with AETV 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> AETV has not identified any compelling reasons for the Commission to depart from the compensation guidelines in assessing its claim.

### 3.2 Eligibility

AETV is registered with AEMO as a generator and is a party eligible to apply for compensation with respect to its scheduled generating unit, Bairnsdale Power Station. AETV is claiming compensation in relation to its Bairnsdale Power Station.

AETV'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.

AETV's claim is for the periods from 12 June 2022 to 23 June 2022. 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.<sup>9</sup> 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>10</sup> As a result, the following eligibility periods are relevant for determining claims for compensation under clause 3.14.6:\*

5 AEMC, Compensation guidelines, Final guidelines, 21 October 2021.  
[https://www.aemc.gov.au/sites/default/files/documents/final\\_amended\\_compensation\\_guidelines.pdf](https://www.aemc.gov.au/sites/default/files/documents/final_amended_compensation_guidelines.pdf)

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(b) of the NER.

10 Clause 3.14.6(a) of the NER.



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

| <b>TRADING DAY</b>  | <b>QUEENSLAND</b>                 | <b>NSW</b>                        | <b>SOUTH AUSTRALIA</b>                | <b>VICTORIA</b>                    |
|---------------------|-----------------------------------|-----------------------------------|---------------------------------------|------------------------------------|
| <b>12 June 2022</b> | From 6:55pm to end of trading day | -                                 | -                                     | -                                  |
| <b>13 June 2022</b> | Entire trading day                | From 6:35pm to end of trading day | From 10:00pm until end of trading day | From 10:05pm to end of trading day |
| <b>14 June 2022</b> | Entire trading day                | Entire trading day                | Entire trading day                    | Entire trading day                 |
| <b>15 June 2022</b> | Entire trading day                | Entire trading day                | Entire trading day                    | Entire trading day                 |

Note: \* all times specified in this document are 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.<sup>11</sup> AETV's claim includes an eligibility period on 12 June 2022 and 13 June 2022 where AETV, located in Victoria, was affected by price scaling due to the application of the APC in Queensland and New South Wales.

*Reasons why AETV is not eligible for compensation on 12 and 13 June 2022*

AETV's claim includes the eligibility periods from 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.<sup>12</sup>

AETV's calculation only included the costs and revenues earned in trading intervals where it made a net loss. The Commission is required by clause 3.14.6(b) of the NER to consider AETV's eligibility based on total costs and total revenue over each entire eligibility period.

When all relevant costs and revenues are included, AETV has demonstrated that the total costs incurred during the eligibility periods commencing on 14 and 15 June 2022 exceeded the total revenue received from the spot market during those periods. Although AETV has claimed compensation on 12 June and 13 June, it has not demonstrated that it made a net loss in either of these eligibility periods. As a result, AETV is not eligible for compensation for the eligibility periods commencing on 12 June and 13 June 2022.

During the claimant consultation process, AETV proposed that it should be eligible for compensation on 12 June and 13 June 2022 on the basis that the outcome of the eligibility

<sup>11</sup> See clause 3.14.2(e)(2) of the NER.

<sup>12</sup> See clause 3.14.6(a) of the NER. See also definition of 'trading day' in Chapter 10 of the NER.

assessment described above was inconsistent with the stated objectives of the administered pricing compensation framework, which is to maintain the incentive for generators to supply energy during price limit events<sup>13</sup> and, in fact, has the effect of disincentivising generators from making their units available during an administered price period. AETV stated that the eligibility period should not consider all costs and revenues on the trading day, but rather, it should only consider costs and revenues with respect to each trading interval where it made a net loss.

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.<sup>14</sup> 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.<sup>15</sup>

AETV’s request would involve a departure from the NER, rather than a departure from the compensation guidelines and as a result, the Commission does not agree that AETV’s eligibility for compensation can or should be determined in the way proposed by AETV.

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 AETV’s eligibility for compensation payable on 12 and 13 June 2022. The Commission has considered AETV’s total costs and total revenues and has determined that AETV is not eligible for compensation in the eligibility periods of 12 and 13 June 2022.

This is shown below:

**Table 3.2: AETV’s claim per eligibility period**

| <b>ELIGIBILITY PERIOD</b>                         | <b>FUEL</b> | <b>VARIABLE OPERATING AND MAINTENANCE</b> | <b>REVENUE</b> | <b>LOSS</b> |
|---|-------------|---|----------------|-------------|
| 12/06/2022<br>(from 6:55pm to end of trading day) | ██████      | ██████                                    | ██████         | ██████      |
| 13/06/2022<br>(entire trading day)                | ██████      | ██████                                    | ██████         | ██████      |
| 14/06/2022<br>(entire trading day)                | ██████      | ██████                                    | ██████         | ██████      |

13 Clause 3.14.6(c)(1) of the NER.

14 Clause 3.14.6(a) of the NER.

15 Clause 3.14.6(b) of the NER.

| ELIGIBILITY PERIOD                 | FUEL     | VARIABLE OPERATING AND MAINTENANCE | REVENUE  | LOSS     |
|------------------------------------|----------|------------------------------------|----------|----------|
| 15/06/2022<br>(entire trading day) | ████████ | ██████                             | ████████ | ████████ |

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

Part of AETV’s claim is for costs incurred in respect of trading days after 15 June 2022, while the market was suspended. However, for the reasons that follow in this section, and after considering the arguments put forward by AETV, the Commission has determined that 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.<sup>16</sup> In these circumstances, the framework for compensation due to market suspension pricing schedule periods applies, which is administered by AEMO.<sup>17</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>18</sup> AEMO continued to declare administered price periods during the market suspension period as it was required to do because prices in the spot market continued to exceed the CPT.<sup>19</sup>

Even though the administered price period continued through the market suspension period, the spot price was no longer set by the APC during those administered price periods or as a result of price scaling, but rather, was set by the market suspension pricing schedule published by AEMO.

Market participants are only eligible for administered pricing compensation under clause 3.14.6 of the NER in respect of “eligibility periods”.<sup>20</sup> A trading day, or part thereof, is an “eligibility period” if a “price limit event” occurs during that day.<sup>21</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>22</sup> The eligibility period

16 Clause 3.14.5(b) of the NER; being the schedule developed by AEMO pursuant to clause 3.14.5(e) of the NER.  
 17 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 providers due to market suspension pricing schedule periods.  
 18 Clause 3.14.2(b) of the NER.  
 19 Clause 3.14.2(b) of the NER.  
 20 Clause 3.14.6(b) of the NER.  
 21 Definition of ‘eligibility period’ in clause 3.14.6(a) of the NER.

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(b) of the NER<sup>23</sup> and the market suspension pricing schedule published by AEMO.<sup>24</sup> They were not, in any pricing interval after 15 June 2022, set by the APC<sup>25</sup> or, as a consequence, by price scaling.<sup>26</sup>

While the market suspension pricing schedule developed by AEMO (pursuant to AEMO's Market Suspension Pricing Methodology) in fact resulted in spot prices being set, for some intervals, at an amount equal to the APC, and spot prices never exceeding the amount of the APC, this is different to prices being "set by" the APC for the purposes of clause 3.14.6(a) of the NER. For the purposes of clause 3.14.6(a), prices during the market suspension period were properly said to be set by the market suspension pricing schedule, not the APC.

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 claimant consultation process, AETV proposed that it should be eligible for compensation between 16 June and 23 June 2022 on the basis that the Commission's interpretation of the definition of "price limit event" in clause 3.14.6(a) of the NER is erroneous and that spot prices were in fact "set by" the APC during the period of market suspension due to the combined operation of clause 3.14.5(b) of the NER and paragraph 2.2(f) of AEMO's Market Suspension Pricing Methodology.

The AEMC disagrees with this view for the reasons provided above and also disagrees that prices were "set by" the APC within the meaning of clause 3.14.6 during the period of market suspension merely because:

1. paragraph 2.2(f) of the Market Suspension Pricing Methodology (used by AEMO to prepare the market suspension pricing schedule) specifically refers to (and effectively caps prices in the market suspension pricing schedule at) the amount of the APC; or
2. prices during the period of market suspension did not, in practice, exceed the amount of the APC; or

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22 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 the importing region's administered with an adjustment for interconnector losses.

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

24 Under clause 3.14.5 of the NER.

25 Under clause 3.14.2(d1) of the NER.

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

3. prices may have been adjusted under clause 3.14.5(c)(1) of the NER in different circumstances.

Accordingly, the Commission has determined that AETV is not eligible for any compensation under clause 3.14.6 relating to the period after the end of the trading day on 15 June 2022. However, the Commission confirms that AETV's claim meets the eligibility criteria set out in the NER for the eligibility periods comprising the trading days of 14 and 15 June 2022.

### 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 1 below.<sup>27</sup>

**Figure 3.1:** Formula for the total compensation amount

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

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.

<sup>27</sup> Section 5.1.1 of the Compensation guidelines.

## 3.4 Calculation of direct costs

AETV 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 AETV 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.<sup>28</sup>

AETV has claimed compensation for fuel costs incurred during the relevant eligibility period. AETV has also claimed the cost of transportation for gas during this period.

The amount that AETV has claimed for fuel costs is [REDACTED]. This includes the cost of procuring gas, as well as gas transportation costs.

AETV has provided an itemised breakdown of fuel costs on a trading interval basis, along with evidence in the form of usual business documents including receipts and invoices to substantiate the claim.

The Commission has determined that the types of fuel costs being claimed are permitted under the compensation guidelines.<sup>29</sup> Gas transportation costs were incurred by AETV in the process of procuring fuel to run during the APC.

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

However, as discussed in section 3.2 above, the claim for Bairnsdale Power Station includes periods that are not eligibility periods for the purposes of this claim. The Commission has therefore excluded these costs incurred on the trading days of 12 and 13 June 2022, and 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 Bairnsdale Power Station. Also discussed in section 3.2, the claim for Bairnsdale Power Station did not include all costs across the eligibility period. The inclusion of all costs in each eligibility period led to some increases in fuel costs.

The Commission has calculated the fuel costs, in the eligibility periods in which AETV is eligible for compensation, 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>30</sup>

<sup>28</sup> See Clause 3.14.6(e) of the NER and section 5.2.1 of the Compensation guidelines.

<sup>29</sup> See Clause 3.14.6(e) of the NER and section 5.2.1 of the Compensation guidelines.

<sup>30</sup> See clause 3.14.6(e) of the NER and section 5.2.2 of the Compensation guidelines



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

The amount that AETV has claimed is [REDACTED].

AETV has referred to AEMO's 2022 Integrated System Plan inputs assumptions and scenarios workbook to substantiate the claim.

The Commission has determined that the types of operation and maintenance costs being claimed are permitted under the compensation guidelines.<sup>31</sup>

The Commission has reviewed the operation and maintenance costs information provided by AETV 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 Bairnsdale Power Station including periods that are not eligibility periods for the purposes of this claim, the Commission has excluded these costs incurred on the trading days of 12 and 13 June 2022, and after the 15 June 2022 trading day.

Also discussed in section 3.2, the Commission has also considered the costs for Bairnsdale Power Station across the entire eligibility periods. The inclusion of all costs in each relevant eligibility period led to some increases in VOM costs.

The Commission has calculated the operation and maintenance costs, in the eligibility periods in which AETV is eligible for compensation, 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>32</sup>

AETV has not made a claim for 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.

AETV has not made a claim for any excluded costs.

### **3.5 Calculation of actual or potential revenue**

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

#### **Spot market revenue**

<sup>31</sup> See section 5.2.2 of the Compensation guidelines.

<sup>32</sup> See Clause 3.14.6(e) of the NER and section 5.2.3 of the Compensation guidelines.

AETV 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 AETV 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 provided by AETV and confirmed this value with the information provided by AEMO.

As noted in section 3.2, AETV's calculation only included the costs and revenues earned in dispatch intervals where it made a net loss. The Commission is required to assess each entire eligibility period because of the way the eligibility period is defined in clause 3.14.6(a) of the NER and section 5.1.4 of the compensation guidelines.

The Commission has calculated the spot market revenues, in the eligibility periods in which AETV is eligible for compensation, 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>33</sup>

AETV 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>34</sup>

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

## 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

<sup>33</sup> See section 5.1.5 of the Compensation guidelines.

<sup>34</sup> See section 5.1.5 of the Compensation guidelines.



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 compensation is payable by AEMO in relation to AETV's compensation claim.**

The Commission is satisfied that:

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

#### **The Commission has determined that AETV should receive total compensation of \$206,575 (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, operating and maintenance costs and gas transportation 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.<sup>35</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>36</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.

<sup>35</sup> Clause 3.15.10 of the NER.

<sup>36</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 |
| 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>37</sup> and \$15,500 per MWh.<sup>38</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>39</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>40</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 administered price cap (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>41</sup> The AEMC administers this 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>42</sup>

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

38 This amount is the 'market price cap' under clause 3.9.4 of the NER. Under clause 3.9.4(d) of the NER, the MPC must be adjusted in line with the consumer price index each year. At the time of the market events occurring in June 2022, the MPC was \$15,100/MWh. As of 1 July 2022, the MPC is \$15,500/MWh.

39 The CPT represents the limit of aggregate dispatch prices over a period of seven days (2,016 trading intervals). Under clause 3.14.1(e) of the NER, the CPT must be adjusted in line with the consumer price index each year. At the time of the market events occurring in June 2022, the CPT was \$1,359,100. As of 1 July 2022, the CPT is now set at \$1,398,100.

40 Clause 3.14.1 of the NER. On 17 November 2022, the AEMC published a final rule to increase the administered price cap to \$600/MWh. This rule comes into effect on 1 December 2022, and will be in place until the end of 2025. The rule change process will not impact the assessment of or determination of compensation claims made in relation to the June 2022 administered pricing event.

41 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.

42 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>

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).

## 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 <mailto:applications@aemc.gov.au>
  - AEMO at <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 AETV'S COMPENSATION ASSESSMENT PROCESS

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

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

| <b>DATE/TIME</b>           | <b>EVENT</b>                      |
|----------------------------|-----------------------------------|
| 22 June 2022               | Notice of claim received          |
| 1 August 2022              | Supporting information received   |
| 20 October 2022            | Commencement of formal assessment |
| November 2022 - March 2023 | Consultation with claimant        |
| 23 March 2023              | Final decision published          |