

Australian Energy Market Commission

FINAL REPORT

COMPENSATION CLAIM FOR DIRECT COSTS

Braemar Power Project Pty Ltd
Braemar Power Station

06 APRIL 2023

DETERMINATION

INQUIRIES

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ABOUT THE AEMC

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

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SUMMARY

- 1 The National Electricity Rules (NER) under clause 3.14.6 and the Australian Energy Market Commission (AEMC) compensation guidelines set out a process for market participants to claim compensation for certain losses during an administered price period where the administered price cap (APC) or administered floor price is applied. The administered pricing compensation framework is designed to protect participants such as generators, scheduled network service providers, scheduled loads, ancillary service providers and demand response service providers from losses during a price limit event to maintain the incentive for them to continue to supply (or consume) energy or services (as the case may be). In this way, administered pricing compensation supports a reliable supply of electricity to customers during price limit events.
- 2 Braemar Power Project Pty Ltd (Braemar) has made a compensation claim for direct costs in respect of its Braemar Power Station units 2 and 3 following the application of the APC in Queensland, New South Wales and Victoria between 12 June 2022 and 15 June 2022.
- 3 Braemar has claimed a total amount of [REDACTED] for direct costs, which includes fuel costs, operation and maintenance costs and other costs. Braemar has not claimed compensation for costs that have already been subject to an assessment by AEMO.
- 4 The Commission has verified the information submitted by Braemar and with AEMO and made a reduction in the amount of compensation payable. This is for four reasons.
 1. Firstly, AEMO's settlement data for market revenue was higher than the data submitted by Braemar (although this was partially offset by AEMO's settlement data for generation - used for calculating fuel costs - also being higher than submitted by Braemar). The Commission has decided that it is appropriate to use AEMO's data in determining the amount of compensation payable, given any settlement amounts payable to a participant, including spot market revenue, are ultimately calculated by AEMO based on its data.
 2. Secondly, for the variable operation and maintenance costs, the Commission is unable to verify the original amount claimed by Braemar due to the limitation of the supporting documents that Braemar provided. Braemar has provided estimates of forward expenditure to support claims for operation and maintenance costs. The Commission does not consider that this evidence is sufficient to support all of the claims made by Braemar; however, the Commission considers that Braemar has met the eligibility criteria to claim this type of cost. Instead of awarding the costs claimed by Braemar that could not be verified, the AEMC has awarded the amount of variable operating and maintenance costs that are specified in AEMO's ISP inputs, assumptions and scenarios workbook.
 3. Thirdly, Braemar has claimed compensation for the value of start costs which includes escalation of those costs until the time when the maintenance would be required. Given that compensation is paid now, the AEMC has not included future escalation of these costs.

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

5 The Commission has determined that compensation should be paid by AEMO to Braemar in respect of its compensation claim for direct costs, and that the amount of compensation that Braemar is entitled to be paid is \$300,036.

6 The Commission is satisfied that:

- Braemar is eligible to claim compensation in respect of its Braemar Power Station unit 2 and 3 during the administered price period outlined above, for each eligibility period to which its claim relates;
- there is a compelling reason for the Commission to depart from the compensation guidelines in relation to the period of assessment of compensation on 13 June 2022;
- Braemar notified the AEMC and AEMO of its intention to claim compensation in accordance with clauses 3.14.6(h) and (i) of the NER;
- other than the information provided to support its claim for variable operation and maintenance costs, the information provided by Braemar to support and substantiate its claim complies with the compensation guidelines; and
- other than in respect of applying escalation to the start costs claimed, the direct costs claimed by Braemar are consistent with the categories of cost permitted in the compensation guidelines.

7 The total compensation amount of \$300,036 for this direct cost claim over the assessment period is calculated as follows:

- direct costs incurred in the eligibility period(s) which included fuel costs, operation and maintenance costs and other costs in the amount of [REDACTED].
- minus actual revenue from the spot market in the amount of [REDACTED].

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

9 The Commission will write to AEMO to advise of the total amount of compensation payable to Braemar for each relevant eligibility period by trading interval, exclusive of GST. AEMO will then recover the cost of compensation from market customers who purchased energy from the spot market in the relevant eligibility periods in the region(s) in which the administered price period applied.¹

¹ Clause 3.15.10 of the NER.

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1 INTRODUCTION

Administered pricing compensation

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

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

Market events in June 2022

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

The application of the APC in those regions coincided with reductions in the amount of generation bid into the market, resulting in a requirement for AEMO to intervene to maintain system reliability. Ultimately AEMO determined at 2:05pm on 15 June 2022 that it was necessary to suspend the spot market in all regions of the NEM under clause 3.14.3 of the NER. During this period of market suspension, spot prices were 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: Braemar's claim
- Chapter 3: The Commission's assessment of Braemar's 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 Braemar's compensation assessment process

2 BRAEMAR'S CLAIM

2.1 Braemar's claim

On 21 June 2022, Braemar provided notification of its intent to claim compensation in relation to the administered price period in Queensland between 12 June 2022 and 13 June 2022. For the purposes of this claim, this is the administered price period to which the claim relates. This notification was received within the prescribed timeframe in the NER.²

Braemar is claiming compensation for direct costs incurred in operating Braemar Power Station units 2 and 3 in Queensland during the administered price period. Braemar is registered by AEMO as a generator under the NER, and Braemar Power Station units 2 and 3 are classified as scheduled generating units under Chapter 2 of the NER and operate as open cycle gas turbines (OCGT).

Braemar is claiming direct costs in operating the Braemar Power Station during the period commencing 6:55pm on 12 June 2022 and ceasing 9:45am on 13 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.³ Braemar is not claiming compensation over periods for which compensation has already been assessed by AEMO.

2.2 Information provided by Braemar and AEMO

Braemar provided information to the AEMC in accordance with the requirements in the compensation guidelines on 3 August 2022, with further supporting information provided on 6 September 2022.

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

AEMO has also notified the Commission of other forms of compensation that the claimant has sought from AEMO for the relevant period, and confirmed that compensation claims made with AEMO are for different time periods to those claimed from the AEMC for administered pricing. The claims Braemar submitted to AEMO relate to the period from 12:00pm onwards on 13 June 2022 and are related to both the market suspension period (from 15 June 2022) as well as directions issued during the administered price period.

The Commission commenced formal assessment of the compensation claim on 27 October 2022. A chronology of this compensation assessment process is provided in Appendix C.

2.3 Confidentiality

Braemar made a claim for confidentiality in respect of all the information provided, including but not limited to:

² Clause 3.14.6(i) of the NER.

³ Clause 3.14.6(a) of the NER.

- calculation of the total claimable amount in accordance with the compensation guidelines, particulars of its direct costs in accordance with the categories of eligible costs in the compensation guidelines,
- calculation and details of its fuel costs, operation and maintenance costs and other costs (i.e. start costs); and
- the supporting information provided for these costs.

The basis for seeking confidentiality over this information is that the data and information provided are commercially and competitively sensitive and confidential to Braemar.

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.⁴

⁴ Section 24, Australian Energy Market Commission Establishment Act 2004. Section 31 of the National Electricity Law.

3 THE COMMISSION'S ASSESSMENT OF BRAEMAR'S CLAIM

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

- its functions under clause 3.14.6 of the NER
- the compensation guidelines⁵
- its powers under the National Electricity Law
- the information and documents provided by Braemar to support its claim (including any further information and documents provided in consultation with Braemar 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.⁶ The Commission has determined that there is a compelling reason to depart from the compensation guidelines in relation to the period for the assessment of compensation on 13 June 2022. This is described in more detail in section 3.2 below.

3.2 Eligibility

The Commission confirms that Braemar's claim meets the eligibility criteria set out in the NER.⁷

Braemar is registered with AEMO as a generator and is a party eligible to apply for compensation with respect to its scheduled generating units at the Braemar Power Station. Braemar is claiming compensation in relation to its Braemar Power Station units 2 and 3. AEMO has confirmed that these scheduled generating units were dispatched during the APP.

Braemar'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.⁸ 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.⁹ Following AEMO's suspension of the market, prices were set in accordance with the market suspension pricing schedule, and not by the APC.

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

5 AEMC, Compensation guidelines, Final guidelines, 21 October 2021.
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(b) of the NER.

8 Clause 3.14.6(a) of the NER.

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

the spot market during that period.¹⁰ 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).¹¹ 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 AUS- TRALIA	VICTORIA
12 June 2022	From 6:55pm to end of trading day	-	-	-
13 June 2022	Entire trading day	From 6:35pm to end of trading day	From 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, 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.¹²

Braemar's claim is for the eligibility periods from 6:55pm on 12 June 2022 to 9:45am on 13 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.¹³ This means that although Braemar has only claimed compensation until 9:45am on 13 June 2022, the AEMC must take into account all costs incurred and revenues earned until the end of the trading day at 4:00am on 14 June 2022 in assessing Braemar's eligibility for compensation for that eligibility period. The Commission assesses fuel costs, operation and maintenance costs and wear and tear costs. Braemar has demonstrated that the total costs incurred during each eligibility period exceeded the total revenue received from the spot market during that period. The Commission initially assessed fuel costs, and found that Braemar made a net loss based on fuel costs alone.

¹⁰ Clause 3.14.6(b) of the NER.

¹¹ Clause 3.14.6(a) of the NER.

¹² See clause 3.14.2(e)(2) of the NER.

¹³ Clause 3.14.6(a) of the NER. See also definition of 'trading day' in Chapter 10 of the NER.

This is outlined below:

Table 3.2: Braemar's claim per eligibility period

ELIGIBILITY PERI- OD	FUEL	REVENUE	LOSS
12/06/2022 (from 6:55pm to end of trading day)	██████	██████	██████
13/06/2022 (entire trading day)	██████	██████	██████
14/06/2022 (entire trading day)	██	██	██
15/06/2022 (entire trading day)	██	██	██

Braemar is claiming direct costs in operating the Braemar Power Station during the period commencing 6:55pm on 12 June 2022 and ceasing 9:45am on 13 June 2022 through the administered pricing compensation process administered by AEMC. Braemar has notified the AEMC that it has made claims for both directions compensation and market suspension compensation to AEMO for the periods after 12:00pm on 13 June. For the period between 9:45am and 12:00pm, Braemar was not dispatched, and therefore has not made a claim for compensation over this period.

AEMO has notified the Commission that it has processed Braemar's claims through AEMO's directions and market suspension compensation process.

Compelling reason for departing from the compensation guidelines in relation to 13 June 2022

Application of the compensation guidelines to claims arising from the events of June 2022 has highlighted shortcomings that create the potential for adverse compensation scheme outcomes.

While the compensation guidelines contemplate that claimants might have received or be entitled to compensation from other sources in respect of the same events and costs,¹⁴ the events of June 2022 saw a confluence of factors including transmission outages, fuel shortages, coal plant outages and high energy demand produce sustained high energy prices that resulted in extended administered price periods, an extended period of market suspension and the issue of directions by AEMO.

In relation to these events, some market participants have become entitled to payments, or made claims for compensation, from multiple different mechanisms in the NER administered

¹⁴ Section 5.1.5 of the compensation guidelines state that in determining the amount of compensation payable, the Commission may take into account the value of any other sources of compensation 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.

by different market bodies (i.e. AEMO and the AEMC), covering overlapping periods of time and similar categories of costs. It is clear from the compensation guidelines, the AEMC's previous rule determinations and general legal principles that market participants should not be compensated twice for the same losses.

Applying the compensation guidelines in assessing claims which have already been assessed by AEMO would require the AEMC to (in effect) re-make and potentially revise earlier compensation decisions determined, and compensation amounts awarded, by a separate market body. This is because:

- The method set out in the compensation guidelines for taking account of other compensation (which includes any directions and market suspension compensation) requires the AEMC to make a determination in relation to *all* costs and revenues across each eligibility period, which is defined in the NER and the compensation guidelines as an entire trading day (or the period from the first trading interval when a price limit event occurs to the end of the trading day).
- The formula provided in the guidelines for calculating administered pricing compensation contemplates an adjustment to be made for other compensation payable to avoid compensation being paid twice, as follows:

Figure 3.1: Formula for the total claimable amount

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

- Where:
 - TCA = Total Claimable Amount
 - DC_t = Direct costs incurred in the eligibility period(s).
 - OC_t = Opportunity costs incurred over the relevant period of time.
 - REV_t = Actual or potential revenue.
 - OTH_t = Any other adjustments to the amount of compensation payable to be taken into consideration by the Commission.
 - t = relevant period of time for which a claim is being made.
- Application of the formula requires the AEMC to assess costs for the entirety of the eligibility period(s), including sub-periods which are the subject of a separate compensation claim that has already been determined and awarded by AEMO or its Independent Expert. Taking account of the other compensation payable by way of a

deduction of the amount of that other compensation in the formula (through the OTH_t variable) would therefore have the effect of re-making any previous determination(s).

This was, in the AEMC's view, not a circumstance that was specifically envisaged when the compensation guidelines were drafted or last amended.

The AEMC has therefore elected to depart from the compensation guidelines by only assessing Braemar's claim for compensation under clause 3.14.6 of the NER over periods in which compensation has not already been awarded under another process.

The Commission considers this approach appropriate in this case because the compensation awarded to Braemar by AEMO is compensation for "direct costs" under clause 3.14.5B(d), and "net direct costs" under 3.15.7B(a3), of the NER. While those concepts are not necessarily the same in all cases as the "direct costs" referred to in clause 3.14.6 of the NER, the Commission has reviewed the claims made by Braemar to AEMO and confirmed that they cover the same classes of direct costs as Braemar's claim for administered pricing compensation. As a result, if the compensation guidelines were to be applied strictly, the Commission would essentially be assessing the same costs as already assessed under the processes administered by AEMO.

This means that the Commission will assess the periods from 6:55pm on 12 June 2022 to 9:45am on 13 June 2022, and not assess the period from 12:00pm onwards on 13 June 2022 for which compensation has already been determined and awarded by AEMO and its Independent Expert. For the period between 9:45am and 12:00pm, Braemar was not dispatched, and therefore has not made a claim for compensation over this period.

This departure is in accordance with the compensation guidelines' objective to avoid double payment of compensation. It avoids the revision of earlier compensation decisions determined by a separate body, the impacts of which could include:

1. Financial impacts on market participants that have already structured their affairs, and potentially their arrangements with third parties, based on awards made to date; and
2. The duplication of time and effort involved in re-assessing costs that have already been assessed by another body over the same time period under equivalent legislative criteria.

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 3.2 below.¹⁵

¹⁵ Section 5.1.1 of the Compensation guidelines.

Figure 3.2: Formula for the total claimable amount

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

Where:

TCA = Total Claimable Amount.

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

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

REV_t = Actual or potential revenue.

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

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

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

3.4 Calculation of direct costs

Braemar 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 Braemar 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.¹⁶

¹⁶ See Clause 3.14.6(e) of the NER and section 5.2.1 of the Compensation guidelines.

Braemar has claimed fuel costs incurred during the relevant eligibility period. The amount that Braemar has claimed is [REDACTED].

Braemar has provided an itemised breakdown of fuel costs on a trading interval basis, along with evidence in the form of usual business documents such as invoices to substantiate the claim. The Commission engaged with Braemar 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 compensation guidelines.¹⁷

The Commission has reviewed the fuel cost information provided by Braemar and verified certain information with AEMO, including dispatch quantities. During this process, the AEMC found a discrepancy between the data provided by Braemar and AEMO's meter data. The AEMO data for generation and market revenue were slightly higher (in the range of 1-2 MWh per dispatch interval) than the data submitted by Braemar. The Commission has decided that it is appropriate to use AEMO's data in determining the amount of compensation payable as any settlement amounts payable to a participant including spot market revenue are ultimately calculated by AEMO based on its data. 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).¹⁸

Braemar has claimed:

- Variable operating and maintenance cost relating to the advancement of future maintenance requirements; and
- Start costs, including some start costs outside of the administered price period.

The amount that Braemar has claimed is [REDACTED] with the amount of variable operating and maintenance cost being [REDACTED] and the amount of start costs being [REDACTED].

Variable Operating and Maintenance Costs

Braemar has claimed variable operating and maintenance costs of [REDACTED].

Braemar has provided information including future expected capital expenditure relating to work plans and five-year forecasts, signed contracts for previous maintenance, and other associated technical documents to substantiate its claim.

The Commission has reviewed the operating and maintenance costs information provided by Braemar and considers insufficient evidence has been provided to substantiate all the costs being claimed. Specifically, the Commission does not consider that the claimant has provided

¹⁷ See Clause 3.14.6(e) of the NER and section 5.2.1 of the Compensation guidelines.

¹⁸ See Clause 3.14.6(e) of the NER and section 5.2.2 of the Compensation guidelines.

sufficient evidence that the claimed operating and maintenance costs have been directly attributed to the operation of the units during the price limit event. The APC compensation guidelines exclude direct costs that cannot be attributed to the operation of the unit during the price limit event.

However, the AEMC considers that Braemar is eligible for compensation for some variable operating and maintenance costs. Therefore, instead of allowing the costs claimed by Braemar that could not be attributed to the operation of the relevant units during the price limit event, the AEMC has allowed the amount of variable operating and maintenance costs that are specified in AEMO's ISP inputs, assumptions and scenarios workbook. For Braemar, this is \$11.05/MWh.¹⁹ Using this methodology, the AEMC has calculated that variable operating and maintenance costs are [REDACTED].

Start Costs

Braemar has claimed start costs of [REDACTED].

The Commission has reviewed the start costs calculation and evidence provided by Braemar and considers sufficient evidence has been provided to substantiate the cost being claimed; however, an adjustment has been made by The AEMC to the calculation.

The AEMC verified the number of starts that Braemar claimed for Braemar Power Station units 2 and 3. The AEMC also verified the amount being claimed through the information provided by Braemar, including business documents and extracts of service agreements.

Braemar has claimed compensation for start costs that were incurred ahead of the commencement of the administered price period on 12 June 2022. Section 5.2.4 of the compensation guidelines state that start costs incurred outside of the price limit event are not permissible to include in the total calculation of the total claimable amount. The AEMC has therefore excluded start costs claimed earlier than 6:55pm on 12 June 2022.

Braemar has claimed compensation that includes escalation of start costs until the time that maintenance would be required. The AEMC does not agree that escalation should be included in the compensation because compensation is to be paid in the present. Excluding the escalation of costs to the future, the Commission has calculated the start costs to be [REDACTED].

General wear and tear

In accordance with the compensation guidelines, claimants may claim compensation for general wear and tear directly attributable to the pattern of operation during the relevant trading intervals.²⁰

Braemar has not made a claim for general wear and tear costs.

Excluded costs

¹⁹ <https://aemo.com.au/en/energy-systems/major-publications/integrated-system-plan-isp/2022-integrated-system-plan-isp/current-inputs-assumptions-and-scenarios>

²⁰ See Clause 3.14.6(e) of the NER and section 5.2.3 of the Compensation guidelines.

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, Braemar has made a claim for start costs incurred outside of the price limit event. Braemar has not provided a compelling reason based on extraordinary circumstances as to why these costs should be included. These costs have been therefore excluded from calculation of the compensation payable.

Braemar has not made a claim for any other 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

Braemar 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 Braemar has received in respect of the period for which compensation has been claimed.

The Commission has reviewed this information and found a minor difference between the spot market revenue data provided by Braemar versus that provided by AEMO. As outlined in section 4.1.2 of the compensation 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 AEMO data for generation and market revenue were in some instances slightly higher (in the range of 1 – 2 MWh per dispatch interval) than the data submitted by Braemar. The Commission has decided that it is appropriate to use AEMO's data in determining the amount of compensation payable as any settlement amounts payable to a participant including spot market revenue are ultimately calculated by AEMO based on its data.

This results in an increase of [REDACTED] in the spot market revenue to take account of the differences in the data submitted by Braemar and as verified by AEMO. Using AEMO's data, Braemar's total spot market revenue for the eligibility periods being claimed 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.²¹

Braemar 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.²²

Braemar and AEMO have provided information on other compensation received during the administered price period for which this claim relates.

As discussed in section 3.2, in its claim, Braemar only claimed compensation through the administered pricing compensation process for the period before 9:45am on 13 June 2022. Braemar was directed to run by AEMO on the afternoon and evening of 13 June 2022, and has submitted claims to AEMO for compensation in respect of that later period.

As discussed in section 3.2, the Commission has determined that there is a compelling reason to depart from the compensation guidelines in relation to the assessment of compensation for periods where compensation has already been assessed on 13 June 2022. The Commission has not included periods that are the subject of a separate determination by AEMO's independent expert of compensation payable to Braemar. This has the effect of taking into account any other sources of compensation in a way that avoids double payment of compensation and the re-making of the existing compensation assessment.

3.7 Recovery of the AEMC's costs

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

See Appendix B for details on cost recovery.

3.8 Conclusions

The Commission has determined that Braemar is entitled to be paid by AEMO in relation to its compensation claim.

The Commission is satisfied that:

- Braemar is eligible to claim compensation in respect of its Braemar Power Station during the administered price period outlined above, for each eligibility period to which its claim relates;

²¹ See section 5.1.5 of the Compensation guidelines.

²² See section 5.1.5 of the Compensation guidelines.

- there is a compelling reason for the Commission to depart from the guideline in relation to the assessment of compensation for periods where compensation has already been assessed on 13 June 2022.
- Braemar notified the AEMC and AEMO of its intention to claim compensation in accordance with clauses 3.14.6(h) and (i) of the NER;
- other than the information provided to support its claim for variable operation and maintenance costs, the information provided by Braemar to support and substantiate its claim complies with the compensation guidelines;
- other than in respect of the future value of start costs, the direct costs claimed by Braemar are consistent with the categories of cost permitted in the compensation guidelines.

The Commission has determined that Braemar is entitled to and should receive total compensation of \$300,036 (exclusive of GST) in respect of its claim.

This total compensation amount of \$300,036 for this direct cost only claim is calculated as follows:

- direct costs incurred in the eligibility period(s) which included fuel costs, operation and maintenance costs and other 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.²³

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.²⁴

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.

²³ Clause 3.15.10 of the NER.

²⁴ 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 \$1,000²⁵ and \$15,500 per MWh.²⁶

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)²⁷ is exceeded, an administered price cap of \$600 per MWh and/or administered floor price of -\$600 per MWh is applied to spot prices.²⁸

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

- the MPC was \$15,100/MWh²⁹
- the CPT was \$1,359,100; and³⁰
- the APC was \$300/MWh.³¹

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 any losses 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

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

26 This amount is the 'market price cap' (MPC) 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 July 2022, the MPC is \$15,500/MWh.

27 The CPT represents the limit of aggregate dispatch prices over a period of seven days (2016 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.

28 Clause 3.14.1 of the NER.

29 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.

30 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.

31 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.

price is set by the APC during an administered price period.³² 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).³³

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).

32 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)) and for ancillary service providers where the ancillary service price for a trading interval is set by the APC during an administered price period.

33 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
 - AEMO at
 - 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 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 BRAEMAR'S COMPENSATION ASSESSMENT PROCESS

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

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

DATE/TIME	EVENT
21 June 2022	Notice of claim received
3 August 2022 and 6 September 2022	Supporting information received
27 October 2022	Commencement of formal assessment
February 2023 - March 2023	Consultation with claimant
6 April 2023	Final decision published