

1 February 2024

Tom Meares
Australian Energy Market Commission (AEMC)

Submitted via www.aemc.gov.au

Dear Mr Meares,

Review into electricity compensation frameworks (EPR0095)

Hydro Tasmania welcomes the opportunity to respond to the consultation paper for the *Review into electricity compensation frameworks (EPR0095)*. As the National Electricity Market (NEM) becomes more complex it is essential to have clear, transparent, and functional compensation frameworks for use during times of market stress. Considering the energy crisis in 2022, Hydro Tasmania considers it timely to conduct the Review.

Hydro Tasmania believes the intended objectives of the three electricity compensation frameworks under review are appropriate and we agree with the AEMC's observation that the objectives of the administered pricing compensation (APC) and market suspension compensation (MSC) frameworks were not achieved in the June 2022 events. We also agree that participants' unfamiliarity with the MSC and APC frameworks likely contributed to their ineffectiveness during this time. The heavy use of the directions compensation (DC) framework suggests participants preferred to utilise compensation frameworks they were already familiar with, thus making it challenging to understand whether the same outcome would occur should a similar event happen again.

Hydro Tasmania supports the general direction of the Review and two specific changes to the frameworks: (1) the inclusion of opportunity cost as a compensable cost in all three frameworks; and (2) increased codification and clarity on the procedure for implementation of the frameworks and claims processes. These points are discussed further below, and we look forward to providing further feedback as specific options are presented later in the consultation process.

(1) Inclusion of opportunity cost as a compensable cost

As mentioned in the paper, the objective of the APC and MSC frameworks is to maintain incentives for generators to continue to supply energy during times of market stress – *'The [APC] framework is designed so that a participant is indifferent about participating in the market during an APP'*. Hydro Tasmania agrees with and supports the intent of this objective. However, currently the APC

framework is the only one to include opportunity costs as compensable costs; both the MSC and Directions compensation (DC) frameworks do not. Whilst opportunity cost is not included and valued accurately across all frameworks, the incentive to maintain supply during times of market stress will differ between participants. Supply costs for some participants (e.g. hydropower and Battery Energy Storage Systems) are more heavily influenced by opportunity costs than others and failure to include opportunity cost as a compensable cost in all frameworks will result in the frameworks having an unequal burden across participants, with some being unable to claim full compensation. If participant costs are not adequately covered their willingness to participate in the market during times of stress will decrease. Dispatchable energy like hydropower and batteries assist in alleviating lack of supply during supply shortfalls and not being able to claim opportunity costs during times of market stress will further complicate market signals and reliability outcomes during these times. For these reasons, Hydro Tasmania supports the inclusion opportunity costs as compensable costs in all three frameworks. Hydro Tasmania is keen to see further detail on how opportunity costs will be calculated to ensure foreseeability/transparency.

(2) Increased clarity on frameworks and claims processes

We appreciate the work of the AEMC, AEMO and other bodies during the June 2022 market events and acknowledge it was an unprecedented time in the NEM. However, the conflicting interpretation of the frameworks led not only to reduced stakeholder confidence but to an actual under-compensation in the case of some generators, which is contrary to the objective of the frameworks.

Hydro Tasmania was informed by governing bodies we could claim under either the MSC or APC frameworks. However, upon processing our claim we were informed that we should have claimed under both frameworks as the APC framework does not cover the market suspension period. Due to the timelines for claim submission, this resulted in Hydro Tasmania being unable to claim under the MSC framework and we understand we are not the only participant to have this or a similar experience. Hydro Tasmania suggests that if a similar event occurred again, the governing body/s should focus on consistency, both in communication of process and then implementation of the frameworks as initially communicated to participants. Whilst we understand governing bodies were refining and developing their knowledge on the application of overlapping frameworks as events transpired, communicating one interpretation of the framework and then implementing a different process results in a lack of trust and increased uncertainty amongst participants.

Whilst it is difficult to base reforms off a single event/use of the frameworks, we believe there are several low-cost opportunities for improvement in the administration and governance of the frameworks. These would greatly improve participants trust and confidence in the compensation procedure, along with streamlining administrative process for both participants and governing bodies.

Recommended changes include:

- Clearer timelines for submitting and processing claims, especially overlapping claims.
- Procedure documents to assist participants with submitting claims.
- A case study/example of how overlapping claims function across all frameworks.
- Aligning definitions of cost categories across all compensation frameworks.

- Having one governance body for all frameworks (Hydro Tasmania supports AEMO being the single governing body).

Hydro Tasmania is pleased to see this Review commence and looks forward to engaging with the AEMC as the process progresses. We welcome the opportunity to discuss any aspect of this submission further. If you wish to discuss, please contact Dani Williams at danielle.williams@hydro.com.au.

Yours sincerely,



Alex Beckitt
Head of Strategic Policy