



INFORMATION

AUSTRALIAN ENERGY MARKET COMMISSION LEVEL 15, 60 CASTLEREAGH STREET SYDNEY NSW 2000
T: 02 8296 7800 E: AEMC@AEMC.GOV.AU W: WWW.AEMC.GOV.AU

Our draft recommendations will improve the electricity compensation frameworks

We have made 14 draft recommendations to improve the electricity compensation frameworks

The Australian Energy Market Commission (AEMC or Commission) has made 14 draft recommendations to improve the directions, administered pricing and market suspension compensation frameworks.

If implemented, they will provide a more predictable and administratively simple compensation regime and ensure that the frameworks provide the correct incentives to support reliability and security during periods of system and market stress.

Compensation frameworks need to work well to ensure good reliability and security outcomes

The Commission considers that the compensation frameworks are an important part of ensuring system security and reliability during periods of market stress. To achieve these outcomes, the frameworks need to:

- be predictable and administratively simple
- provide the correct incentives to participants to support reliability and security during times of system and market stress.

Our recommendations consider a range of issues across the three frameworks

For each of the electricity compensation frameworks, the Commission has assessed the objectives, methodologies, governance and administrative structures.

We have considered whether there are opportunities to better align the frameworks, as well as whether further clarity is required about how specific types of claims apply to different technologies.

The Commission has made 14 draft recommendations

Based on the valuable experience from the June 2022 market events, as well as stakeholder feedback, the AEMC has developed draft recommendations to improve the compensation frameworks. The Commission's draft recommendations reflect the broader assessment framework for this review, which encompasses:

- strengthening incentives for participants to encourage efficient behaviour
- reducing unnecessary complexity and inconsistency between the frameworks
- streamlining administration to create greater certainty regarding the processes involved.

Objectives

The Commission is making a draft recommendation to include a formal objective for directions compensation in the NER. Adding an objective will clarify how participants should be compensated when directed to supply. We consider that it is important to recognise the difference between being directed to supply and encouraged to supply during times of market stress which warrant different compensation objectives.

Methodologies

Our draft recommendation is to allow for participants to claim for opportunity costs for directions, administered pricing and market suspension compensation. This will allow all

three frameworks to meet their objectives, allow generators to recover their costs of supplying during times of market stress and recognise the value foregone by doing so.

We are also making a draft recommendation that upfront compensation for directions should be based on the volume-weighted average price (VWAP) received by the relevant technology type in the relevant region over the previous 12 months. This would replace using the 90th percentile price for each region over the previous 12 months.

Further, the upfront compensation payment for market suspension should be the greater of the market suspension pricing schedule and the upfront directions payment (calculated using the VWAP) to simplify the compensation process. This change would remove the benchmarking approach used for upfront market suspension compensation.

Governance

Following the events of June 2022, stakeholders highlighted that the different governance approaches across the three frameworks created confusion for participants seeking compensation payments. To address this, the Commission is making draft recommendations to:

- establish the Australian Energy Market Operator (AEMO) as a single point for participants to lodge all claims for compensation
- have the independent expert assess all claims for administered pricing compensation including direct costs
- have the independent expert assess all claims for opportunity costs.

The current independent expert processes will remain for directions and market suspension compensation claims. The Commission will retain responsibility for developing guidelines on opportunity cost claims.

Administrative

The Commission notes that, alongside the above issues, the June 2022 events also highlighted a range of administrative issues that were creating complexity and confusion for market participants. To address these, the Commission is making draft changes to the way compensation payments are calculated for administered pricing compensation, and proposes introducing a timeframe for administered pricing compensation claims.

We seek stakeholder feedback on our 14 draft recommendations.

We are seeking stakeholder feedback on the 14 draft recommendations which must be lodged with the Commission by **26 September 2024**.

Process for this review

In November 2023, we self-initiated this review to improve the compensation frameworks. Stakeholder feedback through formal submissions and discussions has been critical to the development of the Commission's draft recommendations.

We intend to publish a final report in December 2024. Implementation of any recommendations from this review will require a subsequent rule change process.

For information contact:

Senior Adviser, **Tom Meares** 8296 0674

Director, **Kate Wild** 8296 0622

Media enquiries: media@aemc.gov.au

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