



Tom Meares
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000
Lodged online at <http://www.aemc.gov.au/>

26 September 2024

Dear Mr Meares,

Draft report - Review into electricity compensation frameworks (EPR0095)

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission ("the Commission") in response to the Draft report - Review into electricity compensation frameworks ("the Draft Report").

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas, and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

Harmonisation of the compensation frameworks will improve market efficiency

ENGIE agrees with the core premise of the Draft Report that harmonisation of the compensation frameworks - where appropriate - makes sense. It will give market participants greater clarity over how the frameworks operate and allay any concerns that participant behaviour is driven by differences between different compensation frameworks. ENGIE also agrees that the underlying goal of the frameworks is to incentivise efficient participation in the market while providing adequate compensation for generators. As such, we agree with the proposed new frameworks for compensation is set out in the Draft Report except to the extent noted below.

Directions objective should recognise the future possibility of frequent directions

ENGIE has extensive experience of the directions regime and agrees with the importance of a clear objective for the directions compensation framework. We understand the Commission's position is that the security frameworks reforms should materially reduce the frequency of directions for system security that have persisted for several years in South Australia. Nonetheless, we consider it would be valuable for the framework to allow for the possibility of frequent directions in the future - after all, no-one foresaw the level of directions that would occur in South Australia or the length of period on which AEMO would be

reliant on directions to maintain system security. To that end, we suggest a minor change to the objective so that it refers to the “costs associated with complying with directions” rather than “costs associated with complying with a direction”. This would better allow scope for the consideration of recovery of longer term direct costs if the situation should arise again where a generator has very frequent directions imposed on it.

Use of the previous 12 months’ VWAP for up front compensation

ENGIE notes that it is challenging to select an optimal benchmark that allows for a reasonable up front compensation payment. The underlying premise of the previous 12 months’ volume-weighted average price (VWAP) for the relevant technology type is that the technology would only have bid in and been dispatched at a price that at least recovers its short run marginal costs (SRMC). There would often also be occasions where it was not the marginal plant and so would also have captured some revenues above SRMC. For this reason, we strongly support removing dispatch intervals where relevant plant was directed on from the benchmark calculation.

However, there are limitations to this underlying logic. The intermittent nature of renewables means that less flexible plant may be obliged to seek dispatch at prices below SRMC during the daytime in order to be able to contribute to supply adequacy in the evening. More importantly, government intervention in the market, however well-intentioned, has reached chronic levels. At least some plant in most technology types (coal, renewables, storage) is now dependent on some out of market revenue, whether from formal schemes (such as the Renewable Energy Target, the NSW Roadmap contracts, or the Capacity Investment Scheme) or ad hoc government support (such as Snowy 2.0 or the coal plant extension deals). Thus, there can be no confidence that market revenue benchmarks represent conditions of revenue adequacy.

Technology-based benchmarks could also suffer from distortions if there is only one or two plants of that type in a region, or if the plant is a new technology type, so there is no historic data on which to draw. Several such examples already exist, assuming technologies will be classified as per AEMO’s generation information, including Storage – Other, Solar thermal (two types), Hydro – Other and Solar PV – Dual Axis.

Other technology types may face different cost structures depending on the fuel. So, Turbine - Steam Super Critical in Queensland includes coal plants and biomass plants. Future hydrogen plants will presumably have higher costs than existing gas turbines but will share the same benchmark.

Importance of allowing additional compensation where the upfront amount is inadequate

For all these reasons, the backstop for all compensation frameworks must be to allow claims for additional costs when the benchmark proves insufficient. Consistent with the proposed objectives, this should include both direct costs and opportunity cost in all three cases, and we support the harmonisation of the definitions of direct costs. While the categories of direct costs should cover most situations it would be prudent to allow for any other costs that an applicant can reasonably demonstrate to be directly related to the claim. We see value in requiring AEMO to develop more detailed guidance, noting that we have had to provide the same explanations of why we have sought direct costs on multiple occasions, as different independent experts have been appointed. Further work may also be required to robustly define opportunity cost, while still allowing appropriate flexibility for applicants.

Adequate time should be allowed for additional compensation claims to be made

We agree with the sentiment in the Draft Report that additional compensation claim processes should not drag on, with both applicants and the participants who will ultimately pay for the claims both benefitting from a speedy resolution. However, the proposed deadline for such claims is unduly short, and it would be preferable to allow time for claimants to make good quality claims with all the relevant supporting information. In this light we recommend a 45 day window for the claims.

A final minor matter is that businesses seem to receive no communication once a payment is made and where there are multiple claims underway it can be challenging to work out which period a payment has been received for. It is important to ensure payments can be clearly tracked and amounts are well-communicated.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0477 299 827.

Yours sincerely,

A handwritten signature in black ink that reads "Jamie Lowe". The signature is written in a cursive, slightly stylized font.

Jamie Lowe

Head of Regulation,
Compliance, and Sustainability