

Consultation paper

National Electricity Amendment (Improving Compensation Frameworks) Rule

Proponents

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Tilt Renewables

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About the AEMC

The AEMC reports to the energy ministers. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the energy ministers.

Acknowledgement of Country

The AEMC acknowledges and shows respect for the Traditional Custodians of the many different lands across Australia on which we live and work. The AEMC office is located on the land of the Gadigal people of the Eora nation. We pay respect to all Elders past and present, and to the enduring connection of Aboriginal and Torres Strait Islander peoples to Country.



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Summary

- 1 The Australian Energy Market Commission (AEMC or Commission) is consulting on three rule change requests proposing changes to the National Electricity Market's (NEM) compensation frameworks for administered pricing, directions, market suspension, and scheduling errors.
- 2 Efficient and effective compensation frameworks are important for providing confidence to market participants to continue supplying services during market intervention periods. Increased confidence allows the NEM to operate smoothly during periods of market stress, thereby promoting reliability and security.

We are initiating three rule change requests that propose changes to compensation frameworks

- 3 The Australian Energy Market Operator (AEMO) submitted a rule change request on 1 December 2025 proposing changes to the compensation frameworks in line with the recommendations from the AEMC's *Review into electricity compensation frameworks* (the compensation review). AEMO also proposed additional changes to the compensation frameworks, which have not been previously consulted on.
- 4 Tilt Renewables submitted a rule change request on 14 March 2023 to allocate costs to consumers for directions for storage plant to consume energy for the purposes of ensuring reliability at a later point. Tilt Renewables submitted another rule change request on 14 March 2023 to impose a \$0/MWh price floor on spot prices for the purposes of compensating participants for scheduling errors.

Our compensation review made recommendations to improve compensation frameworks

- 5 The extreme volatility and subsequent market suspension of June 2022 put the compensation frameworks for all three types of directions, market suspension and administered pricing under a significant amount of strain. The AEMC therefore self-initiated a review into these frameworks, which we completed on 12 December 2024.
- 6 We made numerous recommendations that, if implemented, would:
 - ensure the compensation frameworks provide the right objectives and correct incentives to support reliability and security during times of system and market stress
 - provide clear and transparent methodologies that support the compensation objectives and promote efficiency and effectiveness
 - streamline governance, reducing unnecessary complexity and inconsistencies
 - provide predictable and administratively simple compensation regimes, including through alignment where practicable.
- 7 The rule change requests from AEMO and Tilt Renewables would, if implemented, give effect to most of the recommendations of the compensation review.
- 8 Where relevant, this consultation paper refers to the Commission's recommendations in the compensation review on proposed changes. For more information on the Commission's reasoning and stakeholder views, refer to the final report of the compensation review.
- 9 In recognition of the stakeholder consultation conducted in the compensation review, we will consider previous stakeholder feedback in assessing the rule change requests, where appropriate.

We have consolidated these rule change requests

- 10 Due to all three of these rule change requests proposing changes to the compensation frameworks, we have consolidated these rule change requests into a single rule change project under section 93 of the National Electricity Law (NEL).

We propose to assess the rule change requests using three criteria

- 11 Considering the National Electricity Objective and the issues raised in the rule change requests, the Commission proposes to assess the rule change requests against three assessment criteria:
- **Principles of market efficiency:** Promoting incentives for ongoing participation in the market and promoting productive and allocative efficiency for unit commitment and dispatch. This minimises the need for AEMO intervention and facilitates the continued function of the market.
 - **Implementation considerations:** Appropriately balancing implementation costs with benefits. Solutions to reduce complexity have potential benefits, but should be implemented in a simple, low-cost manner.
 - **Principles of good regulatory practice:** Ensuring compensation frameworks are predictable and transparent to improve confidence in the market and future-proof these frameworks.
- 12 We are seeking feedback on our proposal to assess the rule change requests against these assessment criteria.

Submissions are due by 30 April 2026 with other engagement opportunities to follow

- 13 There are multiple options to provide your feedback throughout the rule change process. We are particularly interested in stakeholder feedback on new issues or proposed changes, or targeted areas we have highlighted in this paper. These matters are highlighted in the consultation question boxes. Stakeholders are also welcome to provide feedback on any other issues, solutions, or matters relating to the compensation frameworks.
- 14 Written submissions responding to this consultation paper (project code ERC0425) must be lodged with the Commission by 30 April 2026 via the Commission's website, www.aemc.gov.au.
- 15 There are other opportunities for you to engage with us, such as one-on-one discussions or industry briefing sessions. See the section of this paper titled "How to make a submission" for further instructions and contact details.

Full list of consultation questions

Question 1: How should upfront compensation be calculated?

We are seeking stakeholder feedback on the proposed approaches for upfront compensation, particularly in relation to:

- issues relating to the calculation of the VWAP, as previously raised by stakeholders and noted by the Commission in the compensation review
- whether the rules should outline the VWAP methodology or if this should form part of the AEMC's compensation guidelines

- AEMO's proposal to include a fixed cost adjustment for upfront directions compensation.

Question 2: Should cost recovery arrangements for administered pricing compensation be clarified?

We are seeking stakeholder feedback on AEMO's proposal to clarify the cost recovery arrangements for administered pricing compensation.

Question 3: Should costs of capacity directions be recovered solely from consumers?

We are seeking stakeholder views on whether costs of capacity directions compensation should be recovered solely from consumers.

How should capacity directions be defined for the purposes of changed compensation cost recovery? Are there any issues that arise from distinctly defining capacity directions?

Question 4: Should cost recovery calculations apply to all trading intervals in which directions apply?

We are seeking stakeholder feedback on whether cost recovery calculations should be generalised to apply to all trading intervals in which AEMO has issued a direction, not just those with intervention pricing.

Question 5: How should AEMO and the independent expert receive and assess claims?

We are seeking stakeholder feedback on the proposed administrative and governance changes. We are particularly interested in views on:

- a minimum threshold for the value of compensation claims in order to be submitted
- the minimum thresholds for the value of compensation claims to be referred to the independent expert, including what the value(s) should be and whether thresholds should be consistent across compensation frameworks.

Question 6: What improvements can be made to the independent expert process?

We are seeking stakeholder feedback on the materiality of issues, and potential solutions, relating to the independent expert process, such as the selection process of the independent expert.

Question 7: How long should the time limit be to provide supporting information and lodge claims for additional compensation?

We are seeking stakeholder feedback on the appropriate length for a time limit across frameworks to provide supporting information or submit an additional compensation claim.

Question 8: Do stakeholders see value in aligning supporting information requirements?

Question 9: Should AEMO need to determine eligibility for participants to submit a compensation claim for other compensable services?

We are seeking stakeholder views on the issue raised by AEMO and AEMO's proposed solution.

Question 10: Should there be changes to reporting on the breakdown of compensation and RERT costs?

AEMO has proposed to remove specific requirements to report on the cost recovery of compensation and RERT costs by participant category, as AEMO can no longer do this practically nor accurately following the *Integrating energy storage systems into the NEM* rule change. We are seeking stakeholder feedback on the issue raised by AEMO, AEMO's proposed solution, and any alternative solutions.

Question 11: Do stakeholders see merits that outweigh costs in consolidating the drafting of the compensation frameworks under a single NEM clause?

We are seeking feedback from stakeholders on whether they see reduced regulatory burden and more streamlined processes arising from consolidating the various compensation frameworks under a single rule in the NEM.

Question 12: Do stakeholders see merit in the proposed imposition of a \$0/MWh price floor for the purposes of compensating scheduling errors?

We are seeking stakeholder feedback on Tilt Renewables' proposal to implement a \$0/MWh price floor for scheduling error compensation and the implications of IESS rule amendments.

Question 13: Do stakeholders agree with the assessment criteria proposed for this rule change?

We are seeking stakeholder feedback on the assessment criteria provided above, which we propose to use to inform decision-making through this rule change process.

How to make a submission

We encourage you to make a submission

Stakeholders can help shape the solutions by participating in the rule change process. Engaging with stakeholders helps us understand the potential impacts of our decisions and, in so doing, contributes to well-informed, high quality rule changes.

We have included questions in each chapter to guide feedback, and the full list of questions is above. However, you are welcome to provide feedback on any additional matters that may assist the Commission in making its decision.

How to make a written submission

Due date: Written submissions responding to this consultation paper must be lodged with Commission by 30 April 2026.

How to make a submission: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code ERC0425.¹

You may, but are not required to, use the stakeholder submission form published with this consultation paper.

Tips for making submissions are available on our website.²

Publication: The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential, or that we consider inappropriate (for example offensive, defamatory, vexatious or irrelevant content, or content that is likely to infringe intellectual property rights).³

For more information, you can contact us

Please contact us with questions or feedback at any stage, noting the project code.

Email: aemc@aemc.gov.au

Telephone: (02) 8296 7800

1 If you are not able to lodge a submission online, please contact us and we will provide instructions for alternative methods to lodge the submission.

2 See: <https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/submission-tips>

3 Further information is available here: <https://www.aemc.gov.au/contact-us/lodge-submission>

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1 The context for this rule change request

The Australian Energy Market Commission (AEMC or Commission) is assessing rule changes requests from the Australian Energy Market Operator (AEMO) and Tilt Renewables. The requests propose amendments to the electricity compensation frameworks for directions, market suspension, administered pricing, and scheduling errors.

This consultation paper covers all three requests, as they all relate to the electricity compensation frameworks. Furthermore, with the overlapping issues we have consolidated all three requests.

We are seeking stakeholder feedback on the rule change requests. Stakeholder submissions are due by 30 April 2026.

This chapter outlines:

- the rule change requests received from AEMO and Tilt Renewables, as well as the AEMC's *Review into electricity compensation frameworks* completed in December 2024
- other projects and stakeholder feedback that are concerned with minimum system load (MSL) directions.

1.1 We are progressing three rule change requests to reform the compensation framework

Three rule change requests submitted by AEMO and Tilt Renewables seek to make improvements to the National Electricity Market's (NEM) compensation frameworks for directions, market suspension, administered pricing and scheduling errors. These proposals are broadly in line with the recommendations of the AEMC's *Review into electricity compensation frameworks* (the compensation review). Tilt's other rule change request relating to scheduling errors, however, does not pertain to issues considered in the review, but is being consolidated as it relates to compensation more broadly.

This section provides a brief summary of:

- the AEMC's compensation review
- AEMO's rule change request
- Tilt Renewables' rule change requests.

Chapter 2 includes more information on the proposed changes to the compensation frameworks.

1.1.1 The AEMC completed a review of the NEM's compensation frameworks

On 12 December 2024, the AEMC completed a *Review into electricity compensation frameworks* (the compensation review) and made numerous recommendations to improve the NEM's compensation frameworks.⁴

The compensation review was self-initiated by the AEMC following the disruptive market events of June 2022 and the extensive application of the compensation frameworks.⁵ During the compensation assessment processes for the 2022 events, a number of issues were identified with the various compensation frameworks and how they worked together.

The AEMC made recommendations in the compensation review that sought to:⁶

4 The project page can be found [here](#).

5 AEMC, *Review into electricity compensation frameworks* - final report, p. ii.

6 AEMC, *Review into electricity compensation frameworks* - final report, p.i.

- ensure the compensation frameworks provide the right objectives and correct incentives to support reliability and security during times of system and market stress
- provide clear and transparent methodologies that support the compensation objectives and promote efficiency and effectiveness
- streamline governance, reducing unnecessary complexity and inconsistencies
- provide predictable and administratively simple compensation regimes, including through alignment where practicable.

Collectively, the recommendations would, if implemented, promote better outcomes for consumers and improved reliability, security, and cost outcomes during periods of market stress.⁷

Many of the recommendations are included in AEMO's and Tilt Renewable's rule change requests, which are discussed below and in chapter 2. However, several minor recommendations and items recommended to be considered further from the compensation review were not included in the rule change requests.

For more information, refer to the AEMC's final report for the compensation review.

1.1.2 AEMO submitted a rule change request to implement recommendations from the compensation review

On 1 December 2025, the AEMC received a rule change request from AEMO that proposed a range of changes to the compensation frameworks. AEMO sought to clarify, align and streamline compensation frameworks to support the orderly and efficient operation of the NEM, by:⁸

- providing market participants with confidence that they would be appropriately compensated for providing services during periods of market stress
- providing stakeholders with confidence that the electricity system would continue to operate despite disruption
- reducing the cost and effort of preparing, lodging, administering, and assessing claims.

The changes proposed in the rule change request are broadly aligned with the recommendations from the compensation review. The request also includes several new proposals to improve the compensation frameworks, most notably a restructuring of the NER to consolidate Rules relating to each of the compensation frameworks. AEMO considers that this would reduce the complexity of the compensation claims process, in addition to allowing market participants to submit a single claim for a trading day when they are directed to both import and export energy.⁹

For more information on the proposed issues and solutions, refer to AEMO's rule change request. AEMO has also provided indicative rule drafting that reflects its proposed changes to the NER.¹⁰

1.1.3 Tilt Renewables submitted a rule change request regarding the cost recovery methodology for capacity directions

On 14 March 2023, the AEMC received a rule change request from Tilt Renewables regarding the cost recovery of compensation for capacity directions.¹¹

⁷ AEMC, *Review into electricity compensation frameworks* - final report, p. i..

⁸ AEMO, Rule Change Request – Aligning Compensation Frameworks, p.3.

⁹ AEMO, Rule Change Request - Aligning Compensation Frameworks, p. 3..

¹⁰ AEMO's indicative rule drafting can be found here.

¹¹ Tilt Renewables' rule change request can be found [here](#)

Currently, compensation for directions for services other than energy or ancillary services is recovered from both generators and customers, based on their share of net generation.¹² This includes ‘capacity directions’, which are directions for storage plant to consume energy for the purposes of ensuring reliability at a later point.¹³

Tilt Renewables considers that the allocation of costs for capacity directions is inefficient, as generators that were available during low reserve periods bear some of the costs while the sole beneficiary of capacity directions are customers due to increased reliability.¹⁴ Accordingly, Tilt Renewables proposed that only customers should bear the costs of capacity directions. This would make recovery of compensation for capacity directions similar to the treatment of compensation for energy and ancillary service directions.¹⁵

The AEMC’s compensation review included a recommendation for costs associated with capacity directions to be recovered from customers.¹⁶ AEMO’s rule change request does not support this proposal, as there are currently no separate classifications for capacity directions.¹⁷

For more information on the issue and the proposed rule change, refer to Tilt Renewables’ Capacity Directions cost recovery rule change request and section 6.4.3 of the compensation review.

1.1.4 Tilt Renewables submitted a rule change request to impose a floor price for compensation of scheduling errors

On 14 March 2023, the AEMC received another rule change request from Tilt Renewables regarding compensation for scheduling errors.¹⁸

This Scheduling Error rule change request sought to impose a \$0/MWh floor to the spot prices that are used to determine compensation for scheduling errors.¹⁹

Tilt Renewables considered that the growth in the incidence of negative prices means participants may see their compensation for scheduling errors eroded by negative prices, since additional revenue streams such as Large-scale Generation Certificates mean generators may have a short-run marginal cost less than \$0/MWh, and will therefore generate through some negative price periods.

For more information on the issue and the proposed rule change, refer to Tilt Renewables’ Scheduling Error rule change request.²⁰

1.2 We have consolidated all three rule changes and are using the standard rule change process

We have consolidated the rule change requests from AEMO and Tilt Renewables. This is because all three rule change requests propose changes to the NEM’s compensation frameworks.

12 NER clause 3.15.8(g), which refers to Cost Recovery Market Participants, which includes entities registered as generators, integrated resource providers and customers (in this context, customers are primarily retailers).

13 AEMO, NEM Event Directions Report 10-23 June 2022 (Supplementary Report), p. 6.

14 Tilt Renewables, Rule Change Request – Recovery of Funds for Capacity Directions, p.4.

15 Tilt Renewables, Rule Change Request - Recovery of Funds for Capacity Directions, p. 4..

16 AEMC, *Review into electricity compensation frameworks* – final report, pp.38-39.

17 AEMO, Rule Change Request - Aligning Compensation Frameworks, p. 8.

18 Tilt Renewables’ rule change request can be found [here](#).

19 NER clause 3.16.2(h).

20 Tilt Renewables’ rule change request can be found [here](#).

We are progressing these rule change requests through the standard rule change process. While a fast-tracked rule change process was recommended in the compensation review, there are aspects of AEMO's rule change request that we did not consult on through the review. Accordingly, the fast-tracked rule change process is not applicable.

A standard rule change request includes the following formal stages:

- a proponent submits a rule change request
- the Commission commences the rule change process by publishing a consultation paper and seeking stakeholder feedback
- stakeholders lodge submissions on the consultation paper and engage through other channels to make their views known to the AEMC
- the Commission publishes a draft determination and draft rule (if relevant)
- stakeholders lodge submissions on the draft determination
- the Commission publishes a final determination and final rule (if relevant).

Information on how to provide your submission and other opportunities for engagement is set out in the executive summary. More information on the rule change process can be found on our website.²¹

To make a decision on these proposals, we are seeking stakeholder feedback on how we propose to assess the requests, the stated problems and the proposed solutions.

Stakeholder submissions to this consultation paper are due by 30 April 2026.

1.3 We are proposing to not consider specific changes to compensation for MSL directions

We are not proposing to consider bespoke changes to the compensation frameworks that relate specifically to minimum system load (MSL) conditions. We understand that stakeholders have previously expressed concerns about the management of MSL conditions, including the suitability of the compensation frameworks in relation to directions or constraining actions.²²

In the compensation review, the Commission recognised stakeholder concerns and considered:²³

- AEMO should continue to work with stakeholders on its approach to addressing MSL, to seek to resolve issues and stakeholder concerns
- directions should be used as a mechanism of 'last resort', and that the transitional services framework is the appropriate mechanism to procure services to manage MSL
- the Commission's recommendations (such as allowing additional claims for opportunity costs for directions) would mitigate some concerns regarding compensation for MSL
- the use of constraining tools for system security purposes raises questions that extend beyond compensation for participants.

We note that none of the consolidated rule change requests for this consultation process proposed changes to compensation that specifically relate to managing MSL. Therefore, our view is that matters relating to the specific compensation for managing MSL are out of scope for this rule change process.

21 Refer to the AEMC's webpage on changing the energy rules, found [here](#).

22 AEMC, Review into electricity compensation frameworks – final report, pp.19-20. See also submissions to the draft report of the compensation review: AEC, pp.1-2; AGL, p.1; Alinta, p.2; Atmos Renewables, p.2; CEC, p.1; CS Energy, pp.4-5; EnergyAustralia, p.2; Shell Energy, p.2; Tesla, p.1.

23 AEMC, Review into electricity compensation frameworks – final report, pp.20-21.

We also consider that other developments and reforms may reduce the need for specific changes to compensation for managing MSL and/or provide alternative options for AEMO to manage MSL conditions that reduce the need for compensation. These include:

- The proposed changes to the compensation frameworks outlined in this consultation paper. Compensating directed participants based on a technology-based volume-weighted average price and allowing additional claims to include opportunity costs may, if implemented, improve confidence for participants directed to manage MSL conditions. We are consulting on these proposed changes through this consultation paper and are seeking stakeholder feedback and views.
- The use of the transitional services framework, where AEMO has sought to procure type 1 transitional services for Victorian and South Australian batteries.²⁴ We expect that the use of transitional services will reduce or replace the use of directions, which may reduce concerns and issues regarding directions compensation in relation to managing MSL. Note that AEMO is also currently seeking expressions of interest for type 1 and type 2 transitional services to manage MSL.²⁵
- The CEC's rule change request lodged on 20 June 2025 to introduce an MSL reserve service as a new market ancillary service.²⁶ While the AEMC has not yet initiated this rule change request, it would likely thoroughly consider approaches that may further reduce the need for directions and constraining actions to manage MSL. Accordingly, this may mitigate compensation issues relating to managing MSL. It may also be more appropriate for that rule change (compared to this compensation rule change process) to assess any changes to compensation for participants alleviating MSL conditions in parallel to broader reforms.
- As part of the 2026 Reliability Standard and Settings Review, the Reliability Panel is considering the role and impact of the market floor price in addressing MSL conditions.²⁷ In particular, the Panel has made a draft recommendation to automatically set the spot price at the market floor price (MFP, currently -\$1000/MWh) during MSL3 events.²⁸ This is intended to incentivise market participants to alleviate MSL3 conditions, as well as for rooftop PV systems to temporarily curtail exports and/or increase energy consumption. While we do not pre-empt the Panel's final recommendations nor any resultant rule change requests, the draft recommendation (if retained) could provide an additional avenue for reforms to manage MSL and alter the necessity of compensation for participants directed to alleviate MSL conditions.

24 AEMO's Statement of Need for MSL Transitional Services can be found [here](#). Note that type 1 transitional services are services are required for power system security and cannot otherwise be procured through an existing framework.

25 AEMO's current Statements of Need for type 1 and type 2 transitional services for MSL can be found [here](#) and [here](#) respectively.

26 Refer to the AEMC's project page for *Minimum System Load reserve service*, found [here](#).

27 Reliability Panel AEMC, 2026 Reliability Standard and Settings Review – issues paper, p.33.

28 Reliability Panel AEMC, 2026 Reliability Standard and Settings Review, draft report, p. 35.

2 We are seeking feedback on proposed changes to the compensation frameworks

We are consulting on three rule change requests that are proposing changes to the compensation frameworks and are seeking stakeholder feedback. The categories of proposed changes are:

- introducing a formal objective for directions compensation
- changes to the calculation and cost recovery of compensation payments
- improvements to governance and process matters
- broader alignment of the compensation frameworks through re-structuring the NER.

This chapter outlines the proposed changes to the compensation frameworks from all three rule change requests, many of which are based on the Commission's recommendations in the compensation review.

We recognise that there was significant stakeholder consultation undertaken through the compensation review and on the Commission's recommendations, which are broadly covered in AEMO's rule change request. This chapter provides a summary of the proposed changes, including where they are consistent with or differ from the recommendations in the compensation review. For more information on issues or proposed changes, refer to the rule change requests and/or the final report of the compensation review.

We are interested in all feedback and views from stakeholders relating to the issues raised in the rule change requests and options to improve the compensation frameworks. However, we are particularly interested in stakeholder views on matters raised in the rule change requests that were not consulted on in the compensation review, or where the rule change requests differ from the Commission's previous recommendations. We encourage stakeholders to provide feedback on these matters, which are highlighted in the consultation question boxes.

We are proposing, where and if appropriate, to consider submissions to the compensation review in this process. General stakeholder views in relation to the compensation review are noted throughout this chapter. Submissions to this consultation paper will still be a critically important factor in our decision-making. Thus, we encourage stakeholders to provide submissions to this consultation paper to express their current views and feedback on proposed changes to the compensation frameworks.

2.1 The AEMO request proposes to introduce a formal objective for the directions compensation framework

The administered pricing and market suspension compensation frameworks have explicit objectives to maintain the incentive to supply services during price limit events and market suspension periods.²⁹

AEMO's rule change request includes the addition of an explicit objective for the directions compensation framework.³⁰ This is consistent with the AEMC's recommendation in the compensation review.³¹

29 NER clause 3.14.6(c) and 3.14.5A(a).

30 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.17.

31 AEMC, Review into electricity compensation review – draft report, p.ii.

The Commission recommended the addition of an explicit objective to provide clarity on the aim of the directions compensation framework.³² Additionally, this objective should be distinct from the administered pricing and market suspension objectives, due to the differing nature of directions as a market intervention.³³

The Commission's recommended directions compensation framework objective was to³⁴

enable directed participants to be compensated for the costs associated with complying with a direction.

Stakeholders broadly agreed with this recommendation in submissions to the draft report of the compensation review.

2.2 AEMO proposes changes to improve the calculation of compensation payments

This section outlines proposed and recommended changes to the compensation frameworks relating to the determination and calculation of compensation payments.

2.2.1 We are seeking feedback on harmonising the calculation of upfront compensation payments

In its rule change request, AEMO proposed changes to upfront compensation that are generally in line with the Commission's recommendation.³⁵ However, AEMO proposed for upfront compensation for directions to be based on the volume-weighted average price (VWAP) and a fixed cost adjustment.

AEMO considered that only using the VWAP may under-compensate directions for plant to synchronise or operate at their minimum operating level, for which a fixed cost adjustment would provide appropriate compensation. AEMO proposed fixed cost adjustments differ by technology type and would be calculated by independent experts for each financial year in line with a methodology set out in the AEMC's compensation guidelines.³⁶

It is worth noting that AEMO's proposal to include a fixed cost adjustment could:

- reduce risks of under-compensation (which participants can manage by seeking additional compensation), but increase risks of over-compensation which are borne by consumers
- create an additional difference between the upfront compensation approaches for directions and market suspension, which may have impacts on market participant incentives and behaviours.

In relation to the VWAP, AEMO also raised questions regarding:³⁷

- over-compensation for plant when there is a small number of extreme prices that affect the VWAP
- approaches to calculating the VWAP when there are few data points, such as for limited generation of a technology type or for new technology types
- how dual fuel plant or integrated systems be considered.

32 AEMC, Review into electricity compensation review – draft report, p.ii.

33 AEMC, Review into electricity compensation review – final report, p.7.

34 AEMC, Review into electricity compensation - final report, p. 7.

35 AEMO, Rule Change Request – Aligning Compensation Frameworks, pp.17-19.

36 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.19.

37 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.18.

In the compensation review, the Commission made a recommendation to harmonise and use a volume-weighted average price (VWAP) methodology for upfront compensation.³⁸ Stakeholders broadly supported this proposal in submissions to the draft report.

The Commission recommended a methodology where the VWAP would be calculated by technology type and region over a rolling 12-month period. This would be applied to:³⁹

- **Directions compensation:** The VWAP approach would replace the 90th percentile approach for upfront compensation⁴⁰
- **Market suspension compensation:** Upfront compensation for a unit would be calculated based on the greatest of the market suspension price and the relevant VWAP for that unit, replacing the current benchmarking approach.⁴¹

A harmonised VWAP approach would improve the cost reflectivity of upfront compensation to support the relevant compensation objectives (to incentivise supply) and strike a better balance of the risks of under or over-compensation. It would also simplify unnecessary complexity in the frameworks and ensure any plant dispatched in a market suspension is no worse nor better off than if it were directed. This proposal reflects and builds on recommendations the Commission made in the compensation review.

The Commission recommended calculating the VWAP over a 12-month period (instead of a different timeframe) as it would reasonably reflect plant costs, not be overly volatile, and provide a large dataset to calculate the VWAP.⁴² Additionally, the Commission considered the calculation of the VWAP should exclude periods where any plant of a technology class in a region is being dispatched due to a direction.⁴³ This is because spot prices during periods where plant are being directed may not reflect plant costs, meaning the inclusion of such periods could undermine the VWAP for upfront compensation.

Where the VWAP approach under-compensates a participant, they would still be able to seek additional compensation as per the current arrangements (subject to other changes proposed in this consultation paper).

Stakeholders broadly supported the Commission's recommendation in submissions to the draft report of the compensation review. The Commission noted several other issues raised by stakeholders that should be considered in the rule change process, including:⁴⁴

- including or excluding periods from the VWAP calculation where AEMO deployed system services contracts or used constraining tools
- how the VWAP should be calculated for storage technologies
- the suitability of the VWAP approach where the sample size is small or non-existent to calculate the VWAP (such as new technology types, few plant of the same technology in the same region, plant that are dispatched infrequently)
- the potential for manipulation of the VWAP and compensation amounts, which could be partly addressed by capping the VWAP at the APC.

38 AEMC, Review into electricity compensation review – final report, p.11.

39 AEMC, Review into electricity compensation review – final report, pp.14-18.

40 Specifically, this would apply to directions for the provision of energy or market ancillary services. See clause 3.15.7(c).

41 The benchmarking approach is outlined in NER clause 3.14.5A.

42 AEMC, Review into electricity compensation review – final report, pp.17.

43 AEMC, Review into electricity compensation review – final report, pp.18.

44 AEMC, Review into electricity compensation review – final report, pp.18.

There may be benefits for establishing a VWAP methodology procedure, overseen by AEMO, to address specific details that may not be suitable to be included within the NER or should be allowed to be flexibly changed with market circumstances.

Question 1: How should upfront compensation be calculated?

We are seeking stakeholder feedback on the proposed approaches for upfront compensation, particularly in relation to:

- issues relating to the calculation of the VWAP, as previously raised by stakeholders and noted by the Commission in the compensation review
- whether the rules should outline the VWAP methodology or if this should form part of the AEMC's compensation guidelines
- AEMO's proposal to include a fixed cost adjustment for upfront directions compensation.

2.2.2 AEMO proposes harmonising compensable direct costs across all frameworks

AEMO's rule change request proposes that the definitions of direct costs be harmonised across all compensation frameworks, consistent with recommendations in the compensation review.⁴⁵

In the compensation review, the Commission recommended that the definitions for direct costs be harmonised across all frameworks. This would improve consistency in the compensation arrangements and reduce confusion among stakeholders. Currently, the frameworks differ on the types of costs that can be claimed as direct costs:

- **Administered pricing compensation:** fuel costs, and operating, maintenance, wear and tear costs attributable to the pattern of operation in the relevant periods⁴⁶
- **Directions compensation:** fuel costs, incremental manning and maintenance costs, and acceleration and delay costs of maintenance work incurred to comply with the direction⁴⁷
- **Market suspension compensation:** fuel costs, incremental manning and maintenance costs, and other direct costs reasonably incurred to supply services during the market suspension.⁴⁸

The Commission previously considered that direct costs should include, for the relevant periods:⁴⁹

- energy input costs⁵⁰
- operating and maintenance costs directly attributable to the relevant pattern of operation to provide services, including acceleration or delay costs of maintenance work
- wear and tear directly attributable to the relevant pattern of operation
- other costs incurred in connection with the relevant claimant operating.

The Commission also previously considered that the list of direct cost categories should not be exhaustive, with stakeholders noting other potential direct costs include voiding of warranties and life cycle costs and shortened asset lives for batteries.⁵¹

45 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.20.

46 Refer to the AEMC's compensation guidelines.

47 NER clauses 3.15.7A(g)(3) and 3.15.7B(a3).

48 NER clause 3.14.5B(d)-(d1).

49 AEMC, Review into electricity compensation frameworks – final report, p.35.

50 Referring to fuel costs as energy input costs would better account for storage units.

51 AEMC, Review into electricity compensation frameworks – final report, p.36.

Stakeholders generally supported harmonising the definitions for direct costs in submissions to the draft report of the compensation review.

2.2.3 We are considering allowing opportunity costs to be claimed across all frameworks

In its rule change request, AEMO proposes for participants to be able to claim opportunity costs across all compensation frameworks, consistent with recommendations in the compensation review.⁵²

In the compensation review, the Commission recommended that participants be able to claim compensation for opportunity costs across all frameworks.⁵³

The Commission's recommendation sought to keep participants whole where value from alternative opportunities is lost due to providing services, regardless of the type of intervention.⁵⁴ Most stakeholders expressed strong support for this recommendation in submissions to the draft report of the compensation review.

Under the current arrangements, if any initial upfront compensation is insufficient, participants can claim compensation for:

- **Administered pricing compensation:** direct and opportunity costs⁵⁵
- **Directions compensation:** direct costs, loss of revenue, and relevant contractual arrangements (for directions services other than energy or market ancillary services)⁵⁶
- **Market suspension compensation:** direct costs⁵⁷

Therefore, changes would need to be made to include opportunity costs in the market suspension compensation framework and amend the directions compensation framework from 'loss of revenue' to 'opportunity costs'.

As discussed in section 2.4.1, the compensation review recommended that opportunity cost claims would be assessed by independent experts in line with the AEMC's compensation guidelines. The review also recommended work to review the compensation guidelines to clarify the method for assessing opportunity costs, which will support independent experts in calculating opportunity costs and provide greater certainty to participants.

2.2.4 We are considering assessing administered pricing compensation in a more targeted manner

AEMO's rule change request proposes that administered pricing compensation claims be assessed on a trading interval basis and on an individual unit basis.⁵⁸ This proposal is consistent with the compensation review recommendations.

In the compensation review, the Commission recommended that administered pricing compensation claims be assessed in a more targeted manner.⁵⁹ Specifically, administered pricing compensation should be assessed on a trading interval (within an eligibility period) and individual unit level basis.

52 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.20.

53 AEMC, Review into electricity compensation frameworks – final report, p.i.

54 AEMC, Review into electricity compensation frameworks – final report, p.12.

55 NER clause 3.14.6(d).

56 NER clauses 3.15.7A(g) and 3.15.7B(a).

57 NER clause 3.14.5B(a).

58 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.20.

59 AEMC, Review into electricity compensation frameworks – final report, p.28.

This recommendation would address various issues, including perverse incentives for participants. Under the current arrangements, administered pricing compensation is assessed based on net revenue for an entire eligibility period and across all of a claimant's units that make up a claim.⁶⁰ As a result, participants can have incentives that do not align with the objective of the compensation framework.⁶¹

The Commission considered that its recommendation to amend these arrangements could increase compensation payments by consumers, but the additional reliability benefits and alignment of incentives and compensation objectives would be in the long-term interests of consumers.⁶²

Stakeholders were also broadly supportive of the recommendation in submissions to the draft report of the compensation review.

2.3 We are assessing changes to improve the cost recovery of compensation payments

This section outlines proposed and recommended changes to the compensation frameworks relating to the cost recovery of compensation payments.

2.3.1 We are considering clarifying cost recovery for administered pricing compensation

In its rule change request, AEMO proposed clarifications for the cost recovery of administered pricing compensation, which should be determined on a trading interval basis and with costs recovered from the region where the price is set by the APC.⁶³ This proposal is consistent with recommendations from the compensation review.

In the compensation review, the Commission recommended that the NER be clarified regarding the cost recovery of administered pricing compensation.⁶⁴ Specifically, the Commission considered costs should be recovered on a trading interval basis from the region where the price is set by the administered price cap (APC). Note that a region where the price is set by the APC is also referred to as a home region or cost recovery region in this context.

This would differ from the current arrangements, where cost recovery is based on the cost recovery region for each eligibility period, but would be clearer for more complex administered pricing periods and compensation (such as during the events of June 2022). It would also be in line with the policy intent of the *Compensation arrangements following application of an administered price cap and administered floor rule change*.⁶⁵

The Commission considered that the current NER is unclear on how cost recovery should function when the spot price is set by the APC in an eligibility period or in a trading interval and there are multiple cost recovery regions. The Commission outlined several scenarios for how cost recovery should work.⁶⁶

- single cost recovery region

60 NER clause 3.14.6(b); see also AEMC, *Final decision – Snowy Hydro direct and opportunity cost claim*, 16 May 2024, pp.13-14 where the Commission applied NER clause 3.14.6(b) and assessed compensation across all units that made up a claim.

61 For more information, refer to the AEMC, *Review into electricity compensation frameworks – final report*, pp.28-31.

62 AEMC, *Review into electricity compensation frameworks – final report*, p.28.

63 AEMO, *Rule Change Request – Aligning Compensation Frameworks*, p.21.

64 AEMC, *Review into electricity compensation frameworks – final report*, p.36.

65 The AEMC project page for the *Compensation arrangements following application of an administered price cap and administered floor rule change* can be found [here](#).

66 For more information, refer to AEMC, *Review into electricity compensation frameworks – final report*, pp.36-37.

- multiple cost recovery regions including the claimants' region
- multiple cost recovery regions not including the claimants' region
- multiple cost recovery regions with claimant facilities in multiple regions

The Commission's recommendation and views on scenarios can be generalised to the following policy position and intent for cost recovery of administered pricing compensation:

- cost recovery is assessed on trading interval basis
- for administered pricing compensation for a claimant's unit that is:
 - in a home region, costs are recovered from that region
 - not in a home region, costs are recovered from each home region based on the proportion of total demand between all home regions.

Stakeholders generally supported this recommendation in submissions to the draft report of the compensation review.

Question 2: Should cost recovery arrangements for administered pricing compensation be clarified?

We are seeking stakeholder feedback on AEMO's proposal to clarify the cost recovery arrangements for administered pricing compensation.

2.3.2 We are seeking feedback on recovering capacity directions compensation costs from consumers

As discussed in section 1.1.3, Tilt Renewables submitted a rule change request on 14 March 2023 that seeks to amend the cost allocation for directions to storage plant to consume energy for the purposes of ensuring reliability at a later point in time.⁶⁷ These types of directions are referred to as 'capacity directions' in the rule change request, however note that these directions are not defined in the NER.

In particular, Tilt proposes for the costs of capacity directions to be borne solely by consumers, as consumers are the beneficiaries of increased reliability.⁶⁸ Under the current arrangements, the costs are borne by both generators and consumers as directions for services other than energy or ancillary services.⁶⁹

In the compensation review, the Commission made a recommendation for costs associated with capacity directions to be recovered from consumers.⁷⁰ The Commission considered that this would align with the principle of recovering costs from the beneficiaries of an intervention and avoid potential perverse incentives for generators to reduce output when capacity directions are in place. Stakeholders were generally supportive of the recommendation in submissions to the draft report.

AEMO's rule change request does not propose to implement this change. AEMO agrees with the issue in theory, but considers the separation of capacity directions for the purposes of cost recovery would create additional complexity and set a precedent for separating categories of directions. AEMO also considers there are broader issues with the allocation and recovery of non-energy costs in the NEM, which should be addressed either in a separate rule change or review.

⁶⁷ Tilt Renewables, Rule Change Request – Recovery of Funds for Capacity Directions, p.4.

⁶⁸ Tilt Renewables, Rule Change Request – Recovery of Funds for Capacity Directions, p.4.

⁶⁹ NER clause 3.15.8(g).

⁷⁰ AEMC, Review into electricity compensation frameworks – final report, p.38.

We have consolidated Tilt Renewable's and AEMO's rule change requests. Therefore, we are seeking stakeholder feedback on whether to define capacity directions in the NER and allocate associated compensation costs solely to consumers.

Question 3: Should costs of capacity directions be recovered solely from consumers?

We are seeking stakeholder views on whether costs of capacity directions compensation should be recovered solely from consumers.

How should capacity directions be defined for the purposes of changed compensation cost recovery? Are there any issues that arise from distinctly defining capacity directions?

2.3.3 We are seeking feedback on clarifying cost recovery calculations for directions compensation

In its rule change request, AEMO notes that the current arrangements for directions compensation cost recovery are based on energy input and output during 'intervention price trading intervals'.⁷¹ However, intervention pricing is not always triggered by directions under NER clause 3.9.3. We understand that this can create confusion and a lack of clarity for how directions compensation costs should be allocated when directions do not trigger intervention pricing.

To address the issue, AEMO proposes to generalise the cost recovery calculations for directions to cover all trading intervals in which services are provided pursuant to a direction.⁷²

Question 4: Should cost recovery calculations apply to all trading intervals in which directions apply?

We are seeking stakeholder feedback on whether cost recovery calculations should be generalised to apply to all trading intervals in which AEMO has issued a direction, not just those with intervention pricing.

2.4 We are assessing changes to improve compensation governance and administration

This section outlines proposed and recommended changes to the compensation frameworks relating to governance and administrative matters.

2.4.1 We are seeking feedback on who should receive and assess compensation claims

In the compensation review, the Commission recommended that AEMO should receive all compensation claims to reduce unnecessary confusion and complexity for participants submitting claims.⁷³ Under the current arrangements, AEMO receives compensation claims for directions and market suspension, while the AEMC receives compensation claims for administered pricing.

71 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.21.

72 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.21.

73 AEMC, Review into electricity compensation frameworks – final report, p.23.

The Commission also recommended that AEMO and the independent expert assess all compensation claims to ensure consistency across compensation frameworks. The Commission considered that claims be referred to the independent expert for:⁷⁴

- Market suspension compensation if the value of the claim is greater than or equal to \$50,000⁷⁵
- Directions compensation for energy or market ancillary services if:⁷⁶
 - the value of the claim is greater than or equal to \$20,000, and
 - the additional intervention claim that includes the claim is greater than \$100,000.
- Directions compensation for services other than energy or market ancillary services if:⁷⁷
 - the value of the claim is equal to or greater than \$20,000, or
 - AEMO considers that the claim is unreasonable, or
 - AEMO considers that the assessment of the claim involves issues of complexity or difficulty.
- Administered pricing compensation claims
- Opportunity cost claims under any compensation framework.

The cumulative effect of this recommendation would be to reassign the AEMC's role in receiving and assessing administered pricing compensation claims, to AEMO and the independent expert. In recognition of the complexity in assessing opportunity cost claims, it was recommended the Commission retain its role in publishing guidelines on opportunity cost claims, which would apply to independent experts. These recommendations were broadly supported by stakeholders in submissions to the draft report of the compensation review.

In its rule change request, AEMO proposes to give effect to the Commission's recommendation. In addition, AEMO proposes to:

- Require compensation claims exceeding a \$10,000 threshold to be submitted, to ensure the costs of assessing a compensation claim do not exceed the value of the claim.⁷⁸ This represents a change from the \$5,000 threshold currently for directions compensation for energy or market ancillary services.⁷⁹ AEMO considers the \$10,000 to be more appropriate, given the \$5,000 threshold was determined in 2005 and has not been changed to account for inflation.
- Allow AEMO to recover costs from a claimant for assessing all compensation claims.⁸⁰ Currently, the AEMC and AEMO may recover the costs of assessing market suspension and administered pricing claims.⁸¹
- Introduce a consistent threshold to refer claims to the independent expert, set at \$50,000 (the current threshold for market suspension compensation claims).⁸² This would not apply to opportunity cost claims, which would all be assessed by the independent expert.

74 AEMC, Review into electricity compensation frameworks – final report, p.24.

75 This is consistent with current arrangements, see NER clause 3.14.5B(f)(1).

76 This is consistent with current arrangements, see NER clause 3.15.7B(c)(1).

77 This is consistent with current arrangements, see NER clause 3.15.7A(h).

78 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.22.

79 NER clause 3.15.7B(a4).

80 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.22.

81 NER clauses 3.14.5B(e) and 3.14.6(v).

82 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.16.

Question 5: How should AEMO and the independent expert receive and assess claims?

We are seeking stakeholder feedback on the proposed administrative and governance changes. We are particularly interested in views on:

- a minimum threshold for the value of compensation claims in order to be submitted
- the minimum thresholds for the value of compensation claims to be referred to the independent expert, including what the value(s) should be and whether thresholds should be consistent across compensation frameworks.

2.4.2 We are seeking feedback on improvements to the independent expert process

In submissions to the compensation review, stakeholders suggested to:⁸³

- improve transparency in the process for the selection of an independent expert from the independent expert panel
- clarify the scope of roles and engagement/reporting obligations regarding independent experts
- clarify how independent expert fees are calculated and how costs are recovered across frameworks
- clarify value of opportunity costs.

In the final report of the compensation review, the Commission considered these items could be addressed in the rule change process following the review. While none of the rule change requests directly referenced these items, we consider that amendments to the independent expert process may be within scope as consequential changes to improve the compensation frameworks, relating to the issues raised in the rule change requests. These items are discussed below.

Note that the role of the independent expert in assessing claims is discussed in section 2.4.1.

Question 6: What improvements can be made to the independent expert process?

We are seeking stakeholder feedback on the materiality of issues, and potential solutions, relating to the independent expert process, such as the selection process of the independent expert.

We are seeking views on issues and solutions for the selection process of an independent expert

The current process for the selection of an independent expert is outlined in NER clause 3.12.3:

1. if a matter is referred to an independent expert, AEMO must publish a notice of its proposed nominee as independent expert and, subject to an objection, appoint that nominee
2. participants have 3 business days to object to AEMO's nominee
3. if more than 25% of participants with claims referred to the independent expert object to AEMO's nominee, AEMO must, as soon as reasonably practicable, request the AEMC to nominate an independent expert
4. if requested, the AEMC must, within 3 business days, nominate an independent expert to be appointed by AEMO.

⁸³ AEMC, Review into electricity compensation frameworks – final report, p.25. See also submissions to the draft report of the compensation review: Atmos Renewables, p.1; EnergyAustralia, p.1; Shell Energy, p.6.

We are seeking stakeholder feedback on several potential issues with this process:

- There are no criteria, principles, or guidance for who AEMO or the AEMC can nominate as an independent expert. While it is expected that AEMO or the AEMC nominate an independent expert that is suitable and appropriate to assess compensation claims, this is not required in the NER and could reduce confidence from participants.
- AEMO maintains a panel of independent experts, which has benefits in providing it with known, suitable options for independent experts.⁸⁴ However, there are no NER requirements for the size or maintenance of the panel, creating potential risks or uncertainty if AEMO has few to no options for independent experts from the panel.⁸⁵
- The requirement for the AEMC to nominate an independent expert in response to a valid objection poses certain practical issues, including:
 - Short timeframes for the AEMC to assess options and nominate an independent expert, particularly given that the AEMC has no other role in relation to independent experts (except rule-making). This increases reliance on AEMO's panel of independent experts to choose a nominee, as there is limited time to appropriately assess other options.
 - Uncertainty and risks regarding the costs of the independent expert nominated by the AEMC if AEMO does not have an existing contract or fee agreement with them. This is because AEMO must appoint the AEMC's nominee and the AEMC has no role in contractual negotiations between AEMO and the independent expert.

We are seeking stakeholder feedback on these potential issues in the selection process of the independent expert, and are interested in potential solutions. For example, potential solutions could be to introduce NER requirements for AEMO to maintain a panel with a minimum number of independent experts, and/or require AEMO (instead of the AEMC) to nominate a different independent expert following a valid objection.

We are seeking stakeholder feedback on issues regarding independent expert costs

The NER does not outline how fees for independent experts should be calculated. Fees are determined through contractual agreements between AEMO and independent experts. We note that fee agreements are likely to be commercially sensitive or confidential, meaning it may not be appropriate to clarify how fees are calculated. We are interested in stakeholder views on this point.

We note that the NER outlines how costs are recovered for independent expert assessments in relation to directions and market suspension compensation claims.⁸⁶ Specifically, costs are recovered from consumers based on their proportion of demand and regional benefit (for the relevant intervention and determined by AEMO).

We are interested in stakeholder views on whether the current rules are sufficiently clear on how independent expert costs are recovered, and whether the current approach should be extended to administered pricing and opportunity cost compensation if the independent expert were to assess them.

⁸⁴ AEMO publishes information on the independent expert panel on its website [here](#).

⁸⁵ For reference, we note that only two independent experts have been appointed to assess compensation claims since October 2023.

⁸⁶ NER clauses 3.15.8 and 3.15.8A.

It was proposed that opportunity costs be assessed in line with the compensation guidelines

In its rule change request, AEMO proposed that this role be expanded such that the independent expert consider opportunity cost claims.⁸⁷ AEMO's proposal is that the AEMC's compensation guidelines determine how the independent expert consider opportunity costs. We are interested in stakeholder views on whether this would provide sufficient clarity regarding the value of opportunity costs.

The roles and obligations of the independent expert are outlined in the NER

The role and obligations of the independent expert in assessing compensation claims is outlined in clause 3.12.3 of the NER. Additionally, the factors the independent expert must consider in determining compensation amounts are outlined in NER clauses 3.12.2(a), 3.14.5B, 3.15.7A, and 3.15.7B.⁸⁸ We are interested in stakeholder feedback on how these roles and obligations should be clarified.

2.4.3 We are seeking feedback on harmonising and extending time limits for compensation claims

AEMO's rule change request proposes changes to the time limits for compensation claims.⁸⁹ The proposed changes are partly consistent with recommendations from the compensation review, with some differences. The proposed and recommended changes are described below, and we are seeking stakeholder feedback on AEMO's proposal.

In the compensation review, the Commission recommended that all compensation claims have the same time limit to submit supporting information and lodge claims for additional compensation.⁹⁰

Under the current arrangements, the administered pricing compensation framework does not have a time limit to provide supporting information for a claim, which is different to the directions and market suspension frameworks.⁹¹ As outlined in the compensation review, there would be benefits for having a clear time limit in the administering pricing compensation framework.⁹²

In submissions to the draft report of the compensation review, stakeholders broadly supported consistent time limits across frameworks. However, stakeholders raised concerns that the current 33 business day time limit to provide supporting information (under the directions and market suspension frameworks) was too short.⁹³

The review recommended:⁹⁴

- **Administered pricing compensation claims:** Claimants have 60 business days from the end of the billing week to provide supporting information.
- **Directions and market suspensions compensation claims:** Claimants have 42 business days to lodge a claim for additional compensation after the date on which provisional compensation is notified. As provisional compensation is notified after 18 business days, this would create a timeline of 60 business days for information to be provided.

87 AEMO, Rule Change Request - Aligning Compensation Frameworks, p. 17.

88 These NER clauses will apply depending on the type of compensation being claimed.

89 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.23.

90 AEMC, Review into electricity compensation frameworks – final report, p.28.

91 NER clauses 3.14.5B(a) and 3.15.7B(a)

92 AEMC, Review into electricity compensation frameworks – final report, p.32.

93 See submissions to the draft report of the compensation review: AEC, p5; AGL, p.5; CS Energy, p.3; Shell, p.5; Snowy Hydro, p.5.

94 AEMC, Review into electricity compensation frameworks – final report, p.41.

To have the same time limit across frameworks and in recognition of stakeholder concerns, the Commission recommended for a 60 business day overall time limit.⁹⁵

In its rule change request, AEMO proposes to harmonise the time limits for providing supporting information across compensation frameworks.⁹⁶ However, AEMO considered that time limits should remain at the current 33 business day deadline.

⁹⁵ AEMC, Review into electricity compensation frameworks – final report, p.33.

⁹⁶ AEMO, Rule Change Request – Aligning Compensation Frameworks, p.23.

Table 2.1: Proposed time limits for claims differed from review recommendations

	Directions (energy)	Directions (other)	Market Suspension	Administered Pricing
Current timeframe for submission of additional claims.	15 business days after preliminary compensation notification 3.15.7B(a).	15 business days after AEMO advises that the participant is eligible for compensation 3.15.7A(f).	15 business days after preliminary compensation notification 3.14.5B(a).	5 business days after notification that APP has ended 3.14.6(i).
Compensation Review recommendations.	42 business days from the date on which provisional compensation is notified.	42 business days from the date on which provisional compensation is notified.	42 business days from the date on which provisional compensation is notified.	60 business days from the end of the billing week to provide information to support direct and opportunity cost claims.
AEMO's proposed deadline for the submission of claims and supporting information.	<i>As in current rules</i>	<i>As in current rules</i>	<i>As in current rules</i>	33 business days from the end of the relevant billing week.

AEMO considers that extending the time limits would not deliver additional net benefits, as the other proposed changes to simplify and clarify the claims process would mitigate the need for additional time to prepare claims and supporting information.⁹⁷

Additionally, AEMO notes that extending the time limits would have consequences on the settlement process and timelines.⁹⁸ For example, AEMO would not always be able to meet the requirement to accommodate payment into its routine revised statement 30 weeks after the billing period, meaning AEMO would need to issue a special revised statement. This would have broader impacts on market participants relating to settlement, prudentials, transferal of registration, and ceasing market participation.

We are interested in stakeholder views on the appropriate time limits to submit supporting information and lodge claims for additional compensation, in relation to the potential benefits of longer time limits and the concerns raised by AEMO.

AEMO also proposes to allow itself flexibility regarding the timeframes for assessment of claims.⁹⁹ This would be consistent with the AEMC's view in the compensation review that there is merit in allowing AEMO to have extended timelines for assessing compensation claims, where it can be justified (such as complex and difficult claims, or a significant number of claims).¹⁰⁰

Question 7: How long should the time limit be to provide supporting information and lodge claims for additional compensation?

We are seeking stakeholder feedback on the appropriate length for a time limit across frameworks to provide supporting information or submit an additional compensation claim.

2.4.4 We are considering applying consistent standards for supporting information

AEMO has identified the opportunity their proposed alignment of supporting information requirements provides to have consistency across compensation claims.¹⁰¹ This aligns with the Commission's recommendation in the compensation review that the same standards for supporting information be applied across all frameworks.¹⁰²

Specifically, the Commission considered that the current standards for supporting information for additional directions or market suspension compensation should be extended to administered pricing compensation.¹⁰³ This would support timely and informed assessments of administered pricing compensation claims.

The Commission also noted there could be value in providing specificity for the required level of authority in a claimant's business to sign off that supporting information is true and accurate.¹⁰⁴

97 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.23.

98 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.23.

99 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.23.

100 AEMC, Review into electricity compensation frameworks – final report, p.34.

101 AEMO, Rule Change Request - Aligning Compensation Frameworks, p. 14.

102 AEMC, Review into electricity compensation frameworks – final report, p.39.

103 AEMC, Review into electricity compensation frameworks – final report, p.40.

104 AEMC, Review into electricity compensation frameworks – final report, p.40.

Question 8: Do stakeholders see value in aligning supporting information requirements?

2.4.5 We are seeking feedback on removing the explicit process for determining eligibility to compensation for other compensable services

In its rule change request, AEMO considers that the process for determining whether a claimant is eligible to submit a claim for other compensable services is unnecessary.¹⁰⁵ This process is outlined in NER clauses 3.15.7A(a)-(d).

AEMO proposes to remove this process, as this would simplify the claims process and that the assessment should be conducted with the assessment of the costs of a claim.¹⁰⁶

Question 9: Should AEMO need to determine eligibility for participants to submit a compensation claim for other compensable services?

We are seeking stakeholder views on the issue raised by AEMO and AEMO's proposed solution.

2.4.6 We are seeking feedback on reporting on the breakdown of compensation and RERT costs

In its rule change request, AEMO proposes amendments to the cost recovery reporting arrangements for the directions compensation framework and the Reliability and Reserve Trader (RERT) framework.¹⁰⁷

AEMO considers that these current reporting requirements do not reflect changes from the *Integrating energy storage systems into the NEM* (IESS) rule change.¹⁰⁸ AEMO is required to show cost recovery by Registered Participant category for directions compensation under NER clause 3.13.6A(b) and for RERT costs under NER clause 3.20.6(f). However, the IESS rule introduced 'cost recovery market participants' and now recovers non-energy costs based on participant gross energy flows. As such, AEMO considers that reporting on cost recovery by participant category is not practical nor accurate, as AEMO no longer splits the data and allocates cost recovery in this way.¹⁰⁹

To address this issue, AEMO proposes to remove these specific requirements to report on cost recovery by participant category.¹¹⁰ Specifically, this would be to remove NER clauses 3.13.6A(b)(3) and 3.20.6(f)(2). We are interested in whether stakeholders would see value in, or have any suggestions for, alternative solutions which might retain the intent of these reporting requirements.

We recognise that the relevant reporting requirement for RERT costs does not sit within the compensation frameworks. However, we consider that AEMO has raised a minor issue that is effectively identical in both the directions compensation framework and the RERT framework and

¹⁰⁵ AEMO, Rule Change Request – Aligning Compensation Frameworks, p.20.

¹⁰⁶ AEMO, Rule Change Request – Aligning Compensation Frameworks, p.20.

¹⁰⁷ AEMO, Rule Change Request – Aligning Compensation Frameworks, p.21.

¹⁰⁸ AEMO, Rule Change Request – Aligning Compensation Frameworks, p.11.

¹⁰⁹ AEMO, Rule Change Request – Aligning Compensation Frameworks, p.21.

¹¹⁰ AEMO, Rule Change Request – Aligning Compensation Frameworks, p.21.

should be considered under this rule change.¹¹¹ We are interested in stakeholder views on this approach.

Question 10: Should there be changes to reporting on the breakdown of compensation and RERT costs?

AEMO has proposed to remove specific requirements to report on the cost recovery of compensation and RERT costs by participant category, as AEMO can no longer do this practically nor accurately following the *Integrating energy storage systems into the NEM* rule change. We are seeking stakeholder feedback on the issue raised by AEMO, AEMO’s proposed solution, and any alternative solutions.

2.5 We are seeking feedback on rules drafting to align the compensation frameworks

AEMO proposes to consolidate the compensation frameworks within one rule of the NER, specifically rule 3.12. Currently, the compensation frameworks are specified across rules 3.12, 3.14, and 3.15 of the NER. AEMO proposes to add additional clauses under rule 3.12 for each of:

- preliminary compensation
- claims for compensation
- compensation guidelines.

In addition to this, AEMO proposes that under this rule change, market participants could submit a single compensation application that applies to multiple frameworks that are currently separately outlined in the rules. AEMO considers this change would clarify the frameworks and make the rules more easily navigable, improving transparency and reducing regulatory burden for participants. This proposed consolidation of the different frameworks in the rules would be consistent with, and benefit from, amendments discussed elsewhere in this paper to align the frameworks, such as that AEMO would receive all claims.

We note there are potential costs in implementing significant redrafting of existing frameworks in the NER. Significantly redrafting existing compensation frameworks could impose an additional regulatory burden on market participants who are used to the existing legal drafting.

Further information on AEMO’s proposal is included in the rule change request as well as in the proposed legal drafting attached to its request. We are seeking stakeholder feedback on the merits of consolidating the rules relating to compensation frameworks in this way.

Question 11: Do stakeholders see merits that outweigh costs in consolidating the drafting of the compensation frameworks under a single NEM clause?

We are seeking feedback from stakeholders on whether they see reduced regulatory burden and more streamlined processes arising from consolidating the various compensation frameworks under a single rule in the NER.

111 AEMO, Rule Change Request – Aligning Compensation Frameworks, p.12.

2.6 We are seeking feedback on a proposal to prevent inadequate compensation for scheduling errors

In 2023, Tilt Renewables submitted a rule change request to impose a \$0/MWh floor to the spot prices for the dispute resolution panel that determines compensation for scheduling errors must consider.¹¹²

Scheduling errors occur when AEMO does not follow the central dispatch process determined in the rules.¹¹³ Participants are entitled to compensation when scheduling errors occur. These are based on the size of the change in dispatch level and the spot price at the time of the scheduling error. Crucially, these errors will often apply for several trading intervals, and compensation is summed across all the trading intervals over which the error occurred.

Tilt Renewables considers the growth in the incidence of negative prices means participants may see their compensation for scheduling errors eroded by negative prices, since additional revenue streams such as Large-scale Generation Certificates mean that generators may have a short-run marginal cost less than \$0/MWh, and will therefore generate through some negative price periods. If these negative price trading intervals occur within a scheduling error period, the compensation generators receive will be impacted by the negative prices. Tilt Renewables considers this could result in inadequate compensation for generators.

In December 2021, the AEMC made a final rule to integrate energy storage systems into the NEM (IESS).¹¹⁴ This rule change, among many other things, incorporated scheduled bi-directional units into the rule provisions for determining compensation for scheduling errors. Tilt Renewables' proposal to impose a \$0/MWh floor to the spot price for the purposes of compensation could result in scheduled bi-directional units not being compensated for errors in scheduling their load when prices are negative.

We are seeking stakeholder feedback on the merits of this proposal, particularly in light of the IESS rule changes, which came into effect after Tilt Renewables submitted this rule change request.

Question 12: Do stakeholders see merit in the proposed imposition of a \$0/MWh price floor for the purposes of compensating scheduling errors?

We are seeking stakeholder feedback on Tilt Renewables' proposal to implement a \$0/MWh price floor for scheduling error compensation and the implications of IESS rule amendments.

¹¹² NER clause 3.16.2(h).

¹¹³ NER clause 3.8.

¹¹⁴ AEMC, Integrating energy storage systems into the NEM, rule determination, 2 December 2021.

3 Making our decision

This chapter outlines the various factors the Commission must consider when making its decision and the proposed assessment framework. We are seeking feedback on the proposed assessment framework.

3.1 The Commission must act in the long-term interests of consumers

The Commission is bound by the National Electricity Law (NEL) to only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the national electricity objective (NEO).¹¹⁵

The NEO is:¹¹⁶

to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system; and
- (c) the achievement of targets set by a participating jurisdiction—
 - (i) for reducing Australia’s greenhouse gas emissions; or
 - (ii) that are likely to contribute to reducing Australia’s greenhouse gas emissions.

The [targets statement](#), available on the AEMC website, lists the emissions reduction targets to be considered, as a minimum, in having regard to the NEO.¹¹⁷

3.2 We propose to assess the rule change using three criteria

The Commission proposes to assess the rule change against the following criteria:

- Principles of market efficiency
- Implementation considerations
- Principles of good regulatory practice

3.2.1 Our methods to analyse the proposed rules

Considering the NEO and the issues raised in the rule change request, the Commission proposes to assess this rule change request against the set of criteria discussed below. These assessment criteria reflect the key potential impacts – costs and benefits – of the rule change request. We consider these impacts within the framework of the NEO.

The Commission’s regulatory impact analysis may use qualitative and/or quantitative methodologies. The depth of analysis will be commensurate with the potential impacts of the proposed rule change. We may refine these methodologies as this rule change progresses, including in response to stakeholder submissions.

115 Section 88 of the NEL.

116 Section 7 of the NEL.

117 Section 32A(5) of the NEL.

Consistent with good regulatory practice, we also assess other viable policy options - including not making the proposed rule (a business-as-usual scenario) and making a more preferable rule - using the same set of assessment criteria and impact analysis methodology where feasible.

3.2.2 Assessment criteria and rationale

The proposed assessment criteria and rationale for each is as follows:

Principles of market efficiency:

- Promoting incentives for continued participation in the market is critical to effective compensation frameworks. These are frameworks that apply to actions taken during periods of market stress and to maintain a stable and secure system. This challenge is simplified by the participation of as many assets as possible, reducing reliance on interventions. Therefore, the compensation frameworks associated with these interventions should as far as reasonable incentivise the market to willingly participate during these periods of market stress. In enabling the market to continue functioning at times of stress, improvements to the compensation frameworks will lead to improved reliability and security outcomes for consumers.
- Effective compensation frameworks should promote productive and allocative efficiency for unit commitment and dispatch. Improving compensation frameworks to facilitate, as far as possible, market outcomes during periods of stress results in improved efficiency over reliance on AEMO interventions.

Implementation considerations

- Complexity in the compensation arrangements to date has been a contributing factor in them not working as intended. It is appropriate to balance the potential benefits of solutions recommended in the compensation review with cost and complexity of implementation to ensure there are meaningful benefits for consumers. The solutions identified should be implemented in a simple, low-cost manner.

Principles of good regulatory practice

- The need to ensure that the compensation frameworks are predictable and stable, as well as simple and transparent for stakeholders is critical to the effectiveness of this rule change. This is central to the ability for market participants to have confidence that in future periods of market stress, there are effective and transparent compensation frameworks.

Question 13: Do stakeholders agree with the assessment criteria proposed for this rule change?

We are seeking stakeholder feedback on the assessment criteria provided above, which we propose to use to inform decision-making through this rule change process.

3.3 We have three options when making our decision

After using the assessment framework to consider the rule change request, the Commission may decide:

- to make the rule as proposed by the proponent¹¹⁸

¹¹⁸ The proponent sets out its proposed rule in chapter 5 of the rule change request and attached proposed legal drafting.

- to make a rule that is different to the proposed rule (a more preferable rule), as discussed below, or
- not to make a rule.

The Commission may make a more preferable rule (which may be materially different to the proposed rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule is likely to better contribute to the achievement of the NEO.¹¹⁹

3.4 The proposed rule would not apply in the Northern Territory

Parts of the NER, as amended from time to time, apply in the Northern Territory, subject to modifications set out in regulations made under the Northern Territory legislation adopting the NEL.¹²⁰

The proposed rule would not apply in the Northern Territory, as it amends provisions in NER chapter 3 that do not apply in the Northern Territory.¹²¹ Consequently, the Commission will not assess the proposed rule against additional elements required by the Northern Territory legislation.

119 Section 91A of the NEL.

120 National Electricity (Northern Territory) (National Uniform Legislation) Act 2015 (NT Act). The regulations under the NT Act are the National Electricity (Northern Territory) (National Uniform Legislation) (Modification) Regulations 2016.

121 Under the NT Act and its regulations, only certain parts of the NER have been adopted in the Northern Territory. The version of the NER that applies in the Northern Territory is available on the AEMC website at: <https://energy-rules.aemc.gov.au/ntner>.

Abbreviations and defined terms

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
APC	Administered Price cap
Commission	See AEMC
MSL	Minimum System Load
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
Proponent	The proponent of the rule change request
RERT	Reliability and Emergency Reserve Trader
VWAP	Volume-weighted Average Price