

5 May 2026

Ms Anna Collyer
Chair – Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Dear Ms Collyer,

AEMO submission on improving the compensation frameworks

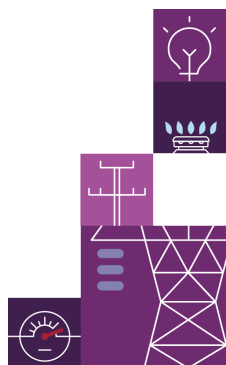
AEMO welcomes the AEMC's *Improving compensation frameworks* consultation paper and the opportunity to support AEMO's *Aligning Compensation Frameworks* rule change proposal. The rule change proposal is intended to clarify, align and streamline the compensation frameworks in the National Electricity Rules (NER), supporting the secure and efficient operation of the electricity market by:

- reducing the cost and administrative effort associated with preparing, lodging, administering and assessing claims,
- providing market participants with confidence that they will be appropriately compensated for services provided during periods of market disruption, and
- providing stakeholders with confidence that necessary services will be provided to allow the power system to operate through periods of disruption.

Importantly, the rule change will also help to address issues exposed during the disruptive market events of June 2022 as considered in the AEMC's 2024 *Review of Electricity Compensation Frameworks* (AEMC Review).

AEMO also considers that its rule change proposal will address issues with the claims process for MSL directions. AEMO notes that AEMC is not proposing to consider specific changes to compensation for MSL directions. There is value in consistent rules and a consistent process for all claims. Specific changes for MSL claims would likely introduce inconsistencies. However, it may be premature to rule out specific changes for compensation for MSL directions in advance of considering matters raised in stakeholder submissions.

AEMO also welcomes the chance to comment on the two rule change proposals submitted by Tilt Renewables. AEMO considers that the suggested changes within those rule changes should not proceed noting:



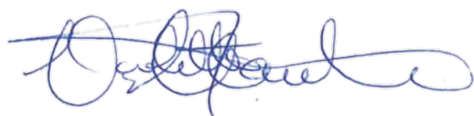
- On the proposal to define ‘capacity directions’ in the rules so that the costs of such directions are solely recovered from consumers – AEMO considers that, for reasons outlined in more detail below, changing the cost recovery approach for directions would add additional complexity to the compensation frameworks whilst only addressing a single cost allocation issue in isolation.
- On the proposal to introduce a \$0/MWh price floor on spot prices for the purposes of compensating participants for scheduling errors – AEMO considers that the underlying issue was addressed under the Integrating Energy Storage Systems (IESS) rule change.

The AEMC’s consultation paper poses several questions regarding the compensation frameworks. AEMO’s response to each of the questions are provided in table 1 below. AEMO has also identified some additional minor rules issues in relation to compensation frameworks and cost recovery that it would be appropriate to address in this rule change. These are listed in table 2 below.

AEMO welcomes continued engagement with the AEMC and stakeholders during the rule change process to ensure any final arrangements are clear, fit-for-purpose and support secure system operation and efficient market outcomes.

Please contact Hannah Heath, Group Manager – Strategic Market Reform, at hannah.heath@aemo.com.au should you wish to discuss this submission.

Yours sincerely,



Violette Mouchaileh
Executive General Manager – Policy and Corporate Affairs

Table 1 Response AEMC Improving Compensation Frameworks consultation questions

Question	AEMO response
<p>Question 1: How should upfront compensation be calculated?</p>	<p>AEMO supports the AEMC exploring a preferred and upfront methodology to calculate preliminary compensation. AEMO did not identify an optimal approach to calculating upfront compensation in its proposal and notes the AEMC’s interest in a volume weighted average price (VWAP) methodology. AEMO considers there several open questions regarding the application of VWAP as the preferred preliminary compensation methodology, including:</p> <ul style="list-style-type: none"> • How to mitigate the risk that a few extremely high or negative prices may significantly bias the calculation of VWAP for a technology type in a region. • Should there be a minimum amount of data for the calculations for a specific generation type within a region if there is limited generation of that type? • How should dual fuel plant or integrated systems (that both export and import) be factored into the calculations? <p>Should the AEMC determine to pursue a VWAP methodology, AEMO recommends the inclusion of a fixed cost adjustment to make the methodology more cost reflective. This is necessary for directions compensation as VWAP reflects average prices in normal market circumstances. However, services required under direction are necessary to maintain security or reliability and don’t necessarily reflect services provided in typical operating conditions. The fixed costs of providing directed services are often a higher proportion of total costs (e.g. start-up costs when plant is directed to operate at its minimum operating level).</p> <p>AEMC should also consider administrative burden and AEMO’s ability to implement a new upfront compensation methodology. To reduce administrative burden and complexity, AEMO submits that VWAP should be calculated monthly, using prices for the previous 12 months (instead of being calculated in every instance preliminary compensation is paid using the prior 365 days). To</p>

	<p>implement VWAP AEMO will need to update its systems. These updates will take time – and the time required will depend on the complexity of the calculation. AEMO is already committed to several systems changes in the coming years and concurrent system updates are challenging and risky.</p>
<p>Question 2: Should cost recovery arrangements for administered pricing compensation be clarified?</p>	<p>AEMO supports clarifying the cost recovery arrangements for administered pricing compensations. As set out in its rule proposal and in alignment with the AEMC’s review recommendation, AEMO supports determining compensation on a trading interval and individual unit basis. An additional benefit of adopting this approach is to align this element of the arrangements across the applicable compensation frameworks.</p>
<p>Question 3: Should costs of capacity directions be recovered solely from consumers?</p>	<p>AEMO does not support Tilt Renewable’s rule change to create a distinct category of ‘capacity directions’ so the costs of compensation for these directions are only recovered from consumers. Capacity directions are defined as directions for storage plant to consume energy for the purposes of ensuring reliability at a later point. AEMO considered Tilt Renewable’s proposal in the submission of its rule change request. AEMO makes the following points:</p> <ul style="list-style-type: none"> • AEMO does not consider that this change should be made in isolation but rather as part of a broader consideration regarding the allocation and recovery of non-energy costs in the NEM. • The rules for the cost recovery of non-energy directions have been recently considered and updated under the Integrating Energy Storage System (IESS) rule change. • What is or isn’t a capacity direction is subjective. Would direction to a scheduled generator to make themselves available, but not ultimately not generate, be a capacity direction or other an other compensable services direction? • Selectively splitting out non-energy directions into distinct separate categories relies on judgement and will complicate market settlement. For a direction to a Battery Energy Storage System (BESS) requiring it to charge, hold a state of charge and then discharge under certain conditions, how should the proportion of the (direct and opportunity) costs attributable to a capacity direction be determined? From which trading intervals should the associated costs be recovered?

<p>Question 4: Should cost recovery calculations apply to all trading intervals in which directions apply?</p>	<p>AEMO maintains its position put forward in its rule proposal that the cost recovery calculation should apply to all intervention trading intervals.</p>
<p>Question 5: How should AEMO and the independent expert receive and assess claims?</p>	<p>AEMO’s rule change proposal sets out its current thinking on how to align and clarify how it and the independent expert could receive and assess claims. Further to its rule change proposal, AEMO considers that the minimum threshold for the submission of claims could benefit from being regularly updated to account for inflation.</p>
<p>Question 6: What improvements can be made to the independent expert process?</p>	<p>AEMO maintains its position in its rule change proposal to align and clarify how and when claims are referred to independent experts.</p> <p>On how AEMO should engage independent experts, AEMO notes that it maintains a panel of suitably qualified and available independent experts to ensure all claims, now and in the future, may be appropriately assessed. In this context, prescription regarding the engagement of independent experts should be carefully considered:</p> <ul style="list-style-type: none"> • Criteria for the engagement of independent experts would need to be considered with reference to the evolving nature of claims and the requirements of the compensation guidelines so that the pool of individuals that AEMO may select from isn’t inappropriately limited. • Prescribing how independent expert fees are calculated may deter suitably qualified individuals from applying to be independent experts. <p>That said, AEMO sees a need for the rules to specify the actions AEMO may take if independent experts are not able or available to assess claims. This has not been an issue to date. However, there is a risk of this in the future given the increasing complexity of claims, the changing nature of claims assessment and the potential for market disruption leading to high-volumes of claims.</p>
<p>Question 7: How long should the time limit be to provide supporting</p>	<p>AEMO maintains its position, in the rule change proposal, that that timeframes for the submissions of claims should be aligned but not extended beyond the proposed 33-business day limit.</p>

<p>information and lodge claims for additional compensation?</p>	<ul style="list-style-type: none"> • The 33-business day deadline will allow claimants more than six weeks from the date of the intervention to prepare claims. • Aligning and clarifying the frameworks, and guidance in the AEMC’s compensation guidelines, would clarify and simplify the process for submitting claims. • Extending the deadline would not align with the intent of the forthcoming shortened settlement cycle arrangements. • Extending the deadline for claims would limit the assessment of claims which will increase the risks of errors. <p>It is important that the market is ultimately settled by AEMO’s routine revised statement 30 weeks after the billing period. Market participants must maintain their prudential requirements until the end of the 30-week period. This 30 week deadline is necessary for contingent processes such as setting the Default Market Offer¹ the management of prudentials, and cost reconciliation necessary for the transfer of registration and market exit.</p>
<p>Question 8: Do stakeholders see value in aligning supporting information requirements?</p>	<p>AEMO maintains its position in its rule change request that aligning the costs that can be recovered across the frameworks and the supporting information costs simplifies and improves the efficiency of the claims process for both the applicants and the assessor.</p>
<p>Question 9: Should AEMO need to determine eligibility for participants to submit a compensation claim for other compensable services?</p>	<p>AEMO maintains its position in its rule change request that this change will align and simplify the claims process without AEMO needing to pre-judge claims in advance of detailed assessment.</p>

¹ AER, [Review into electricity compensation frameworks – consultation paper](#), 2 February 2024, pp. 2-3.

<p>Question 10: Should there be changes to reporting on the breakdown of compensation and RERT costs?</p>	<p>AEMO maintains its position that there should be changes to the breakdown of reporting on compensation and RERT costs. The NER reporting obligation does not align with how non-energy costs are recovered following the introduction of the Integrated Energy Storage Systems (IESS) rule. Non-energy cost recovery is now based on participant gross energy flows (ACE and ASOE) across cost recovery market participants, making reporting by registration category impractical, inaccurate, and inconsistent with the intent of the IESS rule.</p>
<p>Question 11: Do stakeholders see merits that outweigh costs in consolidating the drafting of the compensation frameworks under a single NEM clause?</p>	<p>AEMO maintains its position in its rule change request that a single set of rules for the NER compensation frameworks will be more efficient, clearer and easier to navigate. A consistent set of rules prevents perverse incentives potentially created by differences in the compensation that can be claimed across the frameworks.</p>
<p>Question 12: Do stakeholders see merit in the proposed imposition of a \$0/MWh price floor for the purposes of compensating scheduling errors?</p>	<p>The issue Tilt Renewables' proposal to impose a \$0/MWh price floor for scheduling error compensation was seeking to address has been resolved in the IESS rule change. This issue was addressed under the IESS rule change when NER 3.16.2(d) was updated to apply when plant is instructed to operate at a loading level <i>different to</i> (rather than <i>at a lower level</i>) the loading level that would have applied had the scheduling error not occurred. This allows for a proportionate price adjustment for under/over dispatch including when prices are negative. AEMO agrees with the AEMC that Tilt Renewables' proposal could result in scheduled bi-directional units not being compensated for errors in scheduling their load when prices are negative under the current rules.²</p>
<p>Question 13: Do stakeholders agree with the assessment criteria proposed for this rule change?</p>	<p>The AEMC's principles of market efficiency, implementation considerations, and principles of good regulatory practice appear appropriate and align with AEMO's rule change objectives.</p>

² AEMC, *Consultation paper National Electricity Amendment (Improving Compensation Frameworks) Rule*, 19 March 2026, p. 23.

Table 2 Further issues AEMO submits for AEMC consideration in this rule change

NER reference	Issue description
NER 4.9.2	Rules should specify that compensation cannot be claimed for instructions.
Proposed 3.12.5(n) and current 3.15.7A(l)	AEMO should not have the discretion to determine compensation where a claim has not been submitted at all. Such an assessment cannot be undertaken without the supporting information provided with claims, as per NER paragraph 3.15.7A(g), required to determine compensation. AEMO’s proposed NER paragraph 3.12.5(n) may be interpreted as to allow AEMO to determination compensation absent a claim.
3.15.8	<p>3.15.8(a) – the words “in respect of a direction for the provision of energy” are ambiguous and could be interpreted to mean:</p> <ol style="list-style-type: none"> in respect of a direction given for the purposes of obtaining energy in respect of a direction, for the provision of an energy service <p>AEMO considers that the second interpretation is intended – when considered in reference to the wording in NER 3.15.7(a1). Recommended updating the drafting to make this clarification. Note: a similar clarification should be made to 3.15.8(e) for ancillary services. The reference to 3.15.8(g) compensation recovery amount needs to be updated, as it is defined with reference to para (a) where the compensation recovery amount is calculated from amounts accruing with respect to ‘a direction for the provision of energy’. Reference to compensation recovery amount should be for non-energy directions as energy directions compensation is recovered under paragraphs (b) and (e).</p>
NER 3.16 and NER 2.11.3(b)(8)	Inconsistency between intent of NER 3.16 which applies to scheduled integrated resource providers and application of NER 2.11.3(b)(8) which does not apply to scheduled integrated resource providers. Issue is scheduled integrated resource providers are not in the list of participant types to fund the participant compensation fund, but they can make claims from that fund.