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Australian Energy Market Commission

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Improving compensation frameworks

AGL Energy (AGL) welcomes the opportunity to respond to Australian Energy Market Commission (AEMC) Improving compensation frameworks rule change consultation.

AGL broadly supports direction of the proposed reforms. With appropriate refinements, particularly in relation to opportunity cost recovery, implementation timeframes, and safeguards around compensation, the proposed rule changes can strengthen confidence in the frameworks in periods of market stress, preserve market efficiency, and support the long-term interests of consumers.

Key points

- Compensation frameworks must ensure participants are no worse off than short-run marginal cost, including opportunity costs, when complying with directions, administered pricing or market suspension events.
- We support the extension of opportunity cost recovery across all compensation frameworks as essential for efficient resource allocation and reliability.
- Upfront compensation should be based on a technology and region-specific volume-weighted average price (VWAP), with intervention-distorted trading intervals excluded.
- Wear and tear and accelerated asset deterioration caused by directions are genuine economic costs and must be explicitly compensable.
- We have concerns regarding fixed or technology-based uplift mechanisms for directions compensation.
 - Risks of under compensation should be addressed through access to opportunity cost and direct cost recovery, rather than through static or benchmark style adjustments that risk over or under compensating participants
- We are concerned that retaining a 33-business day limit may be insufficient for complex opportunity cost claims, claims involving significant wear-and-tear impacts, or administered pricing events involving multiple units and regions.
 - We recommend a 60-business day time limit instead.
- We support Tilt Renewable's proposal to recover capacity direction compensation costs solely from consumers, given they beneficiaries of increased reliability.
- We have concerns regarding Tilt's proposal to impose a \$0/MWh floor on prices used for scheduling error compensation.
 - Further work is needed to assess the merits and potential impacts of this proposal.

Opportunity Costs

We welcome the AEMC's decision to extend eligibility to claim opportunity costs across all compensation frameworks, including the market suspension compensation framework.

Opportunity costs are a fundamental component of short-run marginal cost and reflect the value of scarce resources that could otherwise be deployed at a different time or in a different way. Excluding opportunity costs from compensation frameworks compels participants to operate below short-run marginal cost and can force losses, undermining efficient allocation and investment incentives.

Opportunity costs are particularly relevant for generation and storage assets that are fuel or energy constrained. We support replacing the concept of "loss of revenue" with a consistent opportunity cost framework across all compensation regimes and supports opportunity cost claims being assessed by independent experts.



We also support the development of clear and robust compensation guidelines, issued by the AEMC, to guide the assessment of opportunity cost claims. Guidelines provide flexibility to adapt as technologies and market conditions evolve while still promoting consistency and predictability. We recognise that consideration may be given to reasonable caps or safeguards, provided these do not systematically under compensate participants or undermine efficient market signals.

[Wear and Tear and Asset Degradation](#)

We welcome the AEMC's decision that wear and tear and accelerated deterioration of generation assets caused by directions are genuine economic costs and should be explicitly compensable.

Where the nature of a direction requires operation outside normal design parameters, operational patterns (e.g. frequent start-stop cycles), maintenance acceleration, or additional stress on plant, the associated cost impacts should be fully recoverable as part of compensation arrangements.

We note that quantifying wear and tear impacts often requires detailed engineering analysis, which can itself be costly and time consuming. Where such analysis is necessary to substantiate a claim, the reasonable costs of undertaking that work should be recoverable. We consider that clearer recognition of wear-and-tear costs, either as direct costs or opportunity costs as appropriate, will improve confidence in compensation frameworks and support ongoing participation during periods of system stress.

[About AGL](#)

Proudly Australian since 1837, AGL provides over 4.5 million gas, electricity, and telecommunications services to our residential, small, and large business, and wholesale customers across Australia. AGL operates the largest private electricity generation portfolio in Australia, with a total operated generation capacity of almost 8000 MW across Australia as of 30 June 2025. AGL owns Australia's largest privately-owned fleet of hydro assets and operates the largest portfolio of renewables and storage assets of any ASX listed company. Since 2006, AGL has invested billions of dollars in the construction and delivery of over 2 GW of renewable and firming capacity in the National Electricity Market (NEM).

Please find responses to the consultation question in the **Appendix** below.

If you have queries about this submission, please contact Alifur Rahman at arahman3@agl.com.au.

Yours sincerely,

Chris Streets

Senior Manager Wholesale Market Regulation

AGL Energy



Appendix – 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

We support the proposal to move to a volume-weighted average price (VWAP) based approach for determining upfront compensation, calculated by technology type and region over a rolling historical period. A VWAP approach better reflects prevailing market outcomes than current benchmark mechanisms and supports technology-neutral decision making across compensation frameworks.

Trading intervals affected by directions or other forms of market intervention should be excluded from the VWAP calculation. Prices formed during directed or otherwise intervals distorted by interventions do not reflect efficient market outcomes and, if included, risk systematically understating upfront compensation and embedding downward bias into future VWAP calculations.

We support the VWAP methodology being specified through guidelines rather than highly rigid rule drafting to allow flexibility as the generation mix and market conditions continue to evolve.

We support harmonising the upfront compensation approach across the directions and market suspension frameworks in order to promote consistent incentives and reduce unnecessary complexity

We acknowledge AEMO's proposal to include a fixed cost adjustment in the upfront compensation for directions, intended to address the costs associated with synchronisation and operation at minimum stable levels.

Technology-based fixed cost parameters are necessarily approximations and may not reflect unit-specific operating conditions or commercial realities. Introducing fixed cost uplifts also increases divergence between compensation frameworks, potentially undermining the broader objective of alignment and simplicity. Under-compensation risks should primarily be addressed through additional compensation claims, including opportunity costs and wear-and-tear costs, rather than through blunt ex ante adjustments. If a fixed cost component is adopted, it should be conservative in magnitude, transparent in methodology and subject to regular 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.

We support clarifying the cost recovery arrangements for administered pricing compensation so that compensation is assessed on a trading interval basis and recovered from regions where the administered price cap binds. This approach improves clarity and avoids ambiguity in complex administered pricing events, including those experienced during June 2022. Aligning cost recovery with the geographic and specific incidence of administered pricing provides greater transparency and predictability for market participants.



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?

We support the proposal to recover compensation costs associated with capacity directions solely from consumers. Capacity directions are issued to maintain system reliability for the benefit of consumers, and generators are not beneficiaries of these interventions. Requiring generators to bear a share of these costs risks distorting incentives and discouraging availability. Definitional and implementation issues need to be addressed; however, these challenges are manageable and preferable to maintaining an inefficient cost allocation framework.

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.

We support clarifying that cost recovery for directions compensation should apply to all trading intervals in which a direction applies, not solely to intervals in which intervention pricing is triggered. This ensures that cost recovery arrangements are aligned with the actual provision of directed services and improves transparency and consistency across events.

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.

We support consolidating governance arrangements by making AEMO the single point of receipt for all compensation claims and supports the use of independent experts for complex, material, and opportunity cost claims. Consolidation reduces administrative complexity, supports consistency across frameworks, and promotes efficient processing of claims.

We support introducing reasonable minimum thresholds for claim submission and referral to independent experts, provided these thresholds do not exclude legitimate claims or discourage recovery of genuine costs. Thresholds should be periodically reviewed to ensure they remain appropriate as market conditions and price levels evolve.

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 encourage the AEMC to explore measures that strengthen confidence in the independent expert framework, including clearer expectations for panel governance and greater transparency regarding appointment and assessment processes.



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.

We support harmonising time limits for providing supporting information and lodging claims across compensation frameworks in the interests of clarity and settlement finality. However, we are concerned that retaining a 33-business day limit may be insufficient for complex opportunity cost claims, claims involving significant wear-and-tear impacts, or administered pricing events involving multiple units and regions. We recommend a 60-business day time limit instead.

Opportunity cost claims often require detailed counterfactual analysis and specialist assessment, which can be time consuming to prepare. We consider that timeframes should balance the need for administrative efficiency with the practical realities of preparing robust claims. In particular, failure to meet procedural deadlines should not automatically invalidate legitimate claims, especially where compensation events arise from systemic market failures or extreme conditions.

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

We support aligning supporting information requirements across the compensation frameworks, provided the requirements are clear, proportionate, and not unduly burdensome.

Aligning requirements would improve consistency, reduce confusion for participants, and support more efficient and timely assessment of claims, particularly where events trigger multiple compensation frameworks concurrently. We consider that consistent evidentiary standards will also support fair and transparent decision-making.

However, we emphasise that supporting information requirements must remain practical and scalable to reflect the complexity and materiality of claims. In particular, opportunity cost and wear-and-tear claims may require more detailed and specialised evidence and aligned requirements should not evolve into a one-size-fits-all approach that increases compliance costs or delays outcomes.

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.

We support AEMO's proposal to remove the standalone process requiring AEMO to determine eligibility for participants to submit compensation claims for other compensable services.

We consider the current eligibility determination step to be duplicative and unnecessarily complex. Eligibility is more appropriately assessed as part of the substantive evaluation of a compensation claim, alongside consideration of the service provided and the costs incurred. Removing the preliminary eligibility step would streamline processes, reduce administrative burden, and improve the timeliness of compensation outcomes.

Sufficient safeguards already exist through AEMO's assessment role, the use of independent experts for complex or material claims, and the application of defined cost categories and evidentiary standards. Eligibility for compensation should therefore be determined through the ordinary claim assessment process rather than a separate preliminary determination.

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.



We acknowledge AEMO's advice that the existing requirements to report compensation and Reliability and Emergency Reserve Trader (RERT) cost recovery by participant category are no longer practical or accurate following the Integrating Energy Storage Systems (IESS) into the NEM rule change. We agree that the current reporting framework does not align with the way non-energy costs are now recovered and that attempting to maintain category-based reporting risks producing misleading outcomes.

We support AEMO's proposal to remove the specific requirements to report compensation and RERT cost recovery by participant category, provided that this change does not reduce overall transparency. We recognise that post-IESS cost recovery arrangements are based on energy flows rather than traditional participant classifications, and that legacy reporting requirements have not kept pace with this shift.

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.

We see merit in consolidating the drafting of the compensation frameworks under a single NEM clause where it delivers clearer, more streamlined, and more consistent rules for participants.

We consider consolidation has the potential to reduce complexity and support aligned governance and administrative processes across compensation frameworks. However, these benefits will only outweigh the costs if consolidation genuinely simplifies the Rules and avoids introducing implementation risk or unnecessary transition costs for market participants. Consolidation should preserve clear distinctions between compensation frameworks and should not alter substantive entitlements.

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.

We have concerns regarding the proposal to impose a \$0/MWh floor on prices used for scheduling error compensation. We recognise concerns about negative pricing outcomes; however, we consider that the proposal could have unintended consequences for storage and bi-directional units and may be inconsistent with the post-IESS market design. Further investigation is required before adopting this change.

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.

We support the AEMC's proposed assessment framework, including the emphasis on market efficiency, implementation considerations, and good regulatory practice. Market efficiency should remain the central consideration when assessing proposed changes. Compensation frameworks are activated during periods of significant market stress and intervention, yet they must continue to preserve economically efficient price signals to support investment and operational decisions in the long-term interests of consumers.

We support the introduction of an explicit objective for the directions compensation framework and support retaining distinct objectives for administered pricing and market suspension compensation frameworks.

Directions are intended to be a last-resort regulatory instrument, and the associated compensation arrangements should enable participants to comply with directions without being left financially worse off, while also avoiding incentives that would make being directed a preferred outcome relative to responding to market signals.