



Your ref: ERC0425, ERC0372, ERC0373

27 April 2026

Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Submitted online at: www.aemc.gov.au

Dear Project Manager,

Submission: Improving compensation frameworks

CS Energy welcomes the opportunity to provide a submission responding to the Australian Energy Market Commission's (**AEMC's**) Consultation Paper on *National Electricity Rule (Rule)* change requests relating to the frameworks for compensation for market participant's losses of value under market interventions (**Consultation Paper**).

About CS Energy

CS Energy is a Queensland Government owned corporation that provides power to some of the State's biggest industries and employers. We generate and sell electricity in the wholesale and retail markets, and we employ over 700 people who live and work in the regions where we operate.

CS Energy owns thermal power generation assets, and we are building a more diverse portfolio. We also have a renewable energy offtakes portfolio of almost 300 megawatts, which we supply to our large commercial and industrial customers in Queensland. CS Energy is developing a 400 MW gas-fired peaking generator at Brigalow near Kogan Creek in Queensland.

Key recommendations

CS Energy agrees the AEMC's proposal to combine the three Rule change requests into a single Rule change process is the most efficient way to consider the requests.

CS Energy supported the thrust of the AEMC's 2024 *Review into Electricity Compensation Frameworks (Review)*. The Review examined the inconsistencies and inefficiencies created by the operation of the different compensation regimes for different interventions, which had been highlighted during the energy crisis of June 2022. The reforms proposed by the Review and incorporated in the Australian Energy Market Operator's (**AEMO's**) Rule change request are long due. The current mix of compensation regimes reflects the incremental development of the Rules over nearly thirty years.



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It is clear there should be a single Rules framework for compensating participants subject to intervention through directions, administered pricing or market suspension. The key consideration should be compensating affected participants for their costs to preserve efficient investment and operating incentives, not the circumstances that led to their plant being subject to an intervention. We consider:

- the compensation framework should preserve market-driven decision-making consistent with the interactions of the physical and forward markets;
- recovery by market participants of their opportunity costs to be an essential purpose of the compensation framework;
- allocating administration of the framework solely to the AEMO, subject to any AEMC guidelines, to be a sensible change; and
- the framework should recognise the different costs of the range of technologies operating in the National Electricity Market (**NEM**).

CS Energy therefore supports AEMO's Rule change request, albeit with minor qualifications covered in the discussion below.

Calculation of Compensation Amounts

AEMO's proposal for opportunity cost claims to be able to be made in all cases is economically sound. It is essential the framework requires the assessment of a claimant's opportunity cost to encompass not only the spot market consequences of an intervention but also the claimant's forward market position. This is necessary to preserve incentives for efficient behaviour across the whole of the electricity market. It also is especially relevant now the electricity system's use of energy constrained assets (such as batteries) is increasing.

CS Energy's submission to the AEMC Review's draft report supported volume-weighted average pricing (**VWAP**) for calculating compensation payments. The proposed use of a rolling twelve month period for calculating the VWAP will be more cost-reflective and less volatile than the current method while providing a suitably large dataset. This approach will better capture the value participants lose due to an AEMO intervention.

Yet, as our submission noted, VWAP still could result in compensation payments that do not reflect the full costs incurred by participants subject to an intervention. For example, we noted it is unclear this approach would sufficiently reflect the costs incurred by peaking plant that are fewer in number and dispatched infrequently (such as pumped hydro and open-cycle gas turbine). We also observed that if negative prices are included in the VWAP methodology then less flexible plant, such as coal-fired generators operating through negative price periods, might be under-compensated. CS Energy therefore supports AEMO's proposal for a fixed-cost adjustment so participants are compensated for unit start-up and minimum generation costs.

We note AEMO's observation that the fixed-cost adjustment could over-compensate participants if the compensation calculation accounts for the average operations duration of a technology-type rather than actual plant operating times under intervention. We therefore support AEMO's proposal for independent experts to have flexibility in calculating the fixed-cost adjustment. To promote consistency across cases, the AEMC's guidelines should provide independent experts with methodological guidance for the exercise of that flexibility.

Administrative Efficiency

AEMO's proposed approach to calculating compensation also would reduce the complexity of applying for and assessing compensation. In relation to directions, AEMO's Rule change request notes (at page 9):

preliminary compensation ... has historically been insufficient in covering participant costs to comply with the direction, thus reducing its effectiveness quickly and accurately providing payment to market participants. This has resulted in the majority of directed participants submitting additional claims.

This results in delays and costs for the affected participants, AEMO and ultimately other participants and customers who meet the costs of the compensation. The VWAP with the fixed-cost adjustment approach is expected to minimise if not eliminate additional claims.

AEMO argues that the Rule imposing a process for determining whether a claimant is eligible to submit a claim for other compensable services is unnecessary. We agree. This element of a claim will be determined through the general assessment of the claim.

CS Energy agrees the current division of compensation claim assessment responsibilities between the AEMC and AEMO is illogical. The Review's recommendation, now proposed by AEMO, is that all claims be made to AEMO and assessed by independent experts appointed by AEMO. The AEMC would be responsible for making guidelines for the administration of the compensation framework by AEMO and experts. This is a sensible function allocation. It is aligned to the roles of these two market institutions – Rule maker and market operator – likely to promote more consistent compensation outcomes and so contribute to participants' confidence in the process.

The Consultation Paper suggests that formal processes be established in the Rules for identifying a panel of independent experts and then appointing them to assess individual cases. We understand the reasoning behind this suggestion. However, we are not aware of any material controversies over the independent experts engaged for the compensation processes, noting the NEM has been operating for more than 27 years. We caution against adding provisions to the Rules unnecessarily. A compromise might be for the AEMC guidelines to include selection criteria.

Cost Recovery Methodology

Tilt Renewables, consistent with a recommendation of the Review, suggests that the costs of compensating storage plant for direction to consume energy (to ensure reliability at a later time) be recovered entirely from consumers. CS Energy supports this proposal in-principle. We note AEMO's comments on the proposal and recognise that a separate review of cost recovery arrangements is likely the better vehicle for its consideration.

Scheduling Error Price Floor

Tilt Renewables' Rule change request proposes the imposition of a \$0/MWh floor in the calculation of scheduling error compensation. CS Energy does not support this request.

Negative spot prices (and spot price spikes) are essential elements of the range of signals for efficient short term operating decisions and for medium to long term investment decisions. It is not sound policy to firewall market participants from economic outcomes that are inconsistent with their commercial objectives. Similarly, it is not sound policy to impose distortions on the

NEM to adjust for distortions created by extra-NEM measures such as the Commonwealth's Renewable Energy Target.

This request appears to assume scheduling errors during negative prices lead predominantly to under-dispatch of plant. Although this might reflect intermittent plant-related scheduling errors, the compensation framework is symmetric. A price floor would also neutralise cases where a scheduling error causes additional generation during negative prices.

If intermittent plant tends to be dispatched less because of scheduling errors, then presumably other plant, particularly inter-regional interconnectors and thermal plant, is systematically dispatched more. If this is so, then this Rule change request would tend to lead to thermal generation receiving less compensation in the event of a scheduling error leading to or involving a negative price period. This would happen through the process of post-error correction and then compensation calculation. A finding that thermal plant would have generated *less* without the scheduling error would see that plant compensated against a *zero* price rather than the *negative* price. The opportunity cost of the participant for that plant would be under-estimated, possibly significantly.

Similarly, batteries and pumped-hydroelectric plants that store energy during negative spot prices but are prevented by an intervention from doing so would be penalised by this proposal. This outcome would be wholly inconsistent with the economic case for (and commercial position of) storage plant.

If you would like to discuss this submission, please contact Don Woodrow, Market Policy Manager, on either 0407 296 047 or dwoodrow@csenergy.com.au.

Yours sincerely



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