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Improving Compensation Frameworks – Consultation paper March 2026

EnergyAustralia is one of Australia's largest energy companies with around 2.2 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

EnergyAustralia welcomes the opportunity to respond to the consultation paper on improving compensation frameworks. We remain a strong supporter of this reform. The 2022 market suspension exposed structural weaknesses in the compensation regime and the AEMC's sustained effort since represents a meaningful step towards frameworks that withstand any potential future periods of market and system stress.

We are broadly supportive of the proposed changes, which reflect recommendations we have supported through the market review consultation process. However, there are several areas where we consider additional attention is needed to ensure the reforms deliver on their stated objective. Our key points are:

- We support the new VWAP calculation and approach for upfront compensation but add that the methodology should explicitly address transitioning thermal assets
- The issue of constrained-on generators should be addressed in this consultation process
- We support that capacity directions costs are recovered from consumers, with the classification issue being resolved as part of this process
- The role of the independent expert panel should be accompanied by clear fee governance and cost recovery rules
- AEMO's administrative role could be further improved incorporating a review mechanism related to eligibility determinations and appropriate transparency reporting

VWAP methodology

Energyaustralia supports replacing the 90th percentile approach with a volume-weighted average price (VWAP) for upfront compensation across directions and market suspension. The VWAP approach works well for frequently dispatched, single-technology plants in regions with liquidity, but edge cases need to be addressed for an adequate fit for purpose methodology. These include what happens when the sample size is small, treatment of storage, dual fuel and integrated resources, and how periods of AEMO-activated market interventions should be handled

Small sample size

For plants that are infrequently dispatched, few generators of its technology type in a region, or a new technology class with little dispatch history, the 12-month rolling window could be dominated by a limited number of dispatch events and the result would not reflect actual plant economics. This applies directly to transitioning coal plant operating at reduced load factors, with changed maintenance profiles and higher per-unit fixed costs as it approaches end of life, may not be well represented by a 12-month historical VWAP. In this case, thermal plants are likely to be systematically undercompensated at precisely the moments their availability matters most to reliability.

We consider the rules specify a minimum sample threshold below which the VWAP cannot be applied in isolation. Below this threshold, the calculation falls back to an independent expert cost-build-up or a wider regional VWAP. The fixed cost adjustment and fallback mechanism should explicitly account for the economics of transitioning thermal assets.

Dual fuel and integrated systems

It should be allowed for the participant to nominate the relevant fuel configuration at the time of the direction, subject to AEMO verification against actual dispatch data. We do not consider that creating sub-categories for every possible fuel combination is workable or necessary.

Energy storage

Storage economics are built around the charge and discharge price spread and dispatch-interval VWAP is a poor proxy if a battery is directed to discharge when it would have charged cheaply and discharged at a higher price band later. While the opportunity cost inclusion is an improvement, it requires the participant to demonstrate the value of foregone revenue, which is complex. Therefore, it is important that the upfront VWAP methodology produces a reasonable preliminary benchmark for storage assets to avoid storage owners to routinely relying on additional claims for every direction event. We ask the AEMC to ensure the VWAP methodology is designed to produce a reasonable preliminary benchmark for storage assets to reduce workarounds and administrative burden.

System service contracts

Similar to the rationale of why direction periods are excluded, system service contracts should also be excluded. When AEMO is actively intervening to change dispatch outcomes, the resulting prices are not the signal of normal plant economics. We acknowledge that this might compound the issue of small size, hence why a fallback methodology delegated to an independent expert is worth considering.

VWAP manipulation

We consider the risk of manipulation is manageable. Deliberately inflating the VWAP requires anticipating direction events. There might be the risk that a small number of extreme high-price events pushed the VWAP upward. The AEMC could consider a trimmed mean approach that excludes the top and bottom 5% of price intervals from the calculation.

Fixed cost adjustment

AEMO's proposal to include a fixed cost adjustment on top of the VWAP for directions is adequate, as the VWAP alone may undercompensate. For certainty, the AEMC should specifying in the rules a minimum standard for the fixed cost factor, namely that it must be set at a level sufficient to cover the fixed costs of operating at minimum load for the relevant technology type. This would give participants a basis to challenge a determination they consider inadequate, without escalation.

Compensation gaps

The compensation frameworks were designed around formal AEMO directions. As the energy transition accelerates, participants increasingly face situations where AEMO's actions change their market outcomes without a compensation pathway. Three related gaps require resolution.

Constrained-on generators

The AEMC is not currently addressing the structural gap arising from the compensation frameworks not accounting for constrained-on generators. AEMO's operational options extends well beyond formal directions. Direct engagement with BESS operators on minimum demand management, pre-direction calls, and informal dispatch agreements change market outcomes for participants without triggering any compensation obligation.

We consider the current rule change process is the right vehicle to frame formal compensation as the default process. Only if doing so would materially delay finalisation of the rule should the AEMC instead commit, in the draft determination, to a separate and time-bound process with a defined scope and timeline.

MSL directions

Minimum system load directions are a specific and important instance of the constrained-on problem. The AEMC has treated them as out of scope, pointing to the CEC rule change and transitional services framework as the appropriate vehicles. We accept the case for treating MSL separately given the complexity involved. However, neither of those processes has compensation as its primary object, and we are not confident the compensation treatment of MSL directions will be resolved as a by-product of either.

For the exclusion to be satisfactory, the AEMC should confirm in the draft determination that the compensation treatment of MSL directions will be explicitly addressed in one of those parallel processes within a defined and publicly committed timeline.

Scheduling errors

EnergyAustralia supports the Tilt Renewables proposal to implement a $0/MWh price floor for compensation in scheduling error events where spot prices are negative. These

are market outcomes driven by circumstances outside its control with no compensation pathway. Participants should not bear the cost of AEMO's operational errors.

AEMO operational errors

Beyond scheduling errors, AEMO's operational decisions more broadly can affect dispatch outcomes and compensation assessments. The proposed framework would have AEMO making eligibility determinations on claims that may themselves arise from AEMO's own operational decisions. This asymmetry, where AEMO assesses compensation for events it may have caused or influenced, is a design issue that should be addressed.

The AEMC should ensure that the review mechanism for eligibility determinations is sufficiently independent where AEMO's own actions are at issue.

Cost governance

Role of the independent expert panel

EnergyAustralia supports the continued and expanded role of the independent expert in opportunity cost assessments. Removing bias from compensation determinations is critical to maintaining participant confidence in the frameworks.

The consultation paper proposes minimum thresholds for claims to be referred to the independent expert, which we support in principle as a proportionate filter. However, the fundamental questions of how expert fees are calculated, scoped, and recovered remain unanswered. The rules, not guidelines, should establish how independent expert fees are calculated, what their engagement scope covers and how costs are recovered across the three compensation frameworks.

The encourage the AEMC to consider whether fee arrangements (published rate structure, tiered schedules by claim complexity or prior approval arrangements) can be designed to provide greater predictability for the parties involved, without the expert's ability to assess complex claims.

System strength directions recovery

The Improving Security Frameworks (ISF) reform was designed to address system strength as a contracted service, procured through commercial arrangements, making formal directions for system strength largely redundant. However, we have concerns that a system strength direction could still occur. In those circumstances, it is not appropriate for the cost of that direction to be socialised across all consumers. This is consistent with the beneficiary pays principle that underpins our position on capacity directions.

The ISF rule change implementation is new and the cost recovery mechanism for compensation was not discussed as part of the reform design. Allocating costs for compensation to the system strength service provider could result in unintended consequences where the direction is not directly related to a contractual shortfall. However, we support the principle that system strength direction costs should be allocated to those responsible for the system strength shortfall rather than socialised.

Capacity directions

EnergyAustralia supports Tilt Renewables proposal that costs of compensation for capacity directions be recovered solely from consumers. We agree that the beneficiary of

a capacity direction for system reliability are customers. Allocating a share of those costs to generators that were available during the relevant low reserve period, and who therefore did not cause the need for the direction, is an inefficient allocation with no clear policy justification.

The objection that no formal classification of capacity directions exists can be solved by defining the classification as part of the re-drafting of the compensation frameworks. We note this is important, as BESS plays a more prominent role in reliability and the frequency of capacity directions is likely to increase.

Administrative changes

EnergyAustralia supports AEMO taking on a greater administrative role in the compensation frameworks. However, AEMO simultaneously manages dispatch efficiency, constraints, scarcity mechanisms, and system security interventions, which can be at odds with one another. Without appropriate checks, compensation decisions could be inadvertently influenced by operational priorities. The independent expert assesses opportunity costs above a threshold, but eligibility determinations and claims below that threshold would be largely unchecked under the current proposals. We note that possible errors in dispatch could also result in an asymmetrical evaluation of compensation claims as AEMO's core function to maintain system security carries significant weight.

We ask the AEMC to ensure that AEMO's eligibility determinations are subject to clear and accessible review, and that claimants have a defined pathway to challenge a determination without bearing disproportionate cost or procedural burden.

Rules versus guidelines

The core structural parameters of the VWAP methodology should be in the rules. The 90th percentile approach is currently in the rules, and the methodology should not be moved entirely in guidelines. This would be an undesirable legal outcome.

The rules should specify that preliminary compensation is calculated using a technology-differentiated, regional VWAP over a rolling 12-month period, with direction periods excluded, and that where the sample is insufficient, a fallback methodology determined by the independent expert applies. Operational details can be delegated to the guidelines as these are elements that are complex and likely to require revisions. Accordingly, the precise treatment of dual-fuel plant, storage assets, extreme prices, periods of AEMO-activated system services contracts or other market interventions, and the annual fixed cost adjustment are appropriately set in guidelines.

We support the AEMC retaining responsibility for the guidelines, provided the rules explicitly require that guidelines give effect to the stated compensation objectives and any material change to the VWAP methodology goes through consultation with industry.

If you would like to discuss this submission, please contact me via email at Ana.Spataru@energyaustralia.com.au.

Regards

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