

## **AEMC NATIONAL ELECTRICITY AMENDMENT (IMPROVING COMPENSATION FRAMEWORKS) RULE - CONSULTATION PAPER (ERC0425)**

**30 APRIL 2026**

### **INTRODUCTION**

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, steel, aluminium, paper, food and beverages. Combined, our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the National Electricity Objectives (NEO) so that our members can continue to provide a fit for purpose product for their customers.

Thank you for the opportunity to make a submission under the National Electricity Amendment (Improving Compensation Frameworks) Rule - Consultation Paper.

The EUAA supports rule changes that are grounded in evidence, improve market efficiency, strengthen system security, and allocate risks to those best placed to manage them. We do not support reforms that shift risks from market participants onto consumers, particularly where those risks arise from participants' own commercial decisions or risk-management failures.

The June 2022 market events demonstrated that the current compensation frameworks are fragmented, inconsistent, and in some cases create incentives that undermine market efficiency. We therefore support the AEMC's intent to improve governance, clarify objectives, align definitions, and reduce overlapping compensation pathways. These reforms are necessary to restore confidence in the frameworks and ensure they operate as intended during periods of market stress.

However, the Consultation Paper does not sufficiently protect consumers on three critical areas:

1. **Opportunity cost compensation,**
2. **Cost recovery,** and
3. **Transparency and Reporting**

These issues have material implications for consumers, and the EUAA urges the AEMC to strengthen its approach in the draft rule.

## OPPORTUNITY COST AND BENCHMARKING

### 1. Incentives and risk allocation

The EUAA supports compensation arrangements that encourage generators to remain active in the market during APP and Market Suspension periods. The June 2022 withdrawal of capacity—motivated by the expectation of higher compensation under directions—demonstrates that the current frameworks can distort incentives. Lower compensation for directions, combined with a generator contribution to compensation funds, would better align incentives with system needs and reduce the likelihood of strategic withdrawal.

### 2. Opportunity cost must be tightly constrained

Opportunity cost compensation is inherently difficult to verify because it requires a counterfactual assessment of “business as usual” during abnormal market conditions. Without strict guardrails, opportunity cost claims risk becoming subjective, inflationary, and open to gaming.

The EUAA considers that opportunity cost should only be available where:

- the participant has a **genuinely limited fuel resource** (e.g., hydro storage, bidirectional plant),
- the intervention **forces a materially different operating strategy**, and
- the participant can demonstrate a **quantifiable and verifiable reduction in profit**.

Codification of the assessment methodology is essential. Without clear rules, the framework risks inconsistent outcomes, protracted disputes, and escalating costs for consumers.

### 3. Benchmarking is essential for efficiency

The EUAA supports the AEMC’s volume-weighted average price (VWAP) calculated over a 12-month period for each technology for the up-front Directions compensation and for up-front Market suspension compensation the highest of the market suspension price and VWAP for each technology.

This approach provides the predictability, reduces administrative burden, and limits the scope for inflated bespoke claims. However, we seek clarity on whether VWAP would be calculated on a rolling 12-months or defined 12-month period.

Benchmarking also reduces the cost and complexity of assessments for both claimants and AEMO/AER, enabling faster resolution and reducing the risk of large, unexpected liabilities being passed through to consumers.

## COST RECOVERY

We acknowledge AEMC’s current position to further review cost allocation.

### 1. Consumers cannot continue to be the default risk-bearer

A concerning trend has emerged in recent rule change proposals: shifting financial risks from generators to consumers. This is inappropriate and inconsistent with the NEO. Consumers cannot manage wholesale market risks; generators can and should.

The EUAA strongly opposes proposals—such as Tilt Renewables’ request—to shift the full cost of capacity directions onto consumers. Generators are best placed to manage the commercial risks associated with their operational decisions, including decisions to withdraw capacity during periods of market stress.

## **2. Aligning incentives to avoid strategic withdrawal**

The June 2022 events demonstrated that some generators withdrew capacity because they expected higher compensation under directions. This behaviour undermines market efficiency and increases the likelihood of AEMO intervention.

Requiring generators to contribute to compensation funds would:

- discourage strategic withdrawal,
- align incentives with system reliability, and
- ensure that those who create or exacerbate the need for intervention bear an appropriate share of the cost.

## **3. Consistency across electricity and gas frameworks**

The EUAA supports alignment between the NER/NEL and NGR/NGL compensation frameworks, provided differences are justified by industry-specific considerations. Consistency reduces administrative burden, improves predictability, and supports coherent risk allocation across energy markets.

# **TRANSPARENCY AND REPORTING**

## **1. Transparency is essential for consumer protection**

Compensation liabilities can be large, unpredictable, and region-specific. Consumers—who may ultimately bear a portion of these costs—require timely and accurate information to manage cashflow and financial risk.

The EUAA is concerned that the Consultation Paper contemplates **reducing** transparency and reporting obligations. This is unacceptable. Transparency is not an administrative burden; it is a fundamental safeguard for consumers.

## **2. AEMO decision-making must be visible and accountable**

AEMO increasingly makes decisions that directly affect consumer costs, including:

- whether to intervene,
- how to intervene, and
- how compensation is calculated.

These decisions must be transparent, justified, and subject to scrutiny. The EUAA does not support AEMO’s proposal to reduce reporting on compensation and RERT cost recovery by participant category. Consumers deserve visibility of who is being compensated, for what, and at what cost.

## **3. Regular public updates should be mandatory**

The EUAA recommends that the rules require:

- publication of outstanding compensation claims,
- estimated regional cost recovery amounts, and
- progress updates on assessment timelines.

This information is essential for budgeting, risk management, and maintaining confidence in the frameworks.

## **CONCLUDING REMARKS**

The EUAA supports the AEMC's efforts to improve the efficiency, clarity, and governance of the compensation frameworks. However, the reforms must go further to ensure that:

- opportunity cost compensation is tightly controlled and evidence-based,
- cost recovery reflects the principle that risks should be borne by those best placed to manage them, and
- transparency is strengthened, not weakened.

Consumers cannot continue to be the financial backstop for market participants' commercial decisions. The final rule must deliver a framework that is efficient, predictable, transparent, and aligned with the long-term interests of consumers.

The EUAA welcomes further discussions around the issues raised in this submission.

Do not hesitate to be in contact with EUAA Policy Manager Dr Leigh Clemow, should you have any questions.



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