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Australian Energy Market Commission

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Improving compensation frameworks – Consultation Paper

Origin Energy Limited (Origin) welcomes the opportunity to provide comments on the Australian Energy Market Commission's (AEMC) Improving compensation frameworks Consultation Paper.

1. Consolidating and simplifying the compensation framework

We support efforts to align and simplify compensation frameworks under the National Electricity Rules (NER), supported by AEMC guidance on how the frameworks should operate so the Australian Energy Market Operator (AEMO) (and experts) can focus on administering these processes. We also support AEMO's proposal that this consolidated framework should build on the established directions framework that provides upfront payment for energy and ancillary services (but not other compensable services) and allows participants to submit additional claims (e.g. for opportunity costs) if required to ensure appropriate compensation for all services.

This should minimise the administrative burden of preparing, submitting and administering claims for directions, market suspension and administered pricing periods (APPs) and so reduce costs ultimately recovered through energy bills. Consistently allowing for opportunity cost claims and introducing a fixed cost adjustment should also ensure all participants are appropriately compensated. But consolidated definitions, information requirements, and an enduring approach to assessing opportunity costs must consider the nuance of all technology types. For example, the definition of direct costs must recognise the potential for battery warranties to be voided and the need for earlier than scheduled maintenance.

Some of the proposed design details appear sensible, such as increasing the threshold for additional claims which has remain unchanged for many years at \$5,000 to \$10,000. Similarly, adapting reporting requirements to reflect changes in the regulatory framework would be appropriate. Streamlining timelines and aligning with the settlement cycle would also be beneficial. However, it will be important that these timelines are not too rigid and allow for exceptions if circumstances for AEMO or industry require it. For example, if AEMO must process a material volume of compensation claims or a series of events impedes the ability of participants to make a claim within 15 business days of the relevant week.

It is challenging to comment further on the detailed design of this framework without more information and evidence. For example, whether the benefits of more tailored compensation through volume weighted average prices (VWAP) by technology and region outweigh the complexity and cost of implementing this change. It will also be important to test the distribution of benefits from such a change across different technologies, e.g. storage assets operate to maximise arbitrage opportunities so the 90th percentile may be more appropriate than an average that smooths intraday volatility. We still support testing these ideas but note these compensation frameworks only apply in what should be rare and exceptional circumstances that require a deviation from normal operation, which may impact the AEMC's cost benefit analysis.

The NER clearly reinforces this expectation that directions, market suspension, and administered pricing periods which impact participants (and require compensation) should be rare. So, we support the AEMC's suggestion that all directions, including for minimum system load, be compensated consistently so AEMO's efforts can be directed to ensuring these tools are only used as a last resort. These efforts include pursuing alternative measures to support normal operation, such as the recently announced

Type 2 Transitional Service to manage minimum system load. But we agree that AEMO could continue to improve its collaboration with industry to design this new service and explore alternative solutions.

2. Defining capacity directions

The proposal for directions for capacity to be defined and integrated with energy and ancillary services, rather than consolidated with other compensable services may have merit. This would provide a clearer signal of when AEMO is directing for capacity which could in turn help improve stakeholders' understanding of emerging issues for system operation. It would also complement AEMO's proposal to introduce a fixed cost adjustment in compensation frameworks and allow affected market participants, such as battery storage and pumped hydro, to access preliminary compensation which may reduce the need for additional claims.

We appreciate AEMO has raised concerns that this proposal may offer benefits in theory alone but not in practice. To assist with better understanding this issue, the AEMC should assess how often these directions may be occurring and whether a defined capacity directions category would provide a clearer signal to the sector of system conditions. For example, whether defined capacity directions suggest more intervention than the three reliability directions the Reliability Panel reported were issued in FY24 to prevent lack of reserve conditions.¹ We would also support considering who should bear the costs of these directions, noting the broader regulatory framework assumes that consumers as the beneficiaries of reliability fund interventions to ensure the level of reliability they expect and value is met.

3. Compensation for scheduling errors

There does not appear to be evidence to suggest placing a \$0/MWh price floor on the spot price when determining the compensation provided to a market participant in respect of a scheduling error would be in the long term interests of consumers. The rule change proposal references the need to manage the impact of these events on contracted positions but as the recent NEM Review advised² a fundamental feature of the NEM is that participants manage their own exposure to a variety of risks. It is the generator's responsibility to use tools like hedges, contractual terms and indemnities to manage its position and exposure to market prices. The nascent contract co-design process is also expected to introduce further tools to help manage the changing nature of risks in the NEM.

We also support the AEMC's concern that this proposal could negatively impact compensation for load, including storage assets, penalising those helping to manage minimum system load conditions. This could ultimately undermine efficient operation of the NEM and so would not be in the long-term interest of consumers.

If you wish to discuss any aspect of this submission further, please contact Clare Stark at clare.stark@originenergy.com.au or on 0458 286 194.

Yours Sincerely,



Shaun Cole
Group Manager, Regulatory Policy

¹ Reliability Panel, The National Electricity Market Reliability & Security Report FY2024, 26 June 2025

² Expert Panel, National Electricity Market wholesale market settings review Final Report, December 2025