Australian Energy Market Commission

RULE

Draft rule determination

National Electricity Amendment (ERC0425 Improving Compensation Frameworks) Rule 2026

Proponents
AEMO
Tilt Renewables

9 July 2026

Enquiries

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About the AEMC

The AEMC reports to the energy ministers. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the energy ministers.

Acknowledgement of Country

The AEMC acknowledges and shows respect for the Traditional Custodians of the many different lands across Australia on which we live and work. The AEMC office is located on the land of the Gadigal people of the Eora nation. We pay respect to all Elders past and present, and to the enduring connection of Aboriginal and Torres Strait Islander peoples to Country.

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Executive Summary

1 The Australian Energy Market Commission (AEMC or Commission) has made a more preferable draft rule (draft rule) to improve compensation frameworks in the National Electricity Market (NEM). The draft rule would improve the method and processes for assessing and calculating compensation, clarify the existing compensation rules, and increase alignment across the compensation frameworks.

2 Well-functioning compensation frameworks for directions, market suspension, and administered pricing are crucial to the effective operation of the market. This allows participants to have confidence in the compensation arrangements, and continue to provide the energy and other services the market needs during periods when interventions apply.

3 The draft rule is based on the recommendations from the AEMC's review of the compensation frameworks following the 2022 energy crisis. The review, completed in 2024, assessed all the compensation frameworks and conducted extensive stakeholder engagement to identify appropriate improvements. Following completion of the review, the Australian Energy Market Operator (AEMO) submitted a rule change request largely seeking to implement these recommendations. Tilt Renewables also submitted two rule change requests related to compensation, and we have consolidated these requests with AEMO's to form one rule change project.

4 We are seeking feedback on our draft determination and rule by **3 September 2026**.

This draft rule follows our 2024 review into the compensation frameworks

5 In June 2022, the NEM experienced extreme volatility and AEMO suspended the market. This stressed-tested the calculation, processes, and administration of all three compensation frameworks. The AEMC subsequently self-initiated a review into compensation frameworks (compensation review), which we completed on 12 December 2024.

6 The rule change request from AEMO largely sought to implement the recommendations from this review with several key distinctions, which are described throughout this document. Stakeholder feedback to this review has also informed our policy thinking in this rule change.

7 The review, in consultation with stakeholders, arrived at a suite of recommendations that collectively sought to:

- ensure the frameworks provide the right objectives and correct incentives to support reliability and security during times of system and market stress
- provide clear and transparent methodologies that support the objectives and promote efficiency and effectiveness
- streamline governance, reducing unnecessary complexity and inconsistencies
- provide predictable and administratively simple compensation regimes, including through alignment where practicable.

8 This draft rule has retained the same objectives and largely implements the suite of specific recommendations from the review, where included in AEMO's rule change request. The draft rule would improve outcomes for consumers by fostering higher levels of confidence among participants to provide the services the market needs in periods of stress.

We are proposing draft changes that align with feedback to the review

9 On a number of issues, we have identified alignment between the compensation review recommendations, the rule change requests, and stakeholder feedback to the consultation paper.

10 The full list of positions taken in this draft rule is provided below in Table 1. The draft rule aligns with both the rule change requests and the review recommendations in these respects:

- introducing a formal objective for directions compensation
- harmonising calculation of compensation across frameworks, including allowing opportunity costs to be claimed for all compensation
- assessing, and recovering costs for, administered pricing compensation on a per-unit and per-trading-interval basis, with additional clarity for when the APC binds in multiple regions
- AEMO will receive and assess claims across all frameworks
- harmonising standards for supporting information across frameworks.

11 These positions reflect the extensive consultation with stakeholders conducted through the review and so far in this rule change process.

12 There are a number of issues the review did not address, but have been raised in one of the rule change requests. Furthermore, AEMO's rule change request included some divergences from the review recommendations. We consulted stakeholders on these in the initiation stage.

13 Areas where there was not broad agreement from stakeholders, or the rule change requests diverged from the review recommendations, are discussed in more detail in this document. These are:

- the calculation of compensation using a volume-weighted average price
- cost recovery arrangements, including for 'capacity directions'
- governance and administrative matters, including the processes related to the appointment of an independent expert.

The draft rule is a collection of small amendments

Table 1: Summary of policy positions

Policy issue	AEMC review recommendation	AEMO's/Tilt's rule change request position	Draft position
Objectives for compensation frameworks	Add a directions compensation objective for participants to be compensated for complying with directions	As per review	As per review
Preliminary compensation for directions and market suspension	Use a 12-month volume-weighted average price (VWAP) by technology and region	Use a 12-month VWAP plus a fixed cost adjustment (FCA)	As per review
Compensable direct costs	Introduce a consistent list of direct costs across frameworks	As per review	As per review

Policy issue	AEMC review recommendation	AEMO's/Tilt's rule change request position	Draft position
Opportunity costs	Allow opportunity costs to be claimed under all compensation frameworks	As per review	As per review
Assessment of administered pricing compensation	Administered pricing compensation assessed per-unit and on a per-trading-interval basis	As per review	As per review
Administered pricing compensation cost recovery	Costs allocated on a per-trading-interval basis, with additional clarity for when the Administered Price Cap (APC) binds in multiple regions	As per review	As per review
Cost recovery for 'capacity directions'	'Capacity directions' compensation to be recovered solely from consumers	Tilt: Recover costs for 'capacity directions' from consumers AEMO: Retain status quo, with no rules definition of 'capacity directions'	As per rule AEMO's change request
Directions compensation cost recovery	(No recommendation)	Directions compensation cost recovery based on all trading intervals with directions	As per rule change request
Reception and assessment of claims	AEMO to receive and, with the independent expert, assess all compensation claims	As per review	As per review
Minimum threshold for compensation claims	(No recommendation)	Apply a $10,000 threshold to all compensation claims	As per rule change request
Claim assessment costs	(No recommendation)	AEMO can recover assessment costs from the claimant	Claim assessment costs recovered from all cost-recovery market participants (CRMPs)
Role and selection of the independent expert (IE)	AEMO and the IE should assess claims, and the IE should assess all opportunity cost claims. Further consideration is	AEMO refers all opportunity cost claims, complex claims and claims above $50,000 to the	As per rule change request. In the case of objections, AEMO appoints a new IE from a panel of available

Policy issue	AEMC review recommendation	AEMO's/Tilt's rule change request position	Draft position
	needed on selection	IE	and qualified IEs
Time limit for claims	Consistent 60 business day time limit for all claims	Consistent 33 business day time limit for all claims	As per review
Information standards for claims	Introduce standards for supporting information for administered pricing compensation claims and harmonise frameworks	As per review	As per review
Eligibility assessment	(No recommendation)	Remove specific requirements for an eligibility assessment as this forms part of the compensation assessment	As per rule change request
Cost recovery reporting	(No recommendation)	Remove requirement to estimate cost allocation by registered participant category	Replace requirement for AEMO to estimate cost allocation by registered participant category with reporting cost recovery by cost recovery market participants (CRMPs)
Scheduling error compensation	(No recommendation)	Tilt: Apply a $0/MWh price floor for the consideration of compensation for scheduling errors Not addressed in AEMO's rule change request	Do not progress with Tilt Renewables' proposal for a $0/MWh floor to apply to compensation claims for scheduling errors

Our draft rule would harmonise and improve the calculation of compensation payments

14 The review recommended that preliminary compensation for directions and market suspension be calculated using a volume-weighted average price (VWAP) methodology. This would be a change from the existing methods of using the 90th percentile of spot prices for directions and a benchmarking approach for market suspension.

15 Broadly consistent with the review and AEMO's rule change request, under the draft rule preliminary compensation would be based on the rolling 12-month VWAP for each technology and region. This would improve the likelihood of upfront compensation being reflective of the costs to participants of providing energy or other services under direction or during a market suspension.

In turn, this improves the ability for preliminary compensation to meet the respective compensation objectives.

16 We consider the VWAP methodology is appropriate for all plant operating in the NEM. This is inclusive of storage, as there would be separate VWAPs for generation and consumption to allow for preliminary compensation to reflect the most relevant costs for storage.

17 Furthermore, the draft rule harmonises the definitions of direct costs across compensation frameworks and allows opportunity costs to be claimed in all compensation frameworks. These changes would allow participants to be appropriately and consistently compensated across frameworks, while also reducing incentives for participants to favour one form of compensation over another.

18 The draft rule allows administered pricing compensation to be calculated in a more targeted manner. Specifically, administered pricing compensation would be assessed on a per-trading-interval basis (instead of over an eligibility period) and on a per-unit basis (instead of across a portfolio). This mitigates perverse incentives that do not align with the administered pricing compensation objective to maintain incentives to supply services.

Our draft rule would change the cost recovery process

19 Consistent with the change to assess administered pricing compensation in a more targeted manner, the draft rule would amend the corresponding cost recovery process to allocate costs on a trading interval basis. Additionally, the draft rule would clarify how costs for administered pricing compensation should be allocated where there are multiple affected regions. Currently, the National Electricity Rules (NER) only anticipate there would be one affected region for an administered pricing period.

20 The draft rule also clarifies that directions compensation costs are allocated based on intervention trading intervals, instead of intervention price trading intervals as per the current rules. Intervention price trading intervals are a subset of intervention trading intervals where intervention pricing is used to set spot prices. Therefore, the draft rule addresses the lack of clarity under the current NER on how costs should be recovered when intervention pricing does not come into effect during a direction.

21 In response to Tilt Renewables' rule change request, we are not making changes to cost recovery for 'capacity directions'. The theoretical efficiency benefits to allocating costs solely to the beneficiaries of these directions are likely to be minimal, as these directions are rarely used. Furthermore, this would require the introduction of a new classification of direction that does not currently exist. The specific parameters of this are vague, and thus there are practical limitations meaning these benefits would not be realised and are outweighed by administrative burden and complexity.

Our draft rule would streamline and improve governance and administrative arrangements

22 Stakeholder feedback in both the review and the consultation stage for this rule change highlighted the importance of transparency, clarity, and alignment across compensation frameworks. This objective is reflected in our draft changes to the governance and administrative arrangements.

Our draft rule introduces consistent thresholds and fees for all frameworks

23 Our draft rule makes a number of changes to align and clarify the governance and administrative arrangements for compensation.

24 AEMO proposed to recover the administrative costs of assessing claims from the claimant. However, we consider this places undue burden on the claimant who has complied with a direction. This does not align with the objective our draft rule introduces for directions compensation, that the framework fully compensate claimants for costs incurred in following a direction.

25 All market participants benefit from an effectively functioning and transparent compensation framework. Therefore, our draft rule requires that administrative costs for assessing claims be recovered from all cost recovery market participants (CRMPs).

26 As AEMO proposed, our draft rule raises the minimum threshold for compensation claims from $5,000 to $10,000. This reflects the growth in administrative costs from when they were originally set in 2005. We agree with AEMO's proposal that the threshold should reflect costs and reduce administrative burden, and therefore requires updating.

We have made draft changes to the role and selection of an independent expert

27 Our draft rule introduces three consistent criteria by which a claim can be referred to an independent expert (IE). AEMO:

- may refer complex or difficult claims
- must refer opportunity cost claims
- must refer claims above a threshold of $50,000.

28 These criteria are consistent across all frameworks and thus meet the broader objectives of simplifying and aligning the compensation frameworks. This approach balances minimising administrative burden and assessment costs with assigning the assessment to the party best placed to make it.

29 Our draft rule allows AEMO to refer complex and difficult claims to an independent expert. This ensures complex claims are assessed with the expertise required, improving the chance of accurate claims. Furthermore, particularly in the infancy of these frameworks, this would improve understanding of new processes and the calculation of opportunity costs under the new guidelines.

30 Participants would retain the right to object to an IE that AEMO has appointed. When this occurs, the AEMC would still receive and perform an administrative check on the objection. However, the AEMC would no longer appoint a new IE; instead, AEMO would be required to appoint a different IE. To allow this and to improve transparency, the rules would require AEMO to maintain a panel of at least three qualified and available IEs.

31 AEMO recommended a consistent threshold of $50,000 for the referral of claims to the IE. This differs from the review recommendation, which had different thresholds across the frameworks.

32 Our draft rule implements AEMO's recommendation, as this threshold should be broadly reflective of the costs associated with the IE assessment of the claim. Since no framework has inherently higher costs as they all vary significantly from case to case, we have aligned the thresholds across frameworks. This supports the broader objective of improved alignment and clarity. We assessed that $50,000 is appropriate, given the likely costs of an assessment by the IE.

We have made other draft administrative changes

33 We have made additional draft amendments to improve alignment and clarify processes. These include:

- Introducing a consistent 60-day time limit to make claims. This improves alignment across frameworks and allows additional time for claimants to assemble claims and associated information, particularly where there is increased complexity in opportunity cost claims.
- Removing the requirement for AEMO to do an eligibility assessment. This provision is duplicative, as an eligibility assessment is linked to an assessment of the cost of the claims and is therefore already assessed. AEMO would now have to notify participants if they are not eligible for preliminary compensation.
- Amending AEMO's reporting requirements to improve alignment with the Integrating energy storage systems (IESS) rule change. The IESS rule changed cost recovery provisions so that costs are recovered from CRMPs. Our draft rule aligns compensation and reliability emergency reserve trader (RERT) cost recovery reporting with the CRMP approach introduced in IESS, with AEMO reporting the amount recovered from each CRMP.

We have made a draft decision not to change compensation for scheduling errors

34 Tilt Renewables identified that compensation for scheduling errors is based on spot prices, which may result in negative compensation when scheduling errors occur during negative price periods. However, the IESS rule amended the compensation calculation for scheduling errors to compensate participants appropriately. The rule does this by calculating the difference between error and non-error scenarios. Tilt Renewables' proposal is therefore no longer appropriate.

We assessed our draft rule against three assessment criteria, taking stakeholder feedback into account

35 The Commission has considered the National Electricity Objective (NEO)[1] and the issues raised in the rule change request, and assessed the draft rule against three assessment criteria outlined below. We gathered and analysed stakeholder feedback in relation to these criteria, and also considered feedback to the review.

36 Because the draft rule is composed of a large number of smaller amendments, a quantitative assessment is not practicable. Our assessment of the draft rule against the NEO is informed by engagement with stakeholders and analysis conducted in both this rule change and the review. The more preferable draft rule would contribute to achieving the NEO by:

- **improving market efficiency** through aligning incentives with market benefits and allocating costs with parties best placed to provide them. The draft rule achieves this by incorporating a directions objective and making changes to the calculation of compensation to meet the broader objectives of retaining incentives to provide services.
- **minimising costs and complexity** associated with the compensation frameworks through reducing administrative burden and streamlining processes. The draft rule achieves this by redrafting much of the rules to consolidate, clarify, and prevent duplication in the rules, making them easier and clearer for participants to engage with. The draft rule also introduces cost-reflective thresholds for administrative processes and allocates costs efficiently.

1 Section 7 of the NEL.

- **representing good regulatory practice** through improving the simplicity and transparency of the rules and having more stable and predictable compensation frameworks. The draft rule achieves this by aligning practices and processes across the compensation frameworks. This includes, for example, by having consistent thresholds and time limits for claims across the three compensation frameworks.

Our draft rule takes a staged implementation approach

37 This draft rule represents a collection of many interrelated amendments. Some of these changes are relatively simple to implement, while others will require AEMO to conduct process changes or system updates.

38 We have developed a three-phase implementation timeline. The amendments that can be made quickly have been given a nine-month implementation timeframe to allow the AEMC to update the compensation guidelines. Amendments that require AEMO to update processes have been given a 12-month implementation timeframe, while those that require system updates have been given a two-year timeframe. This third implementation date will also include a full consolidation and simplification of the compensation provisions in the NER.

39 Some amendments only require an update to the AEMC's compensation guideline or could be implemented quickly. The implementation dates for each schedule are provided below. See appendix E for full discussion of implementation, including which of the amendments summarised in Table 1 apply to which schedule. Some of the amendments in this rule will apply before others. This allows for incremental improvements to the compensation frameworks while process or system updates take place.

40 For market participants, what this will mean in practice is that the AEMC will still receive administered pricing compensation claims under the current framework until 14 July 2027. From 15 July 2027 the AEMC would continue to receive administered pricing compensation claims, but will assess claims using an updated guideline that reflects changes to the calculation of administered pricing compensation in the rules (Schedule 1 changes). From 15 October 2027, AEMO would receive and assess all claims. From this date, claimants would also be entitled to claim opportunity costs across all frameworks, and changes to improve the role and selection of the independent expert will take effect (Schedule 2 changes). From 15 October 2028, the full suite of changes takes effect, including using VWAP to calculate preliminary compensation and changes to cost-recovery of administered pricing compensation (Schedule 3 changes). Table 2 outlines the amendments that take place in each schedule.

41 We are seeking stakeholder feedback on the proposed implementation schedule.

Table 2: Amendments by each schedule of the draft rule

Policy position	Schedule
Introduce an objective for directions compensation	Schedule 1 **(15 July 2027)**
Align claimable direct costs across frameworks	Schedule 1
Clarify and make more targeted compensation for administered pricing	Schedule 1
Changes to cost-recovery for directions compensation to include all intervention trading intervals	Schedule 1
Changes to cost recovery reporting for directions compensation and RERT	Schedule 1
Allow opportunity costs to be claimed across frameworks	Schedule 2 **(15 October 2027)**
AEMO to receive and assess all claims	Schedule 2
Increase the minimum threshold for claims to $10,000	Schedule 2
Changes to the role and selection of the independent expert	Schedule 2
Align supporting information standards	Schedule 2
Remove the duplicative rule requiring AEMO to conduct an eligibility assessment	Schedule 2
Use VWAP for preliminary compensation	Schedule 3 **(15 October 2028)**
Clarify and make more targeted cost recovery for administered pricing compensation	Schedule 3
Recover costs of assessing claims from all CRMPs	Schedule 3
Align the time limit for claims at 60 days	Schedule 3

How to make a submission

We encourage you to make a submission

Stakeholders can help shape the solution by participating in the rule change process. Engaging with stakeholders helps us understand the potential impacts of our decisions and contributes to well-informed, high quality rule changes.

How to make a written submission

Due date: Written submissions responding to this draft determination and rule must be lodged with Commission by **3 September 2026**

How to make a submission: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code **ERC0425.**[2]

Tips for making submissions on rule change requests are available on our website.[3]

Publication: The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential, or that we consider inappropriate (for example offensive, defamatory, vexatious or irrelevant content, or content that is likely to infringe intellectual property rights).[4]

Next steps and opportunities for engagement

There are other opportunities for you to engage with us, such as one-on-one discussions or industry briefing sessions.

You can also request the Commission to hold a public hearing in relation to this draft rule determination.[5]

Due date: Requests for a hearing must be lodged with the Commission by 16 July 2026.

How to request a hearing: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code **ERC0425.** Specify in the comment field that you are requesting a hearing rather than making a submission.[6]

For more information, you can contact us

Please contact us with questions or feedback at any stage, noting the project code.

Email:	max.bonic@aemc.gov.au
Telephone:	(02) 8296 7800

2 If you are not able to lodge a submission online, please contact us and we will provide instructions for alternative methods to lodge the submission

3 See: https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/our-work-3

4 Further information about publication of submissions and our privacy policy can be found here: https://www.aemc.gov.au/contact-us/lodge-submission

5 Section 101(1a) of the NEL.

6 If you are not able to lodge a request online, please contact us and we will provide instructions for alternative methods to lodge the request.

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1 The Commission has made a draft determination and rule

The Australian Energy Market Commission (AEMC or Commission) has made this draft determination to make a more preferable draft rule. It is in response to rule change requests submitted by the Australian Energy Market Operator (AEMO) and Tilt Renewables about compensation frameworks. We are seeking feedback on this draft rule.

This chapter provides the context for the rule change requests, including the objectives and recommendations of the AEMC's review into compensation frameworks. This chapter also provides an overview of the changes the draft rule would make and a summary of stakeholder engagement. A table summarising all the policy positions taken in this draft rule is provided at the end of this chapter. The rest of the document is structured as follows:

- Chapter 2 discusses how the draft rule would contribute to the energy objectives
- Appendix A provides more detail on changes to the calculation of compensation
- Appendix B provides more detail on changes to the way in which AEMO recovers compensation costs
- Appendix C provides more detail on changes to governance and administration
- Appendix D provides more detail on other draft changes we are making
- Appendix E discusses the implementation approach and timetable
- Appendix F gives an overview of the rule-making process
- Appendix G provides the legal requirements to make a rule.

1.1 This rule change arises from our thorough review of the compensation frameworks

In June 2022, extreme market conditions led to administered pricing in all regions of the NEM except Tasmania. Due to the insufficiency of the Administered Price Cap (APC) at the time, many generators withdrew from the market, requiring AEMO to direct participants to keep the system secure and reliable and eventually suspend the market. This event tested many features of the market, including compensation frameworks for directions, administered pricing, and market suspension. The AEMC subsequently self-initiated a review into compensation frameworks (the review), which we completed in December 2024.

The review made a suite of recommendations to improve compensation frameworks. In summary, these were to:

- specify a separate objective for the directions compensation framework
- allow opportunity costs in each compensation category
- improve the method for calculating directions compensation
- nominate AEMO to receive all compensation claims and assess them together with the independent expert
- improve administrative rules and timelines, and clarifying obligations on claimants.

These recommendations sought to help ensure the compensation frameworks delivered on a few key objectives. These were to:

- ensure that the frameworks provide the right objectives and correct incentives to support reliability and security during times of system and market stress

- provide clear and transparent methodologies that support the objectives and promote efficiency and effectiveness
- streamline governance, reducing unnecessary complexity and inconsistencies
- provide predictable and administratively simple compensation regimes, including through alignment across the frameworks, where practicable.

These recommendations and objectives were informed by a wealth of stakeholder engagement throughout the review. This included two rounds of consultation, including on a suite of draft recommendations. The review considered 32 submissions from stakeholders, and met with a number of them to understand key concerns with the existing framework and opportunities for improvements.

AEMO's rule change request largely sought to implement the recommendations from the review. While the rule change request from Tilt Renewables relating to cost-recovery for 'capacity directions' pre-dates the review final report, it too aligns with one of the review recommendations.

While AEMO's rule change request broadly aligns with the review recommendations, it diverges on several policy issues. AEMO proposed to:

- retain the status quo (no separate cost-recovery) regarding cost-recovery for 'capacity directions'
- apply a consistent 33-day time limit for participants to submit claims.

AEMO also proposed several changes about which the review did not make recommendations. Discussion of these is integrated throughout the determination, and divergences from the review recommendations are clearly identified.

1.2 Our draft rule would improve the compensation frameworks

A well-functioning compensation framework is critical to the effective operation of the market. It allows participants to have sufficient confidence in the frameworks to provide much-needed services during periods of market stress. In order to achieve this, a large suite of changes that all contribute to the improvement of these frameworks is needed. We have categorised these changes into the following:

- calculation of compensation
- recovery of compensation costs
- governance and administration
- other issues raised in the rule change requests.

This sub-section provides an overview of the changes in each category. More detail on each can be found in the appendices. The reasons for these draft changes and the ways in which they would meet the National Electricity Objective (NEO) are discussed in chapter 2.

1.2.1 Our draft rule would improve accuracy and alignment across frameworks in the calculation of compensation

Our draft rule would make four changes to the calculation of compensation. Two of these are improvements to the accuracy of compensation, and two are improvements to alignment across frameworks.

Our draft rule is to calculate preliminary compensation using a technology and region-specific volume-weighted average price (VWAP). This move away from the current arrangements, which compensate participants using the 90th percentile of spot prices, better reflects the costs to participants of providing services during periods of market intervention. This would be calculated over a rolling 12-month period.

Our draft rule does not include AEMO's proposed fixed cost adjustment (FCA). The Commission considers the VWAP methodology alone is a better reflection of costs to participants, and that including an FCA risks systemically over-compensating participants at a cost to consumers.

Our draft rule would introduce more targeted compensation for administered pricing by assessing on a per-unit and per-trading-interval basis. This prevents situations where profits in one trading interval reduce compensation for losses incurred in another interval. A similar situation can occur whereby profits for one unit can reduce compensation for losses incurred by another unit.

The draft rule would make several improvements to alignment through:

- aligning the direct costs participants can recover across all three frameworks
- allowing participants to claim opportunity costs in all three frameworks. This reflects that participants can incur opportunity costs regardless of the type of intervention, and that opportunity costs are becoming more important as the penetration of storage in the NEM increases.

More detail on the draft changes to the calculation of compensation can be found in appendix A.

1.2.2 Our draft rule improves compensation cost recovery arrangements

We have made two draft changes to the recovery of costs of compensation to align with the calculation process and better reflect the nature of directions.

In line with the draft change discussed above, administered pricing compensation costs would also be recovered on a per-trading-interval basis. The draft rule also clarifies the cost recovery region for administered pricing compensation is the region(s) in which the administered price cap (APC) set the price.

The draft rule would also change the cost recovery arrangements for directions compensation to be based on energy input and output during 'intervention trading intervals'. This moves away from the existing 'intervention price trading intervals', which is a subset of 'intervention trading intervals'. Directions may apply in intervals that are not 'intervention price trading intervals' which creates ambiguity in the current rules as to how compensation costs should be recovered.

Our draft determination is not to proceed with Tilt Renewables' rule change request to recovery costs for 'capacity directions' from consumers as the beneficiary of these directions. AEMO's rule change request did not agree with the proposed change from Tilt Renewables. While the review supported the proposed change, our draft rule does not include this amendment.

More detail on the draft changes to the recovery of compensation costs can be found in appendix B.

1.2.3 Our draft rule would streamline and better align governance and administration of compensation

Consistent with the broader objectives of improved clarity in the rules and processes for compensation, we are making a number of draft changes to the governance and administration processes associated with compensation. These seek to improve alignment between the frameworks and make the outcomes of compensation processes more transparent and predictable for participants.

These include:

- introducing consistent thresholds and fees for claims and referrals to an independent expert (IE)
- consistent criteria for referrals of claims to the IE
- AEMO would receive and process all compensation claims and appoint a new IE in the case an objection
- consistent information standards and time limits for submitting claims
- amending the cost recovery reporting requirements to align with broader changes made by the Integrating Energy Storage Systems (IESS) rule change.

More detail on the full suite of draft changes to governance and administration of compensation can be found in appendix C.

1.2.4 Our draft rule includes decisions on other issues

The Commission has made draft decisions on three other matters raised in the rule change requests. The draft rule introduces an explicit objective for directions compensation. Currently, the National Energy Rules (NER) only contains objectives for administered pricing and market suspension compensation. The directions objective would be “to enable directed participants to be compensated for the costs associated with complying with a direction.” This objective is unique to the directions framework to reflect the emphasis on compensating costs, rather than retaining incentives to provide services in the case of the other frameworks.

The two other draft decisions the Commission has made are:

- Not to enact Tilt Renewables’ proposal to introduce a $0/MWh price floor for the consideration of compensation for scheduling errors. The proposal predates changes to scheduling errors compensation made by the IESS rule.
- To redraft and consolidate the rules pertaining to compensation frameworks. As discussed in section 1.2.5 below, we are taking a staged implementation approach. The major redrafting to align and consolidate the rules would take effect in schedule three of the draft rule.

More detail on the other changes included in the draft rule can be found in appendix D.

1.2.5 Our draft rule takes a staged approach to implementation

We have developed a three-stage implementation timetable for the draft rule. This reflects both the large number of amendments that constitute the draft rule and the interdependencies between those amendments.

Schedule 1 includes the amendments that do not require any process or system updates from AEMO. These have been given a 9-month implementation timeframe, which allows sufficient time for the AEMC to update the compensation guideline. Schedule 2 includes amendments that require AEMO to update its existing processes. These have been given a 12-month implementation timeframe. Schedule 3 includes amendments that require system updates from AEMO, and would commence two years after the final rule is made.

There are several contingent changes that may be simple to implement in isolation but require other more complex changes to occur concurrently or before they can be implemented. Our draft timeline has considered these relationships. We are seeking stakeholder feedback on the proposed implementation timeline, which is summarised in Table 1.1 below.

Table 1.1: Draft implementation timeline

	Schedule 1	Schedule 2	Schedule 3
Date	15 July 2027	15 October 2027	15 October 2028

In addition, there is a schedule with transitional rules that would commence shortly after the final rule is made. These provisions require AEMO and the AEMC to update guidelines and procedures by the relevant dates above.

More detail on implementation, including the changes included at each stage, can be found in appendix E.

1.3 Stakeholder feedback shaped our determination

Stakeholder feedback in both the review and to the consultation paper for this rule change has informed the development of the draft rule. The overall objectives of this rule change include to improve alignment between compensation frameworks in the rules and clarify the operation of frameworks. This is informed by stakeholder feedback to the review, which emphasised the need for the compensation outcomes to be well-understood and predictable in order to encourage participants to supply services during periods of market intervention.

We received 12 submissions to our consultation paper. In these, stakeholders echoed their feedback to the review and expressed broad support for the suite of changes proposed. Stakeholder feedback tended to highlight one or two key issues as points of divergence from or caution about the proposal. The AEMC has considered this feedback in developing the draft rule. Stakeholder views are discussed in more detail in relation to specific draft amendments in the policy appendices.

Table 1.2: Summary of policy positions

Policy issue	AEMC review recommendation	AEMO's/Tilt's rule change request position	Draft position
Objectives for compensation frameworks	Add a directions compensation objective for participants to be compensated for complying with directions	As per review	As per review
Preliminary compensation for directions and market suspension	Use a 12-month volume-weighted average price (VWAP) by technology and region	Use a 12-month VWAP plus a fixed cost adjustment (FCA)	As per review
Compensable direct costs	Introduce a consistent list of direct costs across frameworks	As per review	As per review
Opportunity costs	Allow opportunity costs to be claimed under all compensation frameworks	As per review	As per review

Policy issue	AEMC review recommendation	AEMO's/Tilt's rule change request position	Draft position
Assessment of administered pricing compensation	Administered pricing compensation assessed per-unit and on a per-trading-interval basis	As per review	As per review
Administered pricing compensation cost recovery	Costs allocated on a per-trading-interval basis, with additional clarity for when the Administered Price Cap (APC) binds in multiple regions	As per review	As per review
Cost recovery for 'capacity directions'	'Capacity directions' compensation to be recovered solely from consumers	Tilt: Recover costs for 'capacity directions' from consumers AEMO: Retain status quo, with no rules definition of 'capacity directions'	As per AEMO's rule change request
Directions compensation cost recovery	(No recommendation)	Directions compensation cost recovery based on all trading intervals with directions	As per rule change request
Reception and assessment of claims	AEMO to receive and, with the independent expert, assess all compensation claims	As per review	As per review
Minimum threshold for compensation claims	(No recommendation)	Apply a $10,000 threshold to all compensation claims	As per rule change request
Claim assessment costs	(No recommendation)	AEMO can recover assessment costs from the claimant	Claim assessment costs recovered from all cost-recovery market participants (CRMPs)
Role and selection of the independent expert (IE)	AEMO and the IE should assess claims, and the IE should assess all opportunity cost claims. Further consideration is needed on selection.	AEMO refers all opportunity cost claims, complex claims, and claims above $50,000 to the IE	As per rule change request. In the case of objections, AEMO appoints a new IE from a panel of available and qualified IEs
Time limit for claims	Consistent 60 business day time limit for all claims	Consistent 33 business day time limit	As per review

Policy issue	AEMC review recommendation	AEMO's/Tilt's rule change request position	Draft position
		for all claims	
Information standards for claims	Introduce standards for supporting information for administered pricing compensation claims and harmonise frameworks	As per review	As per review
Eligibility assessment	(No recommendation)	Remove specific requirements for an eligibility assessment as this forms part of the compensation assessment	As per rule change request
Cost recovery reporting	(No recommendation)	Remove requirement to estimate cost allocation by registered participant category	Replace requirement for AEMO to estimate cost allocation by registered participant category with reporting cost recovery by cost recovery market participants (CRMPs).
Scheduling error compensation	(No recommendation)	Tilt: Apply a \$0/MWh price floor for the consideration of compensation for scheduling errors Not addressed in AEMO's rule change request	Do not progress with Tilt Renewables' proposal for a \$0/MWh floor to apply to compensation claims for scheduling errors

2 Our draft rule would contribute to the energy objectives

The draft rule is made up of a number of smaller changes that the Commission considers would collectively contribute towards the National Electricity Objective (NEO). The draft rule changes the calculation and cost recovery of compensation, governance and administration, and other matters that we have assessed against our assessment criteria. We consulted stakeholders on these criteria in the consultation paper. This chapter discusses our assessment of the draft rule against the NEO using these criteria.

2.1 The Commission must act in the long-term interests of energy consumers

The Commission can only make a rule if it is satisfied that the rule will or is likely to contribute to the achievement of the relevant energy objectives.[7]

For this rule change, the relevant energy objective is the National Electricity Objective:

The NEO is:[8]

> to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—
>
> (a) price, quality, safety, reliability and security of supply of electricity; and
>
> (b) the reliability, safety and security of the national electricity system; and
>
> (c) the achievement of targets set by a participating jurisdiction—
>
> (i) for reducing Australia's greenhouse gas emissions; or
>
> (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

The targets statement, available on the AEMC website, lists the emissions reduction targets to be considered, as a minimum, in having regard to the NEO.[9]

2.2 We must also take these factors into account

2.2.1 We have considered whether to make a more preferable rule

The Commission may make a rule that is different, including materially different, to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule is likely to better contribute to the achievement of the NEO.[10]

For this rule change, the Commission made a more preferable draft rule. The reasons are set out in section 2.3 below.

7 Section 88(1) of the NEL.

8 Section 7 of the NEL.

9 Section 32A(5) of the NEL.

10 Section 91A of the NEL.

2.2.2 We have considered whether to make a draft rule for the Northern Territory

The NER, as amended from time to time, apply in the Northern Territory, subject to modifications set out in regulations made under the Northern Territory legislation adopting the NEL.[11] Under those regulations, only certain parts of the NER have been adopted in the Northern Territory.

The more preferable draft rule amends portions of chapters 10 and 11 of the NER, which apply in the Northern Territory. However, the primary changes made by the draft rule are to chapter 3 of the NER, which does not apply in the Northern Territory.

The Commission has determined to make a draft differential rule that disapplies the rule for the Northern Territory. The draft rule would not have effect in the Northern Territory and no amendments to the NER as applied in the Northern Territory would be made as a result of the rule. This draft determination contributes to the NEO by avoiding the costs, complexity and ambiguity likely to arise in the Northern Territory framework if a uniform rule were made.

See appendix G for further information on rule making requirements in the Northern Territory.

2.3 How we have applied the legal framework to our decision

The Commission must consider how to address the shortcomings of the existing compensation frameworks against the legal framework.

We identified the following criteria to assess whether the proposed rule change, no change to the rules (business-as-usual), or other viable, rule-based options are likely to better contribute to achieving the NEO:

- Principles of market efficiency
- Implementation considerations
- Principles of good regulatory practice

These assessment criteria reflect the key potential impacts – costs and benefits – of the rule change request, for impacts within the scope of the NEO. Our reasons for choosing these criteria are set out in section 3.2 of the consultation paper. There was limited feedback from stakeholders about the assessment criteria outlined in our consultation paper. Tesla proposed an additional criterion of transparency and predictability.[12] The Commission agrees with Tesla that this is an important consideration. This currently makes up part of our consideration of good regulatory practice, and has therefore informed our draft determination.

Due to the nature of this draft rule being a suite of many small amendments, a quantitative assessment is not practicable. The Commission has evaluated the impacts of the various policy options against the assessment criteria, taking into account the considerable amount of stakeholder feedback particularly to the review but also to the consultation paper for this rule change.

The rest of this section explains why the more preferable draft rule best promotes the long-term interest of consumers when compared to other options and assessed against the criteria. While the draft determination is for a more preferable rule, a large portion of the amendments in this draft rule are as proposed in AEMO's rule change request.

11 These regulations are the National Electricity (Northern Territory) (National Uniform Legislation) (Modifications) Regulations 2016.

12 Tesla, submission to the consultation paper, 30 April 2026, p. 3.

2.3.1 Our draft rule would support improved market efficiency

The Commission's more preferable draft rule promotes improved market efficiency in two key ways. First, it allocates costs efficiently. Second, the draft rule establishes incentives to provide services that contribute to the effective function of the market.

One of the key changes to the calculation of compensation is the draft decision to adopt a technology-specific VWAP methodology for the calculation of preliminary compensation. In using this approach, efficient market outcomes would determine preliminary compensation amounts. As discussed in chapter 1 and in more detail in appendix A, this would result in compensation that more closely reflects the underlying costs of providing a service, reducing costs for consumers. This is a more preferable draft rule in that it does not adopt AEMO's proposal for an FCA to be included in preliminary compensation. The Commission considers AEMO's proposed approach would bake into the compensation framework a systemic risk of over-procurement, resulting in inefficient excess costs for consumers.

Also contributing to the efficient allocation of costs, administration costs for processing claims are, under the draft rule, to be recovered from all CRMPs, rather than the claimant. This contributes to the objective of encouraging participants to provide services during periods of market intervention, as well as ensuring the beneficiaries of the compensation framework, as far as possible, bear the costs. This is as opposed to the current arrangements, under which directed parties or claimants bear the administration costs associated with the claim. The market as a whole benefits from a well-functioning compensation framework, and thus the costs should be allocated on that basis.

As discussed in the review, the Tilt Renewables proposal to recover costs for 'capacity directions' from consumers represents an efficiency improvement as these are the beneficiaries of the direction. However, the more preferable draft rule does not include this change as these directions are rare, and the benefits are therefore minimal. We have considered this in the context of additional costs and complexity (discussed in section 2.3.2 below), and determined the costs outweigh the efficiency benefits. This is discussed further in appendix B.

Among the suite of changes that make up the draft rule, are improvements in the calculation and recovery of administered pricing compensation. Under the current rules, profits in one trading interval can reduce compensation for losses in another interval. A similar situation can occur whereby profits for one unit can reduce compensation for losses incurred by another unit. This incentivises participants to withdraw capacity from units that are making a loss in particular intervals. In mitigating the risk of perverse incentives to withdraw capacity during particular intervals of an administered pricing period, the draft rule would incentivise participants to continue to supply energy during administered pricing, leading to more efficient market outcomes and better competition. These changes are discussed in more detail in appendix A and appendix B.

Efficiency is further improved by the reduction in perverse incentives. As discussed in section 2.3.2 below, our draft rule improves alignment between the frameworks by allowing opportunity costs to be recovered across all frameworks. Having different claimable costs across frameworks introduces potentially perverse incentives whereby participants prefer one type of intervention over another.

Also contributing to the objective of retaining incentives to provide services are the improvements to the consistency, transparency and predictability of the rules. Improved confidence in the compensation frameworks to deliver on the compensation objectives encourages participants to provide services during periods of market intervention. These are discussed further below in section 2.3.3.

2.3.2 Our draft rule would minimise implementation costs and complexity

The amendments in this draft rule collectively contribute towards improved alignment between compensation frameworks and simplicity in the rules that outline them. This minimises the regulatory burden for market participants, lowering costs associated with making claims, and reducing the chance of incorrect claims and resultant insufficient compensation. This reflects the feedback stakeholders provided to the review in 2024.

A key area of improved alignment between frameworks is in the costs that can be recovered. Our draft rule would consolidate a list of direct costs that is the same for all three compensation frameworks. Furthermore, our draft rule would allow participants to claim compensation for opportunity costs across the types of intervention. Our draft rule replaces “loss of revenue” with “opportunity cost” in the directions framework and allows opportunity costs to be claimed in the market suspension framework.

More detail on the consolidation of the rules can be found in appendix D. Other areas of improved alignment include:

- consistent thresholds for minimum claims and referrals of claims to an independent expert across frameworks
- consistent time-limits for submitting claims and consistent standards for supporting information
- AEMO would receive and process all claims.

More details on how these amendments would operate can be found in appendix C.

In addition to improving alignment on minimum thresholds, these have been updated to better reflect the costs associated with processing or assessing claims. Claims would have a minimum threshold of $10,000. This contributes to minimising costs and complexity by limiting claims to only those where the cost to process them does not exceed the benefit to market participants of providing them.

Similarly, a threshold of $50,000 for referrals to an IE reflects the fact that there are often greater costs associated with referring a claim to an IE than arise when AEMO processes a claim. This is also reflected in the other criteria for referrals that increase costs, namely opportunity cost claims and claims of higher cost or complexity to assess.

Our more preferable draft rule does not include Tilt Renewables’ proposal to recover costs for ‘capacity directions’ from consumers. As discussed above, there are minimal efficiency benefits from this approach. However, AEMO does not currently have a distinct classification of direction for ‘capacity directions’. The specific characteristics of these directions are vague, and they are rarely used. Requiring AEMO to update its processes to classify directions in this way represents an additional implementation cost that is not warranted by the benefits. This is discussed further in chapter 1 and appendix B.

2.3.3 Our draft rule would represent good regulatory practice

As has been reiterated through this document, a key objective of this draft rule is to improve participants’ confidence in the compensation frameworks to encourage them to continue to provide services during periods of market intervention. The assessment criterion of good regulatory practice reflects this objective. This criterion is met through the draft rule improving the transparency and simplicity of the rules, as well as, in particular, improving the predictability of compensation outcomes.

As discussed in section 2.3.2, there are a number of areas in which the draft rule would improve alignment across the frameworks, making them simpler for participants to engage with, and the outcomes they provide more predictable. The draft rule would also simplify engagement with compensation frameworks and reduce regulatory burden through consolidating the frameworks in the rules. This drafting consolidation is discussed in more detail in appendix D.

The recommendations of the review in 2024 formed the basis of AEMO's rule change request, and the draft rule largely aligns with those recommendations. This draft rule therefore represents good regulatory practice by addressing issues highlighted by the events of June 2022.

The draft rule also includes amendments to AEMO's cost recovery reporting requirements. Under the draft rule, AEMO would no longer be required to report cost recovery for directions compensation and Reliability and Emergency Reserve Trader (RERT) by participant category, but rather on a cost recovery market participant (CRMP) basis. This aligns with changes the IESS rule made to the way costs are recovered, therefore representing good regulatory practice through alignment with other regulation.

A Our draft rule would harmonise and improve the calculation of compensation payments

The Commission has made a draft determination to align the calculation of compensation payments across compensation frameworks. This includes:

- moving to a volume-weighted average price methodology to be used in calculating preliminary compensation for directions and market suspensions
- harmonising the definitions of direct costs across the three compensation frameworks that were the focus of the review and AEMO's rule change request
- allowing opportunity costs to be claimed across these three frameworks.

Additionally, assessment of administered pricing compensation under the draft rule is more targeted, with compensation calculated on a per-trading-interval and per-unit basis.

A.1 Our draft rule would harmonise preliminary compensation based on volume-weighted average prices

Under the draft rule, AEMO would calculate preliminary compensation for directions and market suspensions based on the 12-month VWAP for each technology in each region. This VWAP methodology is broadly consistent with the proposed approaches in AEMO's rule change request and in the compensation review.[13]

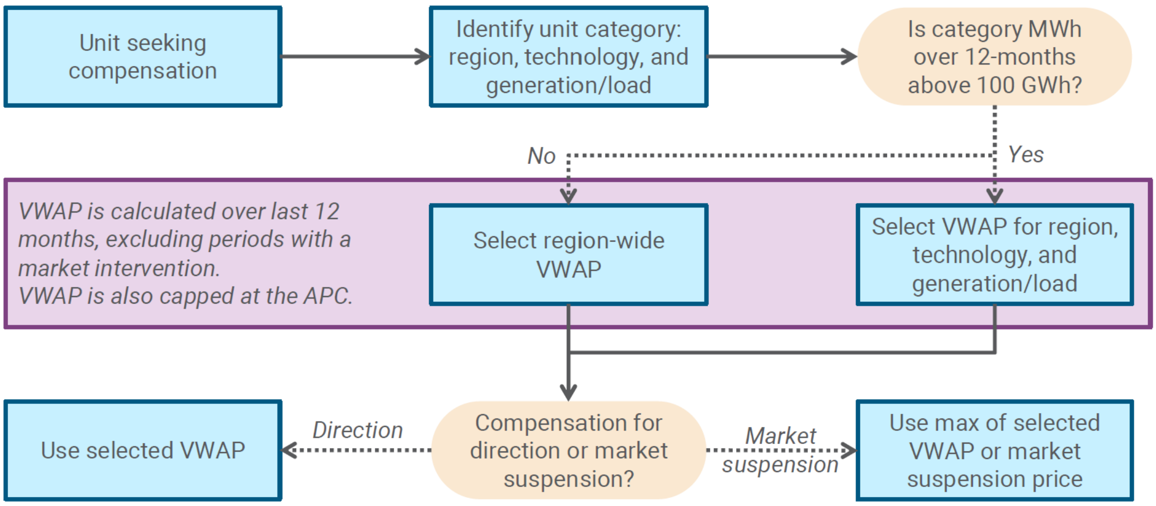
We consider the methodology proposed in this draft determination would contribute to achieving the NEO, in respect of efficient investment in and operation of electricity services, because it would:

- Improve the likelihood that preliminary compensation is cost-reflective. This reduces the risk of systemically under or over-compensating participants.
- Harmonise preliminary compensation methodologies across frameworks. This mitigates incentives for participants to favour being directed during market suspension periods, and therefore better aligns with the objectives of each framework.

The diagram below illustrates our proposed method for calculating preliminary compensation under the VWAP methodology. The rest of this section provides more detail on the VWAP methodology, as well as a summary of stakeholder views.

13 AEMC, Review into electricity compensation frameworks final report, pp. 14-18.
AEMO, Rule change proposal to align the compensation frameworks, pp. 17-19.

Figure A.1: Preliminary compensation methodology



Note: This preliminary compensation methodology applies to the provision and consumption of energy. The 100 GWh threshold does not apply to preliminary compensation for ancillary services, meaning the category VWAP is always selected for ancillary services.

A.1.1 Our VWAP methodology would improve the cost-reflectivity of preliminary compensation

The Commission considers the VWAP methodology outlined in this determination is the most appropriate for determining preliminary compensation. Compared to the 90th percentile and benchmarking approaches currently used for preliminary directions and market suspension compensation, the VWAP is more likely, in the long-term, to reflect the participants' costs of providing energy and other services. This is because the VWAP is based on actual market prices and dispatch outcomes, therefore reflecting decision-making by participants to offer generation or load based on operating costs, start-up costs, energy constraints, and other cost considerations. In submissions to the consultation paper, stakeholders broadly supported the use of a VWAP for preliminary compensation.[14]

A cost-reflective method for preliminary compensation delivers more efficient outcomes for consumers by reducing the frequency and magnitude of under- and over-compensation to participants. The costs of over-compensation are borne by consumers with no mechanism for rectification. While participants may seek additional compensation if they are under-compensated, material risks of under-compensation can reduce participant confidence in their ability to recover their costs through the compensation frameworks. In turn, this reduces incentives to continue supplying services during interventions. Therefore, it is important that preliminary compensation be cost-reflective to deliver efficient cost and reliability outcomes for consumers while meeting the objectives of the compensation frameworks.

The draft rule would apply VWAPs that are specific by technology, region, and generation/consumption categories.[15] This allows the preliminary compensation framework to more accurately reflect the underlying costs of providing or consuming energy, or other services.

14 Submissions to the consultation paper: AEMO, p. 3; AGL, p. 1; Akaysha, p. 1; CS Energy, pp. 1-2; Delta Electricity, p. 2; EnergyAustralia, p. 1; Shell, pp. 1-2; Snowy Hydro, p. 2; Tesla, p. 1.

15 See cl 3.12.2A(i) in Schedule 3 of the draft rule.
Note: in this and all subsequent references to the draft rule, the Schedule 3 reference is used. Some amendments may also appear in schedules 1 and 2. See Appendix E for details on the implementation timeline and check the draft rule.

- Different technologies have different underlying costs and operating profiles, and thus should have different VWAPs for preliminary compensation to be cost-reflective. We consider AEMO, through its role and activities as market and system operator, is best placed to define and classify technology types through procedures. AEMO would be required under the draft rule to consult on these procedures, providing further transparency to participants on technology classifications.
- VWAPs would also be separated by each region to reflect different costs and spot revenue opportunities between NEM regions.
- For storage, it is appropriate to have one VWAP for generation and one VWAP for consumption.[16] This would reflect the separate costs and market values of generation and consumption, and allow storage to receive an average price arbitrage for energy that is equally consumed and generated. Conversely, using one VWAP for generation and consumption for the same technology would result in net positions cancelling out and reducing the cost-reflectivity of preliminary compensation. We note that this is a change from the existing arrangements, where preliminary compensation is only applicable for the provision of energy and not the consumption of energy. We consider that it is important for participants to be eligible to receive preliminary compensation for both the generation and consumption of energy as storage plays an increasingly important role in the NEM.

We consider that a 12-month period for calculating the VWAP is appropriate for balancing stability and recency. With 12 months, the VWAP should be sufficiently stable for participants to predict expected preliminary compensation (reducing operational uncertainty) and trend towards average plant costs with a sufficiently large dataset. Furthermore, the time period is also short enough for the VWAP to reflect recent market conditions (such as high price events).

The draft determination would exclude periods with market interventions from VWAP calculations to preserve the cost-reflectivity of the VWAP. Market interventions distort market outcomes and can result in plant being dispatched below costs, meaning that their inclusion in VWAP calculations would reduce the extent to which preliminary compensation reflects unit costs. The draft determination would exclude the following periods from VWAP calculations:[17]

- periods with active directions
- market suspension periods
- administered pricing periods.

Some stakeholders also considered that other periods should be excluded where system services contracts are deployed, or where AEMO used non-network, limit-based generic constraints to alter the dispatch merit order.[18] We have not excluded the suggested periods as they are less transparent and predictable relative to directions, market suspensions, and administered pricing periods, which could lead to less predictability of preliminary compensation and undermine the compensation objectives. Furthermore, we have focused on excluding market interventions for which participants can receive compensation, as the ability to receive compensation alters participant behaviour in the market in line with compensation objectives.

This method for calculating the VWAP is broadly consistent with AEMO's rule change request and the compensation review. Key differences are having VWAPs for generation and consumption (to

16 See cl 3.12.2A(i)(1) and (2) in Schedule 3 of the draft rule. We have also made changes to scheduled load references for compensation to also include the load of scheduled bidirectional units.

17 See definition of "TI" in clause 3.12.2A(i) of Schedule 3 of the draft rule.

18 Submissions to the consultation paper: EnergyAustralia, p. 2; Shell, pp. 1-2.

improve cost-reflectivity for storage) and excluding market suspensions and administered pricing periods from calculations (extending the logic of excluding market interventions).

Preliminary compensation would not include a fixed cost adjustment

Consistent with the compensation review and differing from AEMO's rule change request, the draft determination does not include a fixed cost adjustment (FCA) in addition to the VWAP for preliminary compensation.

In its rule change request, AEMO proposed to include an additional FCA in preliminary compensation as AEMO considered the VWAP may under-compensate participants where the costs of complying with a direction are higher than typical.[19] In turn, AEMO considered including an FCA would reduce the number of additional compensation claims, reducing administrative burden for AEMO and costs for market participants.

Multiple generators and AEMO supported including an FCA on top of the VWAP to reduce under-compensation risks.[20] In contrast, AGL noted that:[21]

> 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.

The Commission has not included an FCA in this draft determination for two key reasons:

- **The VWAP is cost-reflective:** As it is based on actual market price and dispatch outcomes, the VWAP reflects the actual financial decisions and outcomes for participants operating units in the NEM. In turn, this means that the VWAP is sufficiently cost-reflective for preliminary compensation and an improvement on the status quo. Consequently, we expect the frequency and magnitude of under-compensation, and in turn the number of additional compensation claims, would reduce relative to the status quo.
- **Including an FCA would increase costs to consumers:** Including an FCA would reduce under-compensation and the number of additional compensation claims, at the cost of risking systemically over-compensating participants. Consumers bear the costs of over-compensation, with no mechanism to claim back over-compensated amounts. Under-compensation risks are borne by participants and can be mitigated through additional compensation claims.

The VWAP method would be consistent across all technologies

In submissions to the consultation paper, some stakeholders considered that a VWAP method for preliminary compensation should not be applied to batteries.[22] These stakeholders emphasised the importance of compensating opportunity costs for storage due to their operational and commercial characteristics, with some suggestions to calculate preliminary compensation for batteries based on comparing actual market outcomes against pre-dispatch operating trajectories.[23]

19 AEMO, Rule change proposal to align the compensation frameworks, pp. 18-19.
20 Submissions to the consultation paper: AEMO, p. 3; CS Energy, p. 2; Delta, p. 2; EnergyAustralia, p. 3; Origin, p. 1; Shell, p. 2; Snowy Hydro, p. 3.
21 AGL, submission to the consultation paper, p. 3.
22 Submissions to the consultation paper: Akaysha Energy, p. 1; Neoen Australia, pp. 1-2; Tesla, p. 1.
23 Submissions to the consultation paper: Neoen Australia, p. 1; Tesla, p. 1.

The Commission's draft determination is to apply the VWAP methodology to calculate preliminary compensation consistently for all technologies. We consider that allowing preliminary compensation for generation and consumption, at separate VWAPs, would appropriately reflect the relevant costs for storage and reduce uncertainty and risks associated with seeking compensation for consumption through the additional compensation claim process. This approach is consistent with Tesla's submission.[24] Where units are under-compensated, they may seek additional compensation through the additional compensation claim process.

While the VWAP can reflect average opportunity costs as it is calculated based on historical dispatch outcomes, we do not consider that opportunity costs for a specific period can be accurately determined through a predictable and formulaic preliminary compensation method. This is primarily due to difficulty and complexity in determining counterfactuals, where an inaccurate counterfactual would increase risks of under- and over-compensation. As noted by EUAA:[25]

> Opportunity cost compensation is inherently difficult to verify because it requires a counterfactual assessment of "business as usual" during abnormal market conditions.

Furthermore, we note that our other reforms to the compensation frameworks in this rule change would, if implemented, improve the ability for storage to be compensated for their opportunity costs. This includes:

- allowing opportunity costs to be assessed across the three key compensation frameworks
- broad improvements to administrative and governance matters regarding additional compensation claims
- a consolidation of the compensation frameworks Rules to improve simplicity and clarity for stakeholders.[26]

A.1.2 The VWAP methodology would improve consistency across frameworks to mitigate perverse incentives

The draft determination would apply the above VWAP methodology to preliminary compensation for:

- **Directions compensation:** The VWAP method would replace the 90th percentile approach for preliminary compensation.[27]
- **Market suspension compensation:** Preliminary compensation for a unit would be calculated based on the greater of the market suspension price and the relevant VWAP.[28] The VWAP would replace the current benchmarking approach.

This approach is consistent with AEMO's rule change request and the compensation review. By aligning the preliminary compensation calculations, the draft rule:

- reduces unnecessary complexity in the compensation frameworks
- reduces incentives for participants to favour being directed during market suspensions, while ensuring any plant dispatched during a market suspension is no worse off than if it were directed.

24 Tesla, submission to the consultation paper, p.2.
25 EUAA, submission to the consultation paper, p.2.
26 This is done in Schedule 3 of the draft rule.
27 Specifically, this would apply to directions for the provision of energy or market ancillary services.
28 Clause 3.12.2A(f) of Schedule 3 of the draft rule.

Furthermore, the VWAP would be capped at the APC.[29] This reduces perverse incentives where participants may favour a unit being directed during administered pricing if the unit has a corresponding VWAP that is higher than the APC. Additionally, noting that the APC is set to allow most generators to cover short-term costs, capping the VWAP at the APC reduces risks of over-compensation and incentives for participants to manipulate the VWAP.

Some stakeholders considered that the VWAP should not be capped at the APC, as the VWAP should reflect historical dispatch outcomes and could result in under-compensation.[30] Supported by analysis of VWAPs over 2025, we do not expect that, in practice, the VWAP would often be capped at the APC and do not consider this cap would result in systematic under-compensation. We also consider it prudent to mitigate potential perverse incentives, as the VWAP could be capped by the APC due to sustained high prices prior to an administered pricing period.

A.1.3 A regional VWAP would apply where there is insufficient data

In appendix A.1.1, we describe how VWAPs would be calculated separately for different categories of plant, where there are categories for different combinations of technologies, regions, and generation/consumption. However, there can be issues with using different VWAPs for different categories:

- **Insufficient data:** If there are few units of a technology within a region (including any new technologies), there may be insufficient data to calculate a VWAP that accurately reflects the unit's costs, particularly if the units are rarely dispatched. Insufficient data for a VWAP category can increase under- or over-compensation risks.
- **Manipulation of compensation amounts:** Since the VWAP is based on actual dispatch and price outcomes, participants could seek to manipulate their VWAP to receive excessive compensation. The risk of VWAP manipulation is low but non-zero, as the participant would need to operate units of a technology that are few in number in a region and are predictably directed, in addition to having confidence that additional compensation would offset any reduced profits during normal market operations. Furthermore, the VWAP is capped at the APC, limiting potential additional profits.

To address these issues, the regional VWAP would be used for preliminary compensation to a unit, if the unit is in a category that has generated or consumed less than 100 GWh of energy over the 12-month VWAP timeframe.[31] We consider that this approach is appropriate for mitigating these issues by:

- providing a predictable, stable, and technology-agnostic VWAP that can be used when there is uncertainty about a unit's costs
- having an energy generation/consumption threshold representing a level of spot market participation and exposure where there is increased confidence the VWAP is cost-reflective.

This approach is consistent with stakeholder suggestions for a minimum amount of data for calculating a category's VWAP, below which a fallback mechanism for preliminary compensation should be used.[32]

We consider that an energy threshold is the appropriate mechanism to trigger when a regional VWAP should be used. Both issues are related to when there are too few units and/or too little unit

29 Clause 3.12.2A(e), definition of VWAP, in Schedule 3 of the draft rule.

30 Submissions to the consultation paper: Shell, p. 2; Snowy Hydro, p. 2.

31 Clause 3.12.2A(i)(4), in Schedule 3 of the draft rule.

32 Submissions to the consultation paper: AEMO, p. 3; EnergyAustralia, p. 2.

operation to provide confidence in a VWAP being cost-reflective. Therefore, energy generation/consumption can be used to identify when both issues might arise.

We also consider 100 GWh is an appropriate threshold, having considered the equivalent generation requirements for a single unit to meet the threshold.[33] We also conducted heuristic analysis of historical regional generation/consumption and regional concentration for different technologies, using technology type and technology detail definitions in AEMO's *NEM January 2026 Generation Information*.[34]

We recognise that the ability for a technology category to exceed the threshold is partly dependent on the specificity of technology definitions, which are to be defined by AEMO through procedures. However, we consider that the level of the threshold should be determined through the NER and that 100 GWh may be sufficient regardless of technology definitions, as it was partly determined by considering energy generation of a single unit.

It is worth noting that this regional VWAP approach would not apply to ancillary services. We consider that the likelihood and magnitude of issues for ancillary services is materially less than for the provision/consumption of energy, such that we do not consider a regional VWAP method is necessary for ancillary services.

We are interested in stakeholder feedback on this approach to managing situations where this is insufficient data for the VWAP to be cost-reflective, and whether 100 GWh is an appropriate value for the threshold.

A.2 Our draft rule would harmonise definitions of direct costs across compensation frameworks

The draft rule harmonises the direct costs that can be claimed across the three key compensation frameworks by consolidating them in one definition: "the costs incurred by the relevant Market Participant as a direct result of the relevant compensation event". The draft rule includes a non-exhaustive list of direct costs:[35]

- energy input costs
- operating and maintenance costs directly attributable to the relevant pattern of operation to provide services, including acceleration or delay costs of maintenance work
- wear and tear directly attributable to the relevant pattern of operation
- other costs incurred in connection with the relevant claimant operating during the intervention.

This change enhances consistency between the three compensation frameworks, as there are currently separate lists and definitions of direct costs that can be claimed.[36] Having separate definitions of direct costs can increase confusion among stakeholders due to inconsistency across compensation frameworks. Furthermore, having one consistent list of direct costs improves predictability and transparency in the frameworks, promoting good regulatory practice. The draft determination is consistent with proposed changes from the compensation review and AEMO's rule change request.[37]

33 For example, a generic 265 MW large OCGT would need to operate at full capacity for 377 hours to generate 100 GWh, or at an assumed minimum stable operating level of 50 MW for 2,000 hours.

34 AEMO's Generation Information webpage can be found here.

35 Clause 3.12.2B(a), in paragraph (1) of the definition of "total costs", in Schedule 3 of the draft rule.

36 These lists can be found in NER clauses 3.15.7A(g)(3) and 3.15.7B(a3) for directions compensation, NER clauses 3.14.5B(d)-(d1) for market suspension compensation, and in the AEMC's compensation guidelines for administered pricing compensation.

37 AEMC, Review into electricity compensation frameworks final report, p. 35.
AEMO, Rule change proposal to align the compensation frameworks, p. 20.

One stakeholder explicitly supported harmonising direct costs across frameworks.[38] Some stakeholders supported wear and tear, asset degradation, and the potential for voided battery warranties to be compensable.[39] The draft rule allows for participants to be compensated for these costs where directly attributable or in connection to the intervention. We note that there was strong support for harmonising direct cost definitions in stakeholder feedback to the review.[40]

Note that the compensation to market participants affected by directions and the use of RERT (but were not subject to a direction and did not provide RERT) retains a separate concept of direct costs in clause 3.12.2(a1) of the NER. These include fuel costs, and incremental maintenance and manning costs. We are interested in stakeholder feedback on whether there should be greater alignment between the three key compensation frameworks and the definition of direct costs in clause 3.12.2(a1) of the NER.

A.3 Our draft rule would allow opportunity costs to be claimed across the three compensation frameworks

The draft rule harmonises the three key compensation frameworks by allowing opportunity costs to be claimed consistently across these frameworks. This is consistent with the proposed changes from the review and AEMO's rule change request.[41]

Under the current arrangements, there are different approaches to compensation for opportunity costs:

- **Administered pricing:** opportunity costs can be claimed
- **Directions:** loss of revenue can be claimed
- **Market suspension:** neither opportunity costs nor loss of revenue can be claimed.

The Commission considers that this inconsistency increases complexity and does not reflect that participants can incur opportunity costs regardless of intervention type. Additionally, inconsistencies between compensation frameworks could create perverse incentives for participants to seek one form of compensation over another.[42] These perverse incentives may negatively impact reliability and the efficient operation of the spot market, in addition to being inconsistent with the compensation objectives. Therefore, the inconsistent treatment of these costs across the current frameworks is not appropriate.

Therefore, we consider that opportunity costs should be claimable under the three key compensation frameworks. This would support the achievement of the compensation objectives and promote achievement of the NEO by supporting the reliable and secure operation of the power system. Implementing this change involves replacing 'loss of revenue' with 'opportunity costs' in directions compensation and allowing opportunity costs to be claimed for market suspensions.[43]

As discussed in appendix C, all opportunity cost claims would be assessed in line with the AEMC's compensation guidelines.[44] The Commission will update the compensation guidelines to be consistent with the changes (if any) from the final determination of this rule change, as well as

38 Akaysha, submission to the consultation paper, p. 1.

39 Submissions to the consultation paper: AGL, p. 2; Origin, p. 1.

40 Submissions to *Review into electricity compensation frameworks* draft report: AEC, p. 5; AEMO, p. 7; AGL, p. 5; CS Energy, p. 3; Hydro Tasmania, pp. 2-3; Origin, p. 2; Shell, p. 5; Snowy Hydro, p. 5; Tesla, p. 2.

41 AEMC, Review into electricity compensation frameworks final report, p. 11.
AEMO, Rule change proposal to align the compensation frameworks, p. 20.

42 For example, participants may seek to be directed during a market suspension to be able to claim compensation for 'loss of revenue'.

43 See clauses 3.12.2B(c), (d) and (e), referring to "total costs" which includes opportunity costs, as defined in clause 3.12.2B(a), in Schedule 3 of the draft rule.

44 See the definition of "opportunity cost" in clause 3.12.2B(a), in Schedule 3 of the draft rule.

general improvements based on learnings from assessing opportunity cost claims from June 2022.[45] Our expectation is for the compensation guidelines to provide confidence to claimants on how opportunity costs would be valued and that AEMO and the independent expert would assess opportunity cost claims consistently.

Allowing opportunity costs to be claimed across the three key compensation frameworks is consistent with the changes proposed in the compensation review and AEMO's rule change request. In submissions to the consultation paper, stakeholders supported allowing opportunity costs to be claimed across compensation frameworks.[46] Some stakeholders submitted that opportunity costs are particularly important for storage assets.[47] We agree that compensation to storage for opportunity costs is important, and we consider this draft determination would substantially improve how participants with storage are compensated by consistently allowing opportunity costs to be claimed across compensation frameworks. Other submissions emphasised that any approach to opportunity costs should be subject to clear guidance.[48] We expect that the AEMC's compensation guidelines will continue to provide clear guidance on how opportunity cost claims are assessed.

A.4 Our draft rule would assess administered pricing compensation on a per-trading-interval and per-unit basis

Under the draft rule, administered pricing compensation would be assessed in a more targeted manner. Specifically, administered pricing compensation would be assessed:[49]

- on a per-trading-interval basis, instead of an eligibility period, and
- per-unit, instead of across a portfolio.

These changes would mitigate perverse incentives that are not aligned with the objective of the administered pricing compensation framework. This is because, under the current arrangements, profits in one trading interval or by one unit can reduce compensation for losses incurred in another trading interval or by another unit.

The Commission is conscious that these changes may increase costs to consumers due to higher administered pricing compensation payments. However, we expect the improved reliability benefits from resolving perverse incentives would outweigh any additional costs.

Our draft determination is consistent with the changes proposed in the compensation review and AEMO's rule change request.[50] One stakeholder explicitly supported this change in submissions to the consultation paper.[51] We also note that there was strong support for this change in stakeholder feedback to the compensation review.[52]

45 See clause 11.19X.2 in Schedule 4 of the draft rule.

46 Submissions to the consultation paper: Akaysha, pp. 1-2; CS Energy, p. 2; Snowy Hydro, pp. 1-2; Tesla, p. 2.

47 Submissions to the consultation paper: Akaysha, pp. 1-2; Snowy Hydro, pp. 1-2; Neoen, p. 1; Tesla, p. 2.

48 Submissions to the consultation paper: EUAA, p. 2; Neoen, p. 2.

49 See clauses 3.12.2B(a) and (d)(1) in Schedule 3 of the draft rule.

50 AEMC, Review into electricity compensation frameworks final report, pp. 28-30.
AEMO, Rule change proposal to align the compensation frameworks, p. 20.

51 AEMO, submission to the consultation paper, p. 4.

52 Submissions to *Review into electricity compensation frameworks* draft report: AEC, p. 5; AEMO, p. 6; AGL, p. 4; Hydro Tasmania, p. 1; Shell, p. 5; Tesla, p. 1.

A.4.1 Assessing compensation on a per-trading-interval basis mitigates perverse incentives

Administered pricing compensation is currently assessed over an eligibility period.[53] An eligibility period is defined as the period from the first trading interval in a trading day in which the price limit event occurs to the last trading interval of that trading day.[54]

Assessing compensation across an eligibility period can create perverse incentives that are counter to the objective of the administered pricing compensation framework. This is because profits in intervals within an eligibility period can offset losses incurred in other intervals when assessing compensation amounts. In turn, this provides incentives for units to withdraw capacity in loss-making intervals to maximise profits, negatively impacting reliability for consumers during administered pricing periods. Note that this is particularly relevant for regions affected by inter-regional price scaling, where participants may be in a profitable position during the eligibility period before prices are capped by the APC.

Furthermore, there are also unclear interactions between administered pricing and the other compensation frameworks. As administered pricing compensation is assessed over an eligibility period, there can be instances where a claimant is eligible for both administered pricing compensation and directions or market suspension compensation. The NER and compensation guidelines currently suggest that in these situations, earlier compensation decisions should be re-assessed and potentially revised when assessing administered pricing compensation.

The draft determination to assess administered pricing compensation on a per-trading-interval basis would remove the perverse incentives, as profits made in some intervals would not offset losses in other intervals when compensation is being calculated. Additionally, assessing compensation on a per-trading-interval basis enables a clear differentiation for calculating compensation when there are multiple interventions.[55]

A.4.2 Assessing compensation on per-unit basis mitigates perverse incentives

In its assessment of opportunity cost claims arising from June 2022, the Commission applied the current NER clause 3.14.6(b) and assessed compensation across all units that make up a claim for a participant.[56]

For the same reasons set out in appendix A.4.1, assessing compensation across all units of a participant under the current rules drafting can create perverse incentives, where profits made by one claimed unit can offset losses incurred by another claimed unit when calculating compensation amounts. These incentives are for profit-maximising participants to not operate units that would incur losses when they have another unit generating profits at the same time, thereby resulting in negative reliability outcomes for consumers.

Therefore, the draft determination to assess administered pricing compensation on a per-unit basis would mitigate this perverse incentive and support the objective of maintaining incentives for participants to continue to supply services during administered pricing. This would contribute to the NEO by supporting the reliability of electricity supply.

53 NER clause 3.14.6(b).

54 NER clause 3.14.6(a).

55 Note that the broader consolidation of the compensation frameworks and processes under the NER further addresses this issue (see generally Schedule 3 of the draft rule). Changes to the compensation guidelines would further support addressing this issue.

56 See for example AEMC, Final decision - Snowy Hydro direct and opportunity cost claim for here.

B Our draft rule would change the arrangements for recovering compensation costs

The Commission has made a draft determination and rule to make clarifications to the cost recovery of administered pricing compensation and directions compensation. These changes are minor and aimed at clarifying parts of the existing National Electricity Rules (NER) that are unclear or do not always operate as intended, resulting in a more efficient allocation of compensation costs. The draft rule does not make any changes to cost allocation for 'capacity directions'.

B.1 Our draft rule would clarify cost recovery arrangements for administered pricing compensation

The draft rule would clarify that administered pricing compensation costs are recovered:[57]

- on a trading interval basis
- based on the region(s) where the price was set by the administered price cap (APC), also known as the cost recovery region(s).

Under the NER, cost recovery for administered pricing compensation is based on the cost recovery region and spanning the whole eligibility period.[58]

We consider that administered pricing compensation should be recovered on a trading interval basis within an eligibility period, instead of across an eligibility period. This aligns with the draft determination to calculate administered pricing compensation on a trading interval basis, providing a clear allocation of compensation costs. It is also consistent with the policy intent of the *Compensation arrangements following application of an administered price cap and administered floor* rule change, which introduced the concept of eligibility periods.[59]

The clarifications to the cost recovery region(s) would resolve a flaw in the current NER, which only anticipates one cost recovery region per eligibility period. Therefore, if the APC applies in multiple regions or claimants have facilities in multiple regions, the NER is unclear on how administered pricing compensation costs should be recovered across the multiple regions.[60]

During the compensation review, the Commission and AEMO identified several scenarios that should be covered by the NER.[61] This draft determination has made changes to cost recovery for administered pricing compensation consistent with the changes proposed in the compensation review and in AEMO's rule change request.[62] The draft rule would codify the intended approach to cost recovery, by clarifying that the region from which to recover compensation for a particular unit in a trading interval is:

- if the unit is located in a region where the spot price is set by the APC, that region
- if the unit is not located in a region where the spot price is set by the APC, the region(s) with spot price(s) set by the APC and with energy flows from the unit's region.

57 See clause 3.15.10 in Schedule 3 of the draft rule.

58 NER clause 3.15.10.

59 The project page for the *Compensation arrangements following application of an administered price cap and administered floor* rule change can be found here.

60 For reference, this occurred in June 2022 when spot prices were set by the APC across multiple regions.

61 AEMC, Review into electricity compensation frameworks final report, pp. 36-37.

62 AEMC, Review into electricity compensation frameworks final report, p. 36.
AEMO, Rule change proposal to align the compensation frameworks, p. 21.

This approach aims to allocate costs to the regions that had spot prices set by the APC and notionally received energy from the compensated unit (if the unit is located in the capped region or is in a separate region exporting towards to capped region). This is consistent with the approach for inter-regional price scaling.[63] In turn, this approach would result in costs being allocated to the beneficiaries of increased reliability from the administered pricing compensation framework. We are interested in stakeholder views on whether this codified approach would cover the potential administered pricing compensation scenarios.

Several stakeholders supported clarifying the cost recovery arrangements for administered pricing compensation.[64]

B.2 Our draft rule would clarify cost recovery arrangements for directions compensation

The draft rule would clarify that directions compensation is recovered based on energy input and output during 'intervention trading intervals'.[65]

This would be a minor clarification from the existing rules, where cost recovery of directions compensation is based on energy input and output during 'intervention price trading intervals'. Intervention price trading intervals are a subset of intervention trading intervals where intervention pricing is used to set prices.[66]

AEMO raised in its rule change request that directions may apply in trading intervals where intervention pricing does not apply.[67] This means that the rules are unclear on how costs should be recovered for such periods.

We consider it would be beneficial for the rules to be clarified for directions compensation cost recovery to be based on intervention trading intervals, instead of only intervention price trading intervals. This would resolve uncertainty where a direction applies without intervention pricing. Additionally, this would also ensure compensation costs are recovered based on the intervals in which the directed service is provided, resulting in a more efficient allocation of costs.

Our draft determination is consistent with AEMO's proposal in its rule change request. Stakeholders supported clarifying that directions compensation cost recovery should apply across all trading intervals in which a direction is active.[68]

B.3 Our draft rule would make no changes to cost allocation for capacity directions compensation

The draft rule would not change the cost allocation of compensation for 'capacity directions'.

Under the current arrangements, compensation for directions for services other than energy or ancillary services is recovered from both generators and customers, based on their share of net generation. This includes 'capacity directions', which are directions for storage plant to consume energy for the purposes of ensuring reliability at a later point.

63 See NER clause 3.14.2(e) for the current approach to inter-regional price scaling when the APC is applied.

64 Submissions to the consultation paper: AEMO, p. 4; Delta, p. 2.

65 See references to 'intervention trading intervals' in clause 3.15.8(b) and 3.15.8(g) in Schedule 1 (and carried through to Schedule 3) of the draft rule.

66 NER clause 3.9.3(b).

67 AEMO, Rule change proposal to align the compensation frameworks, p. 21.

68 Submissions to the consultation paper: AEMO, p. 5; AGL, p. 4; Delta, p. 2; Shell, p. 2; Tesla, p. 2.

Tilt Renewables proposed in a rule change request that the costs of compensation for capacity directions be recovered solely from consumers, rather than from both consumers and generators, as they are under the existing framework.[69]

The Commission previously recommended in the review that compensation costs for capacity directions be recovered solely from consumers.[70] This was because consumers, not generators, are the beneficiaries of capacity directions due to increased reliability. Therefore, the proposed change could result in a more efficient allocation of costs while removing potentially perverse incentives for generators to reduce output during periods when capacity directions are in place.[71]

In submissions to the consultation paper, multiple stakeholders supported recovering the costs of compensation for capacity directions solely from consumers.[72] EUAA opposed the proposed change as consumers should not bear additional risks of this kind.[73] Consistent with its rule change request, AEMO opposed the proposed change as defining and applying a separate category of capacity directions would introduce complexity and require subjective judgement in addition to only addressing one cost allocation issue.[74]

The Commission has determined that a change to cost recovery specifically for capacity directions is not warranted. While we maintain our view that there are theoretical benefits associated with the proposed change, the practical benefits will be immaterial and are likely to be outweighed by administrative burden and complexity.

- The benefits of the proposed change would likely be minimal, as capacity directions should rarely be used. The inherent design of the energy-only market in the NEM provides strong price signals and incentives for storage to operate in a manner that is consistent with ensuring reliability. We expect capacity directions to only be used by AEMO as an absolute last-resort mechanism when the spot market is not functioning to deliver price signals as intended, such as during the June 2022 market suspension. Combined with other reforms to compensation and market resilience (including changes to the market price settings), we expect the likely additional benefits of the proposed change would be negligible.
- There is likely to be administrative burden and complexity with creating a distinct category for capacity directions. As raised by AEMO, there is subjectivity in determining whether a direction is a capacity direction, in addition to complexities for market settlement.[75] We consider these administrative complexities could increase uncertainty in cost allocation for directions that may be considered to be capacity directions.

In addition to the likely benefits and costs of the proposed change, we consider it would not be appropriate to have separate cost recovery arrangements specifically for capacity directions. The current cost recovery arrangements do not distinguish between different types of directions. Given the likelihood of capacity directions and the intention of directions as a generic, last-resort mechanism for AEMO to manage the power system, we do not consider it appropriate to introduce specific cost recovery approaches for different directions.

69 Tilt Renewables, Rule Change Request – Recovery of Funds for Capacity Directions, p. 1.

70 AEMC, Review into electricity compensation frameworks final report, p. 38.

71 Generators may be incentivised to reduce output during capacity directions to avoid the associated compensation costs. This can have negative impacts on reliability and, if material, could be mitigated by not allocating capacity direction compensation costs to generators.

72 Submissions to the consultation paper: AGL, p. 1; CS Energy, p. 3; Delta, p. 2; EnergyAustralia, p. 1; Shell, p. 2; Snowy Hydro, p. 4.

73 EUAA, submission to the consultation paper, p. 3.

74 AEMO, submission to the consultation paper, p. 2.

75 AEMO, submission to the consultation paper, p. 4.

C Our draft rule would streamline the governance and administration of the compensation frameworks

Our draft rule would make several administrative and governance changes to the compensation frameworks. In response to stakeholder feedback to the consultation paper and the compensation review, the draft rule addresses:

- governance matters
- alignment between frameworks
- the selection and role of the independent expert.

Our draft rule would alleviate confusion and uncertainty, giving participants confidence in the frameworks to continue to provide services during periods of market intervention.

C.1 Our draft rule would make nine administrative and governance changes

AEMO's rule change request largely adopted the review's recommendations on governance and administrative matters. It also proposed minor changes, such as adding a notice-based mechanism for ineligibility and aligning cost recovery reporting categories with the Integrating Energy Storage Systems (IESS) rule change.

Our draft rule would implement AEMO's proposed changes, with some differences regarding time limits and the independent expert. The draft rule would:

- ensure AEMO receives and assesses all compensation claims, alongside the independent expert
- establish a new minimum threshold that would apply to all compensation claims
- allow AEMO to recover administrative costs for assessing compensation claims from CRMPs
- make four changes to the independent expert appointment and referral process
- align and extend the time limit to submit compensation claims
- harmonise the standards for supporting information
- remove the process for assessing compensation eligibility
- add a notice-based mechanism for ineligibility
- change AEMO's cost recovery reporting categories.

Subsequent sub-sections in this appendix discuss each of these changes.

C.2 Under our draft rule, AEMO would receive and assess all compensation claims with the independent expert.

Under our draft rule, AEMO would receive all compensation claims to simplify governance and prevent confusion. AEMO would then assess the claims or refer to the independent expert in certain scenarios.[76]

Following the June 2022 market suspension, stakeholders raised concerns that the governance over the three frameworks was confusing and caused unnecessary delays. Under the existing rules, AEMO processes market suspension and directions compensation claims while the AEMC

76 See clause 3.12.2B(j) and (m) in Schedule 3 of the draft rule.

is responsible for assessing administered pricing compensation claims. The divided governance structure was incompatible with claims that spanned multiple frameworks, which confused participants and caused delays. It imposed an unnecessary regulatory burden on participants during a period of market stress. Stakeholder submissions to the compensation review noted that AEMO had more experience and better access to data to assess all claims.[77]

Aligned with the review recommendations, AEMO's rule change request proposed that AEMO would receive all compensation claims. AEMO, and the independent expert in certain scenarios, would assess all claims. This would reassign the responsibility of receiving and assessing administered pricing compensation claims from the AEMC to AEMO and the independent expert. The AEMC would remain responsible for the compensation guidelines. The recommendation was well-supported by stakeholders in submissions to the review.[78]

Stakeholder submissions to the consultation paper also supported the change.[79] CS Energy submitted that the governance change aligns with the functions of the market bodies and will lead to more consistent compensation outcomes. EnergyAustralia supported the change but expressed caution over AEMO assessing scheduling errors it may have caused.

Our draft rule would reduce regulatory uncertainty for stakeholders by aligning the governance of the compensation frameworks with the functions of the market bodies. AEMO would process all compensation claims, while the AEMC would develop the compensation and opportunity cost guidelines. This would simplify the frameworks governance and reduce the regulatory burden on claimants and the market bodies.

C.3 Our draft rule would apply a new minimum threshold for compensation claims

AEMO's rule change request proposed applying a minimum claim threshold to all compensation frameworks.[80] This would apply the minimum threshold method from the directions compensation framework to the market suspension and administered pricing frameworks, which currently do not have a minimum threshold for claims.[81] AEMO also proposed increasing the threshold from $5,000 to $10,000 to account for increased administrative costs since the threshold was introduced in 2005.

The compensation review did not make any recommendations regarding minimum thresholds. However, the review did emphasise the benefits of alignment and simplicity across the frameworks. Stakeholder submissions to the consultation paper supported consistent thresholds between frameworks.[82]

Our draft rule would implement the new $10,000 threshold for all frameworks.[83]

The threshold reflects the cost of assessing claims, ensuring the value of the claim exceeds that cost. This would ensure the benefits of compensation exceed the administrative costs of processing the claims. We acknowledged stakeholder feedback that claims will often exceed the threshold, and consider this a positive feature. Compensation benefits all market participants by

77 Submissions to the compensation review draft report: the AEC ; AEMO ; EUAA; and SnowyHydro. .

78 Submissions to the compensation review draft report: the AEC, AEMO, AER, AGL, CS Energy, Delta, EnergyAustralia, Hydro Tas, Shell Energy and Snowy Hydro.

79 Submissions to the consultation paper: AEMO, AGL, CS Energy, Delta, and Snowy Hydro.

80 AEMO, rule change request, 2025, p. 22.

81 AEMO, participant guide to compensation claims in the NEM, 2022, p. 4.

82 Submissions to the consultation paper: Delta, Origin, Shell Energy.

83 See clause 3.12.2B(h) in Schedule 3 of the draft rule.

providing incentives to continue to provide services, in line with the objectives for administered pricing and market suspension compensation. A higher threshold would have negative commercial consequences for participants and undermine the objectives. The consistent threshold would provide internal consistency and simplify the frameworks, making it easier for participants to navigate the claims process.

C.4 Our draft rule would allow AEMO to recover administrative costs for assessing compensation claims

Our draft rule does not allow AEMO to charge claimants an administrative fee. Instead, AEMO's administrative costs will be recovered from all Cost Recovery Market Participants (CRMPs).[84]

AEMO's rule change request proposed charging claimants an assessment fee for directions compensation. It proposed that the fee would prevent spurious claims and cover the cost of administering the compensation frameworks. Stakeholder submissions to the consultation paper did not comment on the administrative fee. However, stakeholders did cite the review recommendations to reduce the burden of preparing and submitting claims on participants.[85]

Our draft rule would not include AEMO's proposed administrative fee. For directions compensation, a fee would place a burden on claimants who complied with directions and were insufficiently remunerated. It does not align with the review's recommended objective for directions compensation, to fully compensate costs incurred by a direction. It would also slightly disincentivise participants making market suspension or administered pricing compensation claims, which does not align with the objective for either framework. Finally, as the compensation frameworks benefit all market participants by aligning incentives for participants with the effective function of the market, placing the administrative cost of the frameworks onto claimants would be an inappropriate cost allocation.

Our draft rule would instead recover AEMO's administrative costs from CRMPs to ensure claimants are fully compensated for complying with directions.

C.5 Our draft rule would make four changes to the independent expert referral process

Our draft rule would:

- apply consistent referral thresholds for all types of compensation
- allow AEMO to send complex or difficult claims to the independent expert
- require AEMO to maintain a panel of suitably qualified and available independent experts
- require AEMO, not the AEMC, to choose an alternate independent expert if there is a successful objection to the original appointment.

C.5.1 The draft rule would align the thresholds for referral

Our draft rule would set a $50,000 threshold to refer claims to the independent expert. [86]

AEMO proposed a consistent $50,000 threshold across all three frameworks to refer claims to the independent expert. This differs from the review recommendations, which reflected existing

84 See clauses 3.15.8A(a)(3), 3.15.8A(f)(3) and 3.15.10(b)(5) in Schedule 3 of the draft rule.

85 Submissions to the consultation paper: AGL, Energy Australia, Neoen, Origin and Snowy Hydro, 2026.

86 See clause 3.12.2B(j)(1)(i) in Schedule 3 of the draft rule.

frameworks and did not extensively consider the associated thresholds. Submissions to the review did not comment on this matter.

Stakeholder submissions to the consultation paper mostly supported alignment across frameworks and AEMO's proposed threshold.[87] Shell Energy supported the thresholds but proposed $100,000 instead of $50,000 to account for inflation.[88] Akaysha proposed the threshold should be considerably higher, and suggested that "a threshold set in the hundreds of thousands" would be more appropriate.[89]

Our draft rule would apply a unified threshold for referrals to the independent expert. The compensation review and AEMO's rule change request emphasised alignment between frameworks. Therefore, the Commission's draft rule would align thresholds for these frameworks in line with broader objectives of aligning compensation frameworks for simplicity and clarity.

We considered that the independent expert referral threshold should reflect the costs associated with assessing a claim through an independent expert, similar to the minimum threshold to make a compensation claim. We consider the proposed threshold of $50,000 is likely to broadly reflect the cost of assessing compensation claims by the independent expert, and balance these costs with the benefits of accurately assessing larger compensation claims.

Our draft rule includes a provision for AEMO not to refer a claim unless it reasonably considers it is likely the compensation payable will be greater than the threshold. As discussed in appendix C.4, the draft rule would allow AEMO to recover administrative costs from all CRMPs. Under the current rules, the AEMC may recover independent expert costs from the claimant. This would not apply under the draft rule. This supplementary provision provides some mitigation of the risk of unreasonable claims incurring additional costs through being automatically referred to the independent expert.

C.5.2 Under our draft rule, AEMO would refer all opportunity cost claims and may refer other complex or difficult claims

Our draft rule provides for AEMO to refer all opportunity cost claims, as well as complex or difficult claims to an independent expert.[90] In the review, the Commission noted that AEMO is not an economic regulator and that its functions to date have not included determining opportunity costs. This is a key issue associated with making AEMO responsible for the assessment of claims for opportunity cost compensation. In its submission to the review's consultation paper, AEMO commented that it would not be appropriate for it to assess opportunity costs as part of administered pricing compensation because it does not have appropriate functions to complete this role.

AEMO's rule change proposed that it may send "complex or difficult" claims to the independent expert. This could include complex, difficult or opportunity cost claims below the $50,000 threshold. The change would increase the likelihood that claims were assessed accurately, and allow AEMO to seek expert advice when administering the new frameworks for the first time. Our draft rule adopts this proposed amendment.

87 Submissions to the consultation paper: AGL and EnergyAustralia.
88 Shell Energy, submission to the consultation paper, 30 April 2026, p. 3.
89 Akaysha, submission to the consultation paper, 2026, p. 2.
90 See clause 3.12.2B(j)(1)(ii) and 3.12.2B(j)(2) in Schedule 3 of the draft rule.

C.5.3 Our draft rule would require AEMO to maintain a panel of independent experts

AEMO currently maintains a panel of independent experts.[91] Our draft rule would enshrine this panel within the rules.

EnergyAustralia supported the use of the independent expert panel to remove bias, while Snowy Hydro supported improving the transparency of the independent expert selection process.[92] We have incorporated stakeholder feedback into our draft rule.

Our draft rule would require AEMO to maintain a panel of “qualified and available” experts.[93] This gives participants increased confidence that the independent expert process will be transparent, efficient and allows for informed objections. The change would be low-cost, as AEMO already maintains a panel, and increase stakeholder confidence in the independent expert process through greater transparency.

C.5.4 Our draft rule would require AEMO, not the AEMC, to appoint an alternate independent expert after an objection

AEMO’s rule change request raised concerns with the current arrangement for appointing an independent expert, noting it may limit the pool of available independent experts. Claimants can currently object to an independent expert appointment, and if 25% of claimants object, AEMO must refer the objection to the AEMC to appoint an expert.

In its submission to the compensation review, AEMO noted that the independent expert process may need alternative or last resort processes. During the 2022 market suspension, the existing arrangements created considerable contractual difficulties. The AEMC specified a single independent expert that AEMO had to engage on short notice. This situation was not cost-effective.

Our draft rule would require AEMO to appoint an alternate independent expert if there was a valid objection to the original appointment.[94] A valid objection to the original appointment would arise where 25% of claimants object in writing within 3 business days of publication of AEMO’s nominated independent expert.[95] The AEMC would continue to conduct the administrative assessment of the objection. This would permit AEMO to choose from their panel and receive multiple quotes. The change is low-cost and allows objections without causing contractual concerns by constraining competition.

We note that this change works in conjunction with the requirement for AEMO to maintain a panel of experts. If the panel is running correctly and multiple experts are bidding for work, AEMO will be able to rapidly appoint an alternate expert if an objection is successful.

C.6 Our draft rule would align and extend the time limit to submit compensation claims

The draft rule would apply a unified 60-business day limit to submit all types of compensation claims.[96] This change improves alignment across frameworks, simplifying the rules. It also provides claimants sufficient time to gather information and submit claims.

91 AEMO, submission to the consultation paper, 2026.

92 EnergyAustralia, submission to the consultation paper, 30 April 2026, p. 4; Snowy Hydro, submission to the consultation paper, 30 April 2026, p. 4.

93 See clause 3.12.3(a0) in Schedule 3 of the draft rule.

94 See clause 3.12.3(a2)(1) in Schedule 3 of the draft rule.

95 See clause 3.12.3(a1) in Schedule 3 of the draft rule.

96 See clause 3.12.2B(g) in Schedule 3 of the draft rule.

The compensation review recommended a unified 60-business day time limit to submit claims and supporting information across all frameworks. The current rules provide a total of 33 business days to submit additional claims for directions and market suspension compensation. This is split into the initial notification period for preliminary compensation, then another 15 business days to submit additional claims. The review noted that administered pricing compensation did not have a time limit for submitting claims.

The recommendation for an aligned 60-business-day broadly aligned with stakeholder views. While submissions differed in the exact time limit, ranging from 42 to 120 days, most stakeholders supported extending and aligning the existing time limits.[97] Stakeholders noted that compensation claims, particularly those including opportunity cost claims, were difficult and time-consuming to prepare. Stakeholders also articulated that periods of broad market stress would translate into organisational stress, and their internal resources were stretched.[98] The Commission recognised these challenges and recommended extending the time limit.

AEMO's rule change request, however, proposed retaining the current 33-business-day limit for directions and market suspension compensation, and applying that limit to administered pricing compensation. It proposed that the current time limit provided sufficient time for participants to prepare compensation claims. It also noted that extending the time limit to submit claims would apply time pressure on AEMO or the independent expert to assess claims as these must be settled within the 30-week time period.

Our draft rule would align the time limits across frameworks. The existing discrepancy in time limits resulted in regulatory burden for participants and created inconsistencies in the rules. This change will improve confidence in the compensation frameworks by reducing complexity, and reflect the greater alignment between frameworks in claimable costs.

Our draft rule would extend the time limit to submit a claim to 60 business days. We consulted with AEMO to understand the effect of the change on their internal processes, as this is the key risk of this amendment. We acknowledged AEMO's concerns regarding the settlement cycle, and worked collaboratively with them to ensure the new time limits did not unduly disrupt their settlements process. We balanced those concerns against the benefits to all market participants and considered stakeholder feedback that opportunity cost claims take around 12 weeks to prepare outside of periods of market stress.[99] We concluded that the 30-week settlement deadline required a balance between the time participants had to make claims and the time the independent expert had to assess them. We are seeking stakeholder feedback on the draft time limits.

C.7 Our draft rule would harmonise the standards for supporting information

Our draft rule would apply a consistent standard for supporting information across all compensation types.[100]

Consistent with the review recommendations, AEMO's rule change request proposed aligning the requirements for supporting information for compensation claims. Specifically, the Commission proposed extending the directions and market suspension requirements to also apply to administered pricing claims. This change would support timely and informed assessments of

97 AGL, Alinta, CS Energy, Delta, Energy Australia, HydroTas, Origin, Shell Energy.

98 Shell Energy, submissions to the compensation review draft report.

99 Delta, submission to the consultation paper, 2026.

100 See clause 3.12.4(a), relating to clauses 3.12.2B (h)(i)(4) and 3.12.2B(l)(1)(ii) in Schedule 3 of the draft rule.

administered pricing claims and harmonise the standards for supporting information across compensation frameworks.

For directions and market suspension claims, the NER requires that claimants itemise each component of their claim with sufficient data and information to substantiate each component of the claim. This information must be signed by an authorised officer certifying that the submission is true and correct. The administered pricing compensation guidelines contain similar provisions, however these are not in the NER.

Most stakeholders did not explicitly comment on this recommendation. Neoen supported the proposal, noting that this would reduce the administrative burden of compensation, particularly for smaller participants.[101] AGL supported the proposal, provided the requirements are clear and not excessively burdensome.[102]

Our draft rule would align the standards for supporting information for administered pricing compensation claims with those of directions and market suspension compensation claims. In turn, this will enable more timely and informed assessments of administered pricing claims.

C.8 Our draft rule would remove the process for assessing compensation eligibility for other compensable services

Our draft rule will remove a duplicative clause that requires AEMO to conduct an eligibility assessment.

AEMO proposed to remove the requirement in the current rules to assess whether a claimant is eligible for other compensable services. AEMO did not propose any changes to the eligibility criteria for preliminary compensation.

Under our draft rule, AEMO would no longer be required to perform an eligibility assessment for other compensable services. The existing rule is duplicative, as eligibility is linked to an assessment of the cost of the claim. AEMO would perform this assessment anyway in complying with the rules. CS Energy and Tesla were the only stakeholders who commented on this issue, and they both supported AEMO's proposed change.[103] Our draft rule would simplify and streamline the rules, reducing the regulatory burden on market participants and reducing duplication.

C.9 Our draft rule would add a notice-based mechanism for ineligibility

Our draft rule would add a notification method to alert claimants when they are not eligible for preliminary compensation. [104]

AEMO proposed notifying participants if they were not eligible for preliminary compensation. No stakeholders commented on this issue.

Our draft rule would require AEMO to notify participants if they were not eligible for preliminary compensation. This would allow participants to challenge that early determination for energy and other compensable services. This aligns with existing provisions for other compensable services, increasing internal consistency in the frameworks and increasing transparency.

101 Neoen, submission the consultation paper, 30 April 2026, p. 2.

102 AGL, submission to the consultation paper, 6 May 2026, p. 5.

103 CS Energy, submission to the consultation paper, 28 April 2026, p. 3,. Tesla, submission to the consultaiton paper, 30 April 2026, p. 2.

104 See clause 3.12.2A(m) in Schedule 3 of the draft rule.

C.10 Our draft rule would change AEMO's cost recovery reporting categories

Our draft rule aligns cost recovery reporting with the IESS changes. AEMO would be required to report directions compensation cost recovery on a CRMP basis, rather than by participant categories.[105] This will improve consistency within the NER and represents good regulatory practice.

The IESS rule amended AEMO cost recovery allocation reporting requirements. Previously, cost recovery reporting was an estimation of costs incurred by participant categories. This was inaccurate because a single participant could span multiple categories. Under our draft rule, costs would instead be allocated to CRMPs and reported as such. The proposed change would align the rules for directions cost recovery reporting with other processes in the NER, removing inconsistencies.

AEMO's rule change request noted that Reliability and Emergency Reserve Trader (RERT) cost recovery reporting follows a similar method. This also does not align with the IESS change. Our draft rule would similarly change cost recovery reporting for RERT. This change would similarly improve consistency and clarity in the NER and better reflect AEMO's processes.

Stakeholders were mostly silent on this issue. EUAA was the only stakeholder to comment. It considered that this change would reduce the visibility for consumers of directions costs and allocations.[106] We considered that the primary benefit would be aligning cost recovery reporting with the IESS change. There is not inherently more or less accurate information in this reporting process. Improved consistency in the rules and alignment with AEMO's internal processes would reduce the risk of inaccurate or misleading information.

105 See clause 3.13.6A(b)(3) in Schedule 3 of the draft rule.

106 EUAA, submission to the consultation paper, 30 April 2026, p. 3.

D Our draft rule would address three other matters

The Commission has made a draft rule to address three additional matters raised in the rule change requests from AEMO and Tilt Renewables. It would:

- add an objective for directions compensation
- not change the price floor for scheduling errors
- consolidate the three frameworks that were the focus of the review and AEMO's rule change request into a single section of the NER.

The draft changes would clarify and simplify the compensation frameworks.

D.1 Our draft rule would add an objective for directions compensation

Our draft rule would add a unique objective for directions compensation. This change clarifies the purpose of the directions compensation framework for participants, AEMO and the independent expert.

Unlike the other frameworks, the NER does not currently specify an objective for directions compensation. The Review recommended adding an objective for the directions compensation framework to clarify the intent of the rules and guide participants through the compensation process.[107] Stakeholders consistently supported a directions objective.[108]

Stakeholder submissions to the Review were split between adding a unique directions objective or aligning three objectives.[109] The Review recommended a unique objective to reflect the material difference between a participant being directed to supply under normal market conditions and being incentivised to supply during times of market stress.[110]

AEMO's rule change request adopted the Review recommendation and proposed a unique objective for directions compensation distinct from the other compensation objectives.[111] AEMO's request noted the directions objective would provide clarity to market participants.

Our draft rule would implement AEMO's proposed objective for directions compensation.[112] The draft rule makes no significant changes to the compensation objectives for market suspension, administered pricing and AEMO intervention events.

> Amending rule Schedule 1: Clause 3.15.7(a0)
>
> The objective of payment of compensation under this clause 3.15.7, clause 3.15.7A and 3.15.7B is to enable *Directed Participants* to be compensated for the costs associated with complying with a *direction*.
>
> Amending rule Schedule 3: Clause 3.12.2A(a)
>
> The objective of the payment of compensation under this clause 3.12.2A and clause 3.12.2B is to: ...(2) enable *Directed Participants* to be compensated for the costs associated with complying with a *direction*.

107 AEMC, Review into electricity compensation frameworks final report, 2024, p. 1.

108 Submissions to the compensation review draft report: the AEC, AEMO, AGL, Engie, Shell Energy, Snowy Hydro and Tesla.

109 The AEC, AGL, Engie and Shell Energy supported a distinct directions objective. AEMO, the JEC and Snowy Hydro supported either a single objective for all three frameworks or nearly identical objectives for each.

110 AEMC, Review into electricity compensation frameworks final report, 2024, p. 9.

111 AEMO, rule change request, *Aligning Compensation Frameworks,* 27 November 2025, p. 17.

112 This change is included in Schedule 1 of the amending rule, which would take effect on 15 July 2027. In Schedule 3 of the amending rule, taking effect on 15 October 2028, this provision is consolidated with other compensation provisions in clause 3.12.2A.

D.2 Our draft rule would not change the price floor for scheduling errors

Our draft rule would not change how participants are compensated for scheduling errors because the Integrating Energy Storage Systems (IESS) rule change appropriately improved scheduling error compensation. A $0/MWh price floor would not accurately compensate claimants and could disadvantage bidirectional units.

Tilt Renewables proposed applying a $0/MWh price floor on the spot prices considered in determining compensation for a scheduling error. This would prevent participants from receiving negative prices as compensation. Tilt stated that the change would prevent compensation declining as negative prices become more common in the NEM.[113]

The IESS rule change improved how compensation for scheduling errors is calculated.[114] This rule amended NER clause 3.16.2(d) to specify that plant is compensated for the difference between the loading level it operated at and the different loading level that would have applied. Participants are compensated for the difference between the scheduling error and non-error scenarios.

The Commission considers that the IESS rule adequately addresses the issues raised by Tilt Renewables. We recognise that changing the price floor for scheduling errors to $0/MWh would not always compensate participants using the non-error scenario, as the non-error price may still have been negative.

Tilt's proposed amendment would result in under-compensation for bidirectional units. Bidirectional units often operate during negative price periods, particularly to bid scheduled load. Raising the price floor to $0/MWh for compensation of scheduling errors would erase compensation for scheduled load. As such, our draft rule would not change the price floor when calculating compensation for scheduling errors.

This draft decision has been informed by stakeholder feedback. In submissions to the consultation paper, CS Energy, Origin Energy, Snowy Hydro, Tesla, Akaysha, AEMO and AGL all opposed the change. Snowy Hydro noted that a $0/MWh price floor may penalise storage, and CS Energy submitted that negative spot prices are essential for efficient short- and long-term economic outcomes.[115] We did not receive a submission from Tilt Renewables.

D.3 Our draft rule would consolidate the frameworks into a single section of the NER

Our draft rule consolidates the compensation frameworks into one section of the NER. Our change would simplify the NER and help participants navigate the compensation frameworks.

The compensation review recognised that during and after the June 2022 market suspension, administrative differences between the frameworks created confusion for participants, leading to greater administrative burden and risk of incorrect claims. The frameworks currently span several different sections of the NER. The rules for market participants affected by directions, and the provision on the independent expert, are in rule 3.12, while the administered pricing and market suspension compensation frameworks fall under rule 3.14, and the remainder of the directions compensation framework and the compensation cost recovery provisions are in rule 3.15. The existing drafting confused participants, particularly when the frameworks overlapped.

113 Tilt Renewables, rule change request, 2023, p. 4.

114 AEMC, Integrating Energy Storage Systems into the NEM final determination, 2 December 2021. The relevant rule change took effect on 3 June 2024.

115 Submissions to the consultation paper: CS Energy, p. 3-4; Snowy Hydro, p. 3.

The review made a broad recommendation to provide predictable and administratively simple compensation regimes, including through alignment where practicable.[116] The Commission considers simple frameworks are an important part of ensuring system security and reliability, particularly during periods of market stress. This is because clarity and simplicity improve the predictability of compensation outcomes, allowing participants to have sufficient confidence in the frameworks to continue to provide services during periods of market intervention. While the Review recognised stakeholder preferences for clear and functional rules, it did not recommend how the rules should be redrafted.

AEMO's rule change request proposed consolidating the compensation frameworks into a single section of the NER. AEMO proposed adding new clauses in rule 3.12, to sit with the existing clauses on compensation for AEMO intervention events and the independent expert, to cover the three compensation frameworks currently in rules 3.14 and 3.15.[117] As a result, it proposed removing the directions, market suspension and administered pricing period compensation clauses from rules 3.14 and 3.15 to prevent duplication (while leaving the provisions on compensation cost recovery in rule 3.15). The intent was to align and streamline the frameworks.

Stakeholders broadly supported consolidating the three frameworks into a single section of the NER. Neoen believes the streamlined frameworks would give prospective developers confidence, which would outweigh the costs of the change.[118] Delta agreed that if the rules were consolidated carefully, a single framework could reduce the regulatory burden on participants. [119] Shell Energy cautioned that changes to the frameworks could affect participants who were familiar with the current drafting, and that the benefits of the change must outweigh the costs.[120] This feedback informed the development of our draft rule.

Broadly aligned with AEMO's rule change request, our draft rule consolidates the frameworks into a single section of the NER.[121] The draft rule includes two clauses that reflect the two stages of the compensation process for directions and market suspension. It includes a new clause 3.12.2A, covering preliminary compensation, and clause 3.12.2B, which encompasses claims for additional compensation for those events (as well as claims for compensation for administered pricing, which is not subject to preliminary compensation). The division makes it easier for participants to understand what rules and requirements apply at each point in the compensation process. The drafting includes a number of other clarifications to reflect stakeholder preferences for clear, pragmatic rules and to assist stakeholders to navigate and understand the compensation provisions. The streamlined compensation framework would align with principles of good regulatory practice, improving predictability, stability, simplicity and transparency in the rules.

We welcome stakeholder comments on ways in which the compensation provisions could be further simplified and clarified.

116 AEMC, Review into electricity compensation frameworks final report, 2024, p. i-ii.

117 AEMO, rule change request, *Aligning Compensation Frameworks,* 27 November 2025, p. 15-17.

118 Neoen Australia, submission to the consultation paper, 2026, p. 2.

119 Delta Power & Energy, submission to consultation paper, 2026, p .3.

120 Shell Energy, submission to the consultation paper, 2026. p. 3.

121 NER rule 3.12. See Schedule 3 of the draft rule. Cost recovery for compensation payments remains in rule 3.15.

E We are taking a staged approach to implementation

The Commission has taken a three-stage approach to implementation in this draft determination. This Appendix provides an overview of the interrelationships between the numerous individual changes that make up this draft rule and the proposed timelines for implementing each stage. We are seeking stakeholder feedback on the proposed implementation approach and timeline.

E.1 Our draft implementation timeline reflects the interrelationship between individual amendments

The Commission has considered each individual amendment and whether there are any process or system updates that are contingent on other changes this draft rule makes. Table E.1 below summarises our assessment of each of the policy issues the draft rule implements. The policy issues the Commission considers can be implemented first are those that do not require process or system updates from AEMO and are only contingent on an update to the AEMC's compensation guidelines.

Table E.1: Implementation assessment

Policy position	Assessment	Schedule
Introduce an objective for directions compensation	This does not require any system or process updates and can be implemented as soon as possible	Schedule 1
Align claimable direct costs across frameworks	Only requires an update to the compensation guidelines	Schedule 1
Clarify and make more targeted compensation for administered pricing	This can be implemented in advance of other substantive changes	Schedule 1
Changes to cost-recovery for directions compensation to include all intervention trading intervals	This is a minor implementation issue for AEMO	Schedule 1
Changes to cost recovery reporting for directions compensation and RERT	This aligns with the existing IESS rule and can be implemented in advance of other substantive changes	Schedule 1
Allow opportunity costs to be claimed across frameworks	Updates required to AEMO's processes for assessing claims and referring claims to an IE, as well as compensation guidelines and information standards	Schedule 2
AEMO to receive and assess all claims	This requires process changes from AEMO	Schedule 2
Increase the minimum threshold for claims to $10,000	This requires process changes from AEMO	Schedule 2
Changes to the role and selection of the independent expert	This requires process changes from AEMO, and is contingent on guideline updates	Schedule 2
Align supporting information	This requires process updates from AEMO	Schedule 2

Policy position	Assessment	Schedule
standards	and is necessary for opportunity cost claims	
Remove the duplicative rule requiring AEMO to conduct an eligibility assessment	This requires process changes from AEMO	Schedule 2
Use a VWAP for preliminary compensation	This requires AEMO to update their systems	Schedule 3
Clarify and make more targeted cost recovery for administered pricing compensation	This requires system updates from AEMO	Schedule 3
Recovery of costs of assessing claims	This requires system updates from AEMO	Schedule 3
Align the time limit for claims at 60 days	This requires system updates from AEMO, this is contingent on changes to supporting information standards	Schedule 3

E.2 Our draft timelines reflect the implementation process required

Where implementation can be in advance of other substantive changes, or only requires an update to the compensation guidelines (Schedule 1), we have allowed for nine months to implement the changes. For changes that require process updates from AEMO (Schedule 2), we have allowed 12 months for implementation. For AEMO's system updates we have allowed 24 months (Schedule 3). The implementation dates are summarised in Table E.2 below. We are seeking stakeholder feedback on these timelines. AEMO will conduct a high-level impact assessment (HLIA) to provide to the AEMC in feedback to this draft determination. This may result in changes to the draft schedule.

Table E.2: Implementation timeline

	Schedule 1	Schedule 2	Schedule 3
Implementation date	15 July 2027 (9 months)	15 October 2027 (12 months)	15 October 2028 (24 months)

F Rule making process

A standard rule change request includes the following stages:

- a proponent submits a rule change request
- the Commission initiates the rule change process by publishing a consultation paper and seeking stakeholder feedback
- stakeholders lodge submissions on the consultation paper and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a draft determination and draft rule (if relevant)
  - stakeholders lodge submissions on the draft determination and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a final determination and final rule (if relevant).

You can find more information on the rule change process on our website.[122]

F.1 AEMO and Tilt Renewables proposed rules to amend compensation frameworks

AEMO sought to align and improve the process for compensating participants for directions, market suspension, and administered pricing. Tilt Renewables submitted two rule change requests. One sought to recover costs for ‘capacity directions’ from consumers. The other sought to apply a $0/MWh price floor for the consideration of compensation for scheduling errors. AEMO’s proposed changes are discussed in more detail in Appendices A-E. The first rule change request from Tilt Renewables is discussed in more detail in appendix B. The second rule change request from Tilt Renewables is discussed in more detail in appendix D.

F.2 The proposals sought to address shortcomings in the existing compensation frameworks

The events of June 2022 highlighted several inefficiencies in the process for compensating participants and opportunities for improvements. The AEMC identified these, in consultation with stakeholders, through a review of the compensation frameworks, completed in December 2024.

F.3 They proposed to do so with a suite of changes

AEMO’s rule change request and one of Tilt Renewables’ requests either aligned with recommendations from the AEMC’s review into compensation frameworks or sought to address the same issues as those recommendations. There are a number of proposed changes relating to the calculation, cost-recovery, governance and administration of compensation. A full summary of the proposed changes can be found in Table 1.

F.4 The process to date

On 19 March 2026, the Commission published a notice advising of the initiation of the rule making process and consultation in respect of the rule change request.[123] A consultation paper identifying specific issues for consultation was also published. Submissions closed on 30 April 2026. The Commission received 12 submissions as part of the first round of consultation. The Commission

122 See our website for more information on the rule change process: https://www.aemc.gov.au/our-work/changing-energy-rules

123 This notice was published under section 95 of the NEL.

considered all issues raised by stakeholders in submissions. Issues raised in submissions are discussed and responded to throughout this draft rule determination. A summary of other issues raised in submissions and the Commission's response to each issue is contained in appendix H.

G Legal requirements to make a draft rule

This appendix sets out the relevant legal requirements under the NEL for the Commission to make a draft rule determination and draft rule.

G.1 Draft rule determination and draft rule

In accordance with section 99 of the NEL, the Commission has made this draft rule determination for a more preferable draft rule in relation to the rule changes proposed by AEMO and Tilt Renewables.

The Commission's reasons for making this draft rule determination are set out in chapter 2.

A copy of the more preferable draft rule is attached to and published with this draft determination. Its key features are described in chapter 1 and the appendices.

G.2 Power to make the rule

The Commission is satisfied that the more preferable draft rule falls within the subject matter about which the Commission may make rules.

The more preferable draft rule falls within section 34 of the NEL as it relates to regulating the operation of the national electricity market and the activities of persons participating in the national electricity market or involved in the operation of the national electricity system (NEL s 34(1)(a)(i) and (iii)).

G.3 Commission's considerations

In assessing the rule change request the Commission considered:

- its powers under the NEL to make the draft rule
- the rule change requests from AEMO and Tilt Renewables
- submissions received during first round consultation
- the Commission's analysis as to the ways in which the draft rule is likely to contribute to the achievement of the NEO
- the application of the draft rule to the Northern Territory.

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.[124]

The Commission may only make a rule that has effect with respect to an adoptive jurisdiction if satisfied that the draft rule is compatible with the proper performance of AEMO's declared network functions.[125] The more preferable draft rule is compatible with AEMO's declared network functions because it does not change those functions.

G.4 Tests for making rules in the Northern Territory

Under the *National Electricity (Northern Territory) (National Uniform Legislation) Act 2015* (NT Act), the Commission may make a differential rule if it is satisfied that, having regard to any relevant

124 Under s. 33 of the NEL and s. 73 of the NGL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule. The MCE is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Federal, State and Territory Ministers responsible for energy.

125 Section 91(8) of the NEL.

MCE statement of policy principles, a differential rule will, or is likely to, better contribute to the achievement of the NEO than a uniform rule.[126] A differential rule is a rule that:

- varies in its terms as between:
  - the national electricity system, and
  - one or more, or all, of the local electricity systems (these are specified Northern Territory systems, listed in schedule 2 of the NT Act), or
- does not have effect with respect to one or more of those systems,

but is not a jurisdictional derogation, participant derogation or rule that has effect with respect to an adoptive jurisdiction for the purpose of s. 91(8) of the NEL.

A uniform rule is a rule that does not vary in its terms between the national electricity system and one or more, or all, of the local electricity systems, and has effect with respect to all of those systems.[127]

The Commission's draft determination is to make a differential rule, which is to make no draft rule for the Northern Territory, for the reasons set out in Chapter 2.

G.5 Civil penalty provisions and conduct provisions

The Commission cannot create new civil penalty provisions or conduct provisions. However, it may recommend to the energy ministers that new or existing provisions of the NER be classified as civil penalty provisions or conduct provisions.

The more preferable draft rule does not make significant changes to any clauses that are currently classified as civil penalty provisions or conduct provisions under the National Electricity (South Australia) Regulations.[128]

The Commission does not propose to recommend to energy ministers that any of the amendments made by the more preferable draft rule be classified as civil penalty provisions or conduct provisions. Nor does the Commission propose to recommend changes to the classification of any existing civil penalty provisions amended by the draft rule.

126 Clause 14B of Schedule 1 to the NT Act, inserting section 88AA into the NEL as it applies in the Northern Territory.

127 Clause 14 of Schedule 1 to the NT Act, inserting the definitions of “differential Rule” and “uniform Rule” into section 87 of the NEL as it applies in the Northern Territory.

128 The draft rule makes minor changes to clause 3.15.8(b), classified as a tier 3 civil penalty provision.

H Summary of other issues raised in submissions

Table H.1: Summary of other issues raised in submissions

Stakeholder	Issue	Response
EUAA	Recommended regular reporting on outstanding compensation claims, estimated regional cost recovery amounts and progress updates on assessment timelines be included in the rules.	Assessment timelines are defined and transparent in the rules. Compensation claims are published on AEMO's website. Additional reporting represents a further burden on AEMO with little overt benefit.
EnergyAustralia	Recommended that the independent expert use a backup, non-VWAP method for calculating compensation for edge cases. These include small sample sizes, dual fuel and integrated systems, energy storage and system service contracts.	The IE does not calculate preliminary compensation, for which the VWAP methodology is used.
EnergyAustralia	AEMO actions may impact market participants without compensation. Compensation gaps could emerge from constrained-on generators and MSL.	As discussed in 3.4 of the Draft report for the Review into compensation frameworks, there are other mechanisms, such as the Improving security frameworks rule change designed to address system security and MSL issues. Our draft rule would also contribute towards fair compensation through using a VWAP approach for load and allowing opportunity costs to be claimed across all frameworks.
EnergyAustralia	Independent expert fee agreements.	EnergyAustralia raises valid concerns that are best addressed in the compensation guidelines, not the rules.
EnergyAustralia	System strength directions may occur despite the	As discussed with reference to the proposed

Stakeholder	Issue	Response
	ISF rule change, and costs would be born by all CRMPs rather than the perpetrator of the system strength shortfall.	changes to cost-recovery for ‘capacity directions’ there may be theoretical efficiency benefits to this proposal, but these are limited and therefore outweighed by the complexity of this change.
EnergyAustralia	Ensure AEMO’s decisions can be reviewed and challenged to prevent operational priorities superceding fair compensation.	Legal processes for challenges are available to claimants.

Abbreviations and defined terms

AEC	The Australian Energy Council
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
APC	Administered Price Cap
Commission	See AEMC
CRMP	Cost recovery market participant
EUAA	Energy Users' Association of Australia
FCA	Fixed cost adjustment
HLIA	High-level impact assessment
IE	Independent expert
IESS	Integrating energy storage systems
MCE	Ministerial council on energy
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
RERT	Reliability Emergency Reserve Trader
the review	AEMC Review into compensation frameworks
VWAP	Volume-weighted average price