Level 12
171 Collins Street
Melbourne VIC 3000

Postal address
GPO Box 2008
Melbourne VIC 3001

T 1300 858 724
F 03 9609 8010
E info@aemo.com.au

4 September 2026

Ms Anna Collyer
Chair, Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Dear Ms Collyer,

AEMO submission on the AEMC Draft rule determination: Improving Compensation Frameworks

AEMO broadly supports the policy direction of the draft *Improving Compensation Frameworks* Rule (draft Rule). The AEMC has correctly determined that the National Electricity Rules (NER) provisions governing compensation for directions, administered pricing and market suspension should be streamlined and better aligned. The draft Rule would simplify the claims process and support more efficient, cost reflective compensation outcomes. The attached submission provides AEMO's comments on the draft Rule.

The draft Rule's 60 business days claim submission period would significantly compress the time to assess claims. This will reduce the scope of claim assessments and increase the likelihood of the payment of incorrect compensation. To ensure compensation is cost reflective, AEMO submits that claimants should be allowed 33 business days to prepare and submit claims to allow more time for claims assessment.

AEMO does not consider that it can reasonably implement the draft Rule within the proposed transitional timeframes. A key challenge is the development of systems required for the calculation of preliminary compensation – which will require an uplift from AEMO's current systems and capabilities.

AEMO has published a draft high-level implementation assessment (HLIA) setting out the systems changes required to implement the draft rule and the timeframes required for the system updates.[1] Based on this assessment, AEMO is proposing extensions to the implementation timeframes as the new systems may not be delivered prior to June 2029 without significant additional expenditure or reprioritisation of other reforms.

AEMO estimates that the capex costs of implementing draft rule will lies between $4 million and $6 million. That said, AEMO's current compensation systems are out of date need to be

1 The draft HILA is published here: draft-hlia-improving-compensation-frameworks.pdf

updated. The cost of these necessary updates makes up 60% of the estimated implementation costs.

Please contact Hannah Heath, Group Manager – Strategic Market Reform, at hannah.heath@aemo.com.au should you wish to discuss this submission.

Yours sincerely,

Violette Mouchaileh
Executive General Manager, Policy and Corporate Affairs

Attachments:

AEMO submission: AEMC Draft Determination Improving Compensation Frameworks Rule, September 2026

AEMO Improving compensation frameworks: High level implementation assessment, August 2026

AEMO submission: AEMC Draft Rule Determination Improving Compensation Frameworks

AEMO supports the broad policy direction of the draft *Improving Compensation Frameworks* Rule (draft Rule). The compensation provisions in the National Electricity Rules (NER) for directions, administered pricing and market suspension should be simpler, more consistent and better aligned with the needs of the energy transition. In particular, AEMO supports the following aspects of the draft Rule:

- Alignment on the costs that may be claimed across the frameworks and the timeframes for the submission and assessment of claims,
- Appointment of AEMO as administrator of all claims in accordance with the AEMC's Compensation Guidelines, and
- The consistent use of Independent Experts, the application of a minimum threshold of $10,000 for all claims, and improved cost recovery reporting, and clarification of existing NER clauses.

That said, AEMO has identified several aspects of the draft Rule that require amendment or clarification as outlined in the following sections.

Timeframes for the assessment of claims

In its rule change request, AEMO proposed that claimants should be allowed 33 business days under the NER to submit claims. The draft Rule instead allows claimants 60 business days, which raises significant concerns for AEMO. Extending the lodgement period would materially reduce the time available to assess claims and may prevent all but the simplest claims from being resolved in time for the 20-week routine revised statement. It would also create a material risk that more complex claims may not be able to be adequately assessed before the mandatory 30-week routine revised statement.

Figure 1 Current assessment timeframes for non-energy directions with 40 day extension for claims lodgement

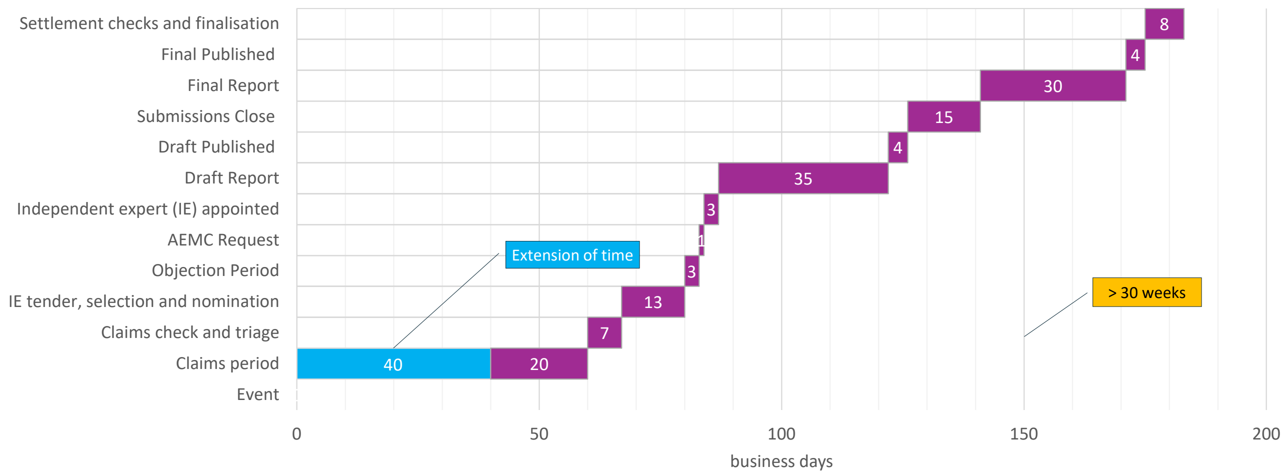

Figure 1 sets out AEMO's assessment timeframes for non-energy directions if the draft determination's extended claim preparation period applies. Under this timeframe an independent expert would have 35 business days to assess claims and prepare its draft determination and 30 business days to consider submissions and make its final determination. Figure 1 illustrates that, with the extended lodgement period, AEMO's existing processes would fall well outside of the 30-week deadline. It would be difficult to reduce the time taken to administer claims given the need to efficiently and appropriately select independent experts, manage confidential information, and undertake checks to ensure appropriate cost recovery in settlement.

The practical consequence of a 60-business day lodgement period is that independent experts will be given less time to assess claims. This is particularly problematic for opportunity cost claims which are likely to be more complex and subjective than direct cost claims. Compression of assessment timeframes would increase reliance on the subjective judgement of independent experts, increasing the likelihood of inconsistent determinations and the risk of under- or over-compensation. Inconsistent determinations would reduce certainty for market participants that they will recover their costs of directions or may result in over-compensation increasing electricity costs for consumers. Incorrect compensation for directions would not align with the objective of directions compensation and would have negative impacts for market participants and consumers.

There is a material risk that under certain scenarios independent experts would not be able to complete the assessment of claims in time for the 30-week routine revised statement. In such a circumstance, there isn't a clear mechanism for the payment of claims, or the cost recovery of claims, under the NER, which could lead to claimants not being compensated.

It is important that AEMO finalises market settlement through the routine revised statement 30-weeks after the billing period. This is necessary for timely settlement of the market and cost recovery from market participants participating in the market at the time of the event. Extending the timeframe raises several operational, system, and industry impacts. AEMO's settlements systems, prudential monitoring framework, and suspension processes are currently designed around a 30-week revision window, with special revisions only available in limited circumstances defined under the Revisions Policy. Market participants must maintain prudential requirements until that point and cannot transfer registration or exit the market prior to final settlement. The 30-week deadline also supports related contingent processes such as setting the Default Market Offer.

Processing claims outside this established timeframe would require additional out-of-cycle revision runs, creating increased operational complexity, longer processing times, and additional reconciliation costs for participants. Changing the approach may create precedents that could complicate future claims processing and/or lead to unintended consequences. The cost recovery mechanisms in the draft Rule would need to be altered to account for changes to the cost recovery market participants in the market at the time. Complex system changes would be necessary facilitate cost recovery in alternative billing weeks beyond the 30-week routine revised statement. AEMO estimates that the costs of such system changes would likely be significant. AEMO's settlement systems are complicated and integrated with other systems. Similar system updates required to implement the shortening the settlement cycle rule change were complex and required detailed testing and validation prior to implementation.

AEMO maintains its position that a 33-business day deadline should apply for the lodgement of all claims. AEMO acknowledges challenges for market participants in preparing compensation claims but notes that alignment and clarification of the compensation frameworks, including within the *Compensation Guidelines*, will make it easier to prepare and submit claims.

AEMO proposes that the AEMC consider the administrative processes in the NER, for example the nomination and objection process for appointing the independent expert, to determine if they are fit for purpose or could be amended to provide additional claim assessment time.

Compensation guidelines

AEMO supports the AEMC's draft Rule to extend the application of the *Compensation Guidelines* to all compensation frameworks, and using them to:

- define the types of opportunity costs that can be claimed,
- set out the methodology to be used to calculate the amount of any compensation payable in respect of a claim, including categories of direct costs and all opportunity costs; and
- specify the information a claimant must provide to enable AEMO or the independent expert to make a compensation determination.

The *Compensation Guidelines* should provide important guidance for the claims process, particularly for the streamlined and appropriate assessment of opportunity cost claims. Without this guidance, the assessment of future claims – particularly opportunity cost claims – is likely to be inconsistent, creating uncertainty about whether market participants will be appropriately compensated for market interventions.

As noted above, the *Compensation Guidelines* will need to provide detailed guidance on opportunity costs. The draft Rule defines opportunity costs as the "value of opportunities forgone by the relevant market participant as a result of the relevant compensation event, as further defined in the *Compensation Guidelines*". The phrase "opportunities forgone" may be interpreted differently by different parties. At present, opportunity costs may only be claimed for administered pricing claims. Under the draft Rule, however, they may be claimed across all compensation frameworks. The existing *Compensation Guidelines* were not designed to support the broader and consistent assessment of opportunity cost claims within the 30-week routine revised statement timeframe.

AEMO submits that prescriptive guidance in the *Compensation Guidelines* is essential and should cover (but not be limited to) the following questions:

- In the event of market conditions requiring AEMO intervention, what are the opportunities foregone by a claimant? For instance:
  - What are the opportunities foregone for a load or bi-directional facility that is directed to reduce consumption to maintain reliability or security?
  - How should the costs associated with contractual obligations be considered where a market participant can no longer comply with their obligations?
  - To what extent is the forward-looking bidding profile of a market participant relevant to this consideration? If so, what subsequent events would justify the use of an alternative bidding profile in determining opportunity costs? What evidence should be provided by claimants to justify the use of an alternative bidding profile?
  - Consideration of the treatment of warranties on how plant is used and determining the costs of using plant in ways that is inconsistent with a warranty.
- How should the consideration of claims be time-bound?
  - If a Battery Energy Storage System (BESS) is directed to charge and later discharge (or vice-versa) are the opportunities forgone limited to the specific directed trading intervals for charge and discharge or are other trading intervals relevant and if so which trading intervals?
  - If a thermal generator is decommitted under direction, is that generator able to claim its restart costs (which would occur outside of the claim period) as an opportunity cost?
  - How should the costs of wear and tear or deferred maintenance beyond the claim period be estimated?
- What prices should be used to determine the costs and the value of services foregone. For example, for a scheduled load or a BESS, what alternative wholesale market price should be used to calculate the value of importing or exporting energy that they might have received had they not been directed? What is the relevant price that should be used to calculate the costs of fuel that is consumed in complying with a direction?

Eligibility for compensation

Compensation for directions may only be claimed for the provision of a service under the current NER and draft Rule. However, AEMO may direct market participants to do things that aren't considered services. For example, in the future, AEMO may need to issue a wide variety of directions to maintain system security and reliability, including directing a thermal generator to decommit its generation or a load to disconnect and run on its back-up generation. These directions could impose significant costs on the directed participants. Not paying compensation in such instances may be inconsistent with the objective of enabling directed participants to recover the costs associated with complying with a direction.

However, in some circumstances, it may be inappropriate for compensation to be applicable for directions where a service isn't provided. This may include when a Registered Participant is behaving in a way that is causing security issues that necessitate AEMO issuing a direction to that participant.

In practice, it could be difficult for an independent expert or AEMO to determine whether compensation should be paid when a service isn't provided without prescriptive guidance from the AEMC. AEMO submits that the *Compensation Guidelines* could specify the circumstances in which a claimant is eligible for compensation when a service isn't provided. AEMO notes that the AEMC must consult on updating the *Compensation Guidelines* so this would provide stakeholders with an opportunity to comment on when compensation should/shouldn't be paid.

Preliminary compensation

Under the draft Rule, preliminary compensation would be calculated using a volume weighted average price (VWAP). The proposed VWAP approach is more complex than the current 90th percentile approach. The draft Rule would require AEMO to develop systems that:

- calculate separate VWAPs for energy consumption, energy export and each of the ten market ancillary services, for each technology type in each region; and
- identify if there is less than 100 GWh of generation or export for a technology type in a region, and in such a case, calculate a separate VWAP using regional prices for energy consumption, energy export and each of the ten market ancillary services.

It is an opportune time to change the preliminary compensation approach. AEMO's current systems for the calculation of preliminary compensation need to be updated as these systems are unsupported and require significant manual input. AEMO does not consider that these systems remain fit-for-purpose given the current frequency of directions and their evolving nature.

As set out in AEMO's publicly available draft high-level implementation assessment[2] (HLIA), AEMO considers that the new systems could not reasonably be developed within the implementation timeframes set out in the draft Rule but could be operational in June 2029.

2 The HLIA is available here: draft-hlia-improving-compensation-frameworks.pdf

Preliminary compensation for energy import

Under the proposed VWAP approach, a separate VWAP would be calculated for energy consumption, including where AEMO directs a BESS or load to consume energy. AEMO notes that this VWAP may be positive. This appears to imply that a directed participant could be required to pay preliminary compensation in respect of directed energy consumption. This could arise, for example, where a BESS is directed to consume energy to manage a minimum system load event. AEMO notes that the energy consumed has value and so requiring BESS to pay for such energy may be appropriate. AEMO requests clarification in the final Rule as to whether preliminary compensation should be payable for the consumption of energy under direction.

Implementation timeframes

AEMO has assessed the implementation timeframes for the draft Rule and considers that some proposed commencement dates may not be reasonably achievable. AEMO's detailed assessment of the draft Rule and implementation timeframes is available here: draft-hlia-improving-compensation-frameworks.pdf.

Generally, AEMO proposes revised commencement dates for Schedule 2 and Schedule 3 of the draft Rule, while retaining the existing commencement dates for Schedules 1 and 4. These dates are set out in Table 1, noting there are a few exceptions to this approach:

- Providing AEMO additional time to align claimable direct costs across frameworks. This is currently associated with Schedule 1 commencement, but its timing would shift to align with the updated independent expert panel implementation (AEMO's proposed stage 1 "foundations" commencement).
- Two 'schedule 2' items can be delivered by the draft Schedule 2 commencement date. These are: "Aligning supporting information standards" and "Removing the duplicative rule requiring AEMO to conduct an eligibility assessment".
- Increasing the minimum threshold for claims to $10,000 is a straightforward change and could be brought forward to Schedule 1.

AEMO highly recommends that both Schedule 2 and Schedule 3 commencement dates fall on a Sunday to align with the start of the NEM settlement billing week. Commencing on any other day of the week would require complex transition arrangements for each stage, which would increase implementation complexity and costs. AEMO's proposed date variations in Table 1 reflect this recommendation.

In AEMO's view, its proposed rule commencement dates would provide sufficient time for detailed design, delivery, testing and industry readiness activities which reduces implementation risk and supports an orderly transition to the improved compensation frameworks.

Table 1 AEMO proposed variations to implementation timeframes

AEMO implementation stage	Draft rule schedule	High level description	Draft rule commencement	AEMO proposed variation
n/a	Schedule 4	Transitional obligations support the development of required guidelines and implementation arrangements.	TBC October 2026	No change
Stage 1	Schedule 1	AEMC updates the compensation guidelines.	Thursday 15 July 2027	No change
Stage 1	Schedule 1	AEMO establishes refreshed IE panel and updates processes for direct costs.	Thursday 15 July 2027	Wednesday 1 December 2027
Stage 2	Schedule 2	AEMO updates processes and governance arrangements.	Friday 15 October 2027	Sunday 2 July 2028
Stage 3	Schedule 3	AEMO updates systems Compensation arrangements consolidated and simplified.	Sunday 15 October 2028	Sunday 3 June 2029

Implementation costs

As noted above, AEMO considers that its current systems for the calculation of preliminary compensation need to be upgraded as the systems are unsupported and require significant manual input. The current system is more than five years old, and AEMO does not consider that the systems remain fit-for-purpose given the current frequency of directions and their evolving nature. In upgrading AEMO's systems, AEMO would look to develop:

- a new compensation calculation engine and compensation data store
- an internal portal that would provide a consistent source of event information supporting compensation, settlements, claims, reporting and participant services. This system would maintain information on the nature of the compensation events (covering services directed or provided during market suspension), duration of compensation events, and cost recovery market participants in the market at the time.

AEMO estimates the capex cost of these necessary system upgrades would be between $2.3 million and $3.4 million.

AEMO's estimate of the additional capex cost of developing the new systems required to implement the final rule is between $1.6 million and $2.4 million. The final rule requires new capabilities, including:

- separate calculations of preliminary compensation depending on technology types,
- calculating preliminary compensation for energy import (in addition to export and FCAS),
- developing a separate test and calculation of preliminary compensation where consumption is below the 100 GWh thresholds,
- calculating VWAP for market suspension events, and
- implementing new settlement arrangements for APC claims

AEMO expects that updating its systems to automate many aspects of the compensation approach will create opex efficiencies. However, these opex reductions will be offset by additional costs required to fulfill new functions and maintain the new systems. AEMO is still considering the opex costs of the AEMC's draft rule. At this stage the net opex cost impacts, including the costs of engaging independent experts, isn't sufficiently clear to be accurately estimated.