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Australian Energy Market Commission

8 September 2025

Improving compensation frameworks draft determination

AGL Energy (AGL) welcomes the opportunity to respond to the Australian Energy Market Commission (AEMC) improving compensation frameworks draft determination.

Key points

- We support the draft determination and the broader package of compensation reforms.
- Opportunity costs should be recoverable across all compensation frameworks to ensure participants are not financially worse off.
- Volume weighted average price (VWAP) is a more accurate and efficient basis for preliminary compensation than existing approaches.
- Periods distorted by market interventions should be excluded from VWAP calculations to preserve cost reflectivity.
- Fixed cost adjustments should not be adopted because they risk over or under compensating participants.
- Wear and tear, asset degradation, and associated assessment costs are material and should be compensable.
- Capacity direction compensation should be recovered from consumers as the primary beneficiaries of the intervention.
- AEMO should be the single point of administration for all compensation claims to improve consistency and simplicity.
- A consistent claim period of 60 business days is needed to support robust and credible compensation claims.
- We support the AEMC’s decision to reject the $0/MWh scheduling error compensation floor.

Opportunity Costs

We support the draft determination's decision to allow opportunity costs to be claimed consistently across all compensation frameworks.

Opportunity costs form part of the cost of complying with market interventions and are particularly relevant for fuel constrained generation, storage assets, and other resources with finite operational capabilities. Excluding opportunity costs can result in participants being required to operate below short run marginal cost and can distort investment and operational decisions.

We support the replacement of the existing "loss of revenue" concept with a consistent opportunity cost framework and agree that opportunity cost claims should continue to be assessed through an independent expert process.

We also support the AEMC’s intention to provide ongoing guidance through the compensation guidelines. Clear guidance will be important to support consistency, transparency and predictability while maintaining sufficient flexibility to accommodate emerging technologies and evolving market conditions.

Preliminary Compensation and the VWAP Methodology

We support the AEMC’s decision to adopt a technology and region specific VWAP methodology for preliminary compensation.

A VWAP approach is more reflective of actual market outcomes than the current arrangements and should improve the likelihood that preliminary compensation appropriately reflects the costs of complying with interventions. We also support the AEMC’s decision to exclude periods affected by market interventions; administered pricing, market suspension events, and directions from the VWAP calculation. These periods do not reflect typical market outcomes, and their inclusion would risk introducing a systematic bias into compensation calculations.

We also support the AEMC’s decision not to adopt AEMO's proposed fixed cost adjustment.

Technology based fixed cost uplifts are inherently approximate and may not accurately reflect the circumstances of individual units. They also introduce additional complexity and create divergence between compensation frameworks. Risks of under compensation are more appropriately addressed through additional compensation claims, including opportunity cost claims and direct cost recovery, rather than through ex ante uplift mechanisms that may result in either over or under compensation.

Wear and Tear and Direct Cost Recovery

We support the AEMC’s decision to harmonise direct cost definitions across compensation frameworks and to explicitly recognise wear and tear and accelerated asset degradation as compensable costs.

Market interventions can require assets to operate outside normal commercial or technical parameters. In some circumstances this may increase maintenance requirements, accelerate asset deterioration, or shorten equipment life. These costs are genuine economic costs associated with complying with interventions and should be fully recoverable.

We note that quantifying these impacts may require specialist engineering analysis. Where such analysis is necessary to substantiate a claim, the reasonable costs associated with undertaking that analysis should also be recoverable.

Cost Recovery for Capacity Directions

We are supportive of the principle that compensation costs associated with capacity directions should be recovered solely from consumers.

Capacity directions are ultimately issued to maintain reliability for the benefit of consumers. Generators are not beneficiaries of these interventions and therefore should not bear a share of the associated compensation costs.

We recognise the AEMC’s concerns regarding complexity; implementation challenges and the practical difficulties associated with defining capacity directions. However, we consider these challenges are manageable and should not outweigh the underlying principle that costs should, where practicable, be allocated to those parties that benefit from the intervention.

We encourage the AEMC and AEMO to continue exploring options that may facilitate a more efficient allocation of capacity direction costs over time as operational experience with storage resources and market interventions develops.

Governance and Administrative Arrangements

We support the proposal for AEMO to receive and assess all compensation claims, supported by the independent expert framework.

A single point of administration will reduce duplication, improve consistency, and simplify engagement with the compensation frameworks, particularly where multiple intervention mechanisms operate concurrently.

We also support the proposed alignment of supporting information requirements across frameworks and the introduction of common claim assessment processes. These changes should improve transparency, reduce administrative burden, and contribute to more predictable compensation outcomes.

The proposed arrangements for referral of opportunity cost claims and material claims to the independent expert are also appropriate and should support consistent assessment outcomes.

Time Limits for Compensation Claims

We support the AEMC's draft position to adopt a consistent 60 business day time limit for the submission of compensation claims.

Preparation of compensation claims can be complex, particularly where opportunity costs, asset degradation impacts or multiple affected assets and regions are involved. The current 33 business day timeframe may be insufficient to allow participants to undertake the required analysis and gather supporting evidence.

A longer timeframe better reflects the practical realities of preparing robust compensation claims while still providing sufficient certainty and settlement finality. We consider the proposed 60 business day period strikes an appropriate balance between administrative efficiency and the need for participants to adequately substantiate claims.

Scheduling Error Compensation

We support the AEMC's decision not to proceed with the proposed introduction of a $0/MWh floor for scheduling error compensation.

We agree that the proposed change could create unintended consequences for storage and bi-directional units and may not appropriately reflect the post Integrating Energy Storage Systems (IESS) market design. The existing framework is better aligned with actual market outcomes and avoids introducing distortions that could undermine efficient operational incentives.

Implementation Timeframes

We support the AEMC's staged implementation approach.

The reforms are extensive and involve a combination of guideline updates, process changes, and system development requirements. A phased implementation program should assist in managing transition risks while allowing priority reforms to be implemented earlier.

We encourage the AEMC to continue engaging closely with AEMO and market participants throughout implementation to ensure adequate time is available for procedural updates, system development, and participant readiness activities.

About AGL

Proudly Australian since 1837, AGL provides over 4.5 million gas, electricity, and telecommunications services to our residential, small, and large business, and wholesale customers across Australia. AGL operates the largest private electricity generation portfolio in Australia, with a total operated generation capacity of almost 8000 MW across Australia as of 30 June 2025. AGL owns Australia's largest privately-owned fleet of hydro assets and operates the largest portfolio of renewables and storage assets of any ASX listed company. Since 2006, AGL has invested billions of dollars in the construction and delivery of over 2 GW of renewable and firming capacity in the National Electricity Market (NEM).

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Yours sincerely,

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