Thursday, 3 September 2026

Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

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CEC submission to AEMC's draft rule and associated determination on compensation frameworks

Summary

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia, representing nearly 1,000 leading businesses across renewable energy, energy storage, and renewable hydrogen. We are committed to accelerating Australia's transition to a clean energy future as rapidly as possible while maintaining a secure and reliable electricity supply for customers.

The CEC welcomes the opportunity to provide feedback to the recently published draft rules and associated draft rule determination for the improving compensation frameworks rule change request. The CEC is broadly supportive of the proposed direction outlined by the AEMC, particularly the amendments intended to improve how compensation is assessed and administered across directions, market suspension, and administered pricing.

Our members are supportive of the draft provisions to improve the calculation of compensation by introducing a consistent end-to-end methodology across frameworks and the inclusion of opportunity-costs to be claimed across all compensation frameworks. However, some of our members have expressed concern about the length of the transitional provisions to introduce opportunity costs in determining compensation for AEMO directions.

The CEC is aware of instances where energy storage members have been directed to perform MSL services – that is, to discharge energy and hold a minimum state of charge for a set period – and have not been compensated under the existing framework. The inclusion of opportunity cost directly as something that independent experts can acknowledge when considering their determinations will in part alleviate this problem. While we appreciate the AEMC has likely consulted with AEMO on the implementation timetable set out in the draft rules and associated determination, the CEC appeals to the AEMC to consider amendments to the final rule to bring forward implementation of opportunity-costs related to directions to Schedule 1 ahead of its broader consideration in the compensation frameworks.

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The CEC has provided some suggestions and justification for how this could be achieved in the following section of this submission. We are of the opinion that these amendments if enabled would rectify a known issue under the existing arrangements ahead of the 2026-27 summer period when there is an increased likelihood of AEMO directions to energy storage systems during low grid demand conditions.

Earlier implementation of opportunity-cost compensation for directions

The proposed amendments set out in the draft rule to enable market participants to claim “opportunity costs” across the three compensation frameworks are at Schedule 2 and are due to commence operation from 15 October 2027. From the perspective of CEC members that contend they have been inadequately compensated for AEMO directions during periods of low operational grid demand over the past 12-18 months, this timeframe is too long and risks similar problems arising during the 2026-27 summer period.[1,2]

We understand that the application of “opportunity costs” to the directions compensation framework is to be achieved by replacement of the words “loss of revenue” in clause 3.15.7A(g)(2) and adding opportunity cost definitions at clauses 3.15.7A(g1) and 3.15.7B(a5) that point to the compensation guidelines made under clause 3.14.6(e). The draft rules also intend to expand the guideline-making power in clause 3.14.6(e) so the guidelines define opportunity costs for claims under clauses 3.14.5B, 3.15.7A, 3.15.7B and 3.14.6.

As set out in Table E.1 of the draft rule determination, the AEMC has stated its reasoning for the inclusion of opportunity costs in the compensation frameworks in Schedule 2 (rather than Schedule 1) is because this amendment “requires updates to AEMO’s processes for assessing claims and referring claims to an independent expert, as well as compensation guidelines and information standards”.[3] As such, these amendments are contended to be contingent on updates to the guidelines noted above. The CEC agrees that amendments to rules 3.14 and 3.15, relating to administered pricing and market suspension compensation frameworks, and the remainder of the directions’ compensation frameworks and the compensation cost recovery provisions will likely be contingent on changes to the compensation guidelines.

However, we are not convinced that this logic holds true for participants affected by directions, and the provision of the independent expert under rule 3.12. For these directions, AEMO already receives, assesses and refers claims to the independent expert in accordance with existing obligations under the NER in clauses 3.15.7A(h) and 3.15.7B(c). This is distinct from the administered pricing compensation arrangements where there are handover processes from the AEMC to AEMO following the receipt and assessment of administered pricing claims. As such, the CEC considers the Schedule 2 rationale (requirement for AEMO process updates) is expected to have a proportionally larger impact on administered pricing compensation arrangements than on directions, where a "loss of revenue" claim assessed by AEMO and/or independent expert already exists and the introduction of opportunity cost is a conceptually adjacent improvement.

Against this backdrop, the CEC recommends the AEMC further consider whether amendments be made to the final rule to bring forward the opportunity-cost element of the compensation arrangements with respect to directions to be included in Schedule 1. This would enable a known issue under the existing arrangements to be rectified as soon as practicable ahead of the 2026-27 summer period when there is an increased likelihood of AEMO directions to energy storage systems during low grid demand conditions. The AEMC could achieve this result through consideration of the following options:

[1] AEMO | Independent Expert Report - Directions to SA generators during billing weeks 49-52 2025
[2] AEMO | Independent Expert Report - Directions to South Australian generators during billing week 46 2025
[3] AEMC | ERC0425 Improving Compensation Frameworks, Draft rule determination, 9 July 2026, p.37.

- inclusion of a new savings and transitional provision under Chapter 11 of the final rule that applies the opportunity-cost versions of 3.15.7A(g)(2)/(g1) and 3.15.7B(a)(1)/(a5) to directions issued on or after the Schedule 1 commencement date, decoupling them from the rest of the Schedule 2 package.
- alternative drafting convention of a "by date" rather than a set date for commencement of the various schedules. For example, the transitional rule could set a "by date" and let the directions opportunity-cost provisions commence earlier on (say) one month's formal notice once the guidelines are published.
- amend 11.19X.2 (compensation guidelines) to require the AEMC to include the directions related opportunity-cost definition and methodology in the guideline update and expressly commence that part 'on' or 'by' the Schedule 1 commencement date.
- addition of a consequential amendment to clause 11.19X.5 so it is clear early application of the opportunity-cost provisions would only apply to directions issued on or after the commencement data and directions before that date remain on the old "loss of revenue" basis.

The CEC notes that any transitional rule would also need to maintain the policy intent put forward by the AEMC that AEMO is not an economic regulator and that its functions to date have not included determining opportunity costs. As such, the transitional rule would need "to refer all opportunity cost claims, as well as complex or difficult claims to an independent expert", for opportunity-cost directions during the transitional window.[4]

Conclusion

The CEC supports the AEMC reasoning that well-functioning compensation frameworks for directions are crucial to the effective operation of the market. These frameworks provide market participants with the confidence they need in the compensation arrangements, to continue to provide the energy and other services the market needs during periods when interventions apply.

However, to provide greater confidence to participants during the transition to the new arrangements, particularly those participants that have been negatively impacted by the current framework, the CEC recommends careful consideration of the savings and transitional arrangements in Chapter 11 of the draft rule. Specifically, bringing forward those elements of the new arrangements that can be easily implemented under the current rules, as soon as practicable, would in our opinion better meet the National Electricity Objective of the final rule representing good regulatory practice and improving market efficiency in the long-term interests of consumers with respect to the reliability, safety and security of the national electricity system.

The CEC welcomes further engagement with the AEMC as it finalises the amended compensation arrangements to apply in the NEM going forward. Further queries can be directed to James Eastcott at jeastcott@cleanenergycouncil.org.au.

Kind regards

Martin Kennedy

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[4] AEMC | ERC0425 Improving Compensation Frameworks, Draft rule determination, 9 July 2026, p.29.