28 August 2026

Australian Energy Market Commission
Project Lead Mr Max Bonic

Submission lodged via the Project Page.

Dear Mr Bonic,

SUBMISSION TO DRAFT DETERMINATION IMPROVING COMPENSATION FRAMEWORKS

Delta Electricity (‘**Delta**’) welcomes the opportunity to comment on the Australian Energy Market Commission’s (‘**AEMC**’) draft determination on Improving Compensation Frameworks (ERC0425).

Delta generally supports the approach taken in the draft determination, particularly those changes that strengthen the effectiveness of compensation frameworks and incentives for market participation during periods of market stress.

Delta appreciates the considerable work undertaken by the AEMC in progressing the recommendations arising from the Compensation Frameworks Review and acknowledges that the draft determination adopts, either fully or substantially, most of the positions raised by Delta in its submission to the consultation paper. In particular, Delta welcomes the AEMC's proposed adoption of the:

- 12-month technology and region-specific Volume Weighted Average Price (VWAP) methodology.
- harmonisation of compensation arrangements across frameworks.
- extension of opportunity cost compensation across all compensation regimes.
- clarification of cost recovery arrangements for directions.
- adoption of a consistent claims process administered by AEMO.
- introduction of more consistent supporting information requirements.
- extension of claim timeframes to 60 business days.

These changes improve transparency and consistency and represent a step towards ensuring compensation frameworks continue to support reliable participation during periods of market stress.

Notwithstanding this broad support for the draft determination, Delta remains concerned about the decision not to adopt a Fixed Cost Adjustment (FCA) and the lack of clarity regarding when the Compensation Guidelines will be reviewed.

Fixed Cost Adjustment

Delta remains concerned that the draft determination does not adopt AEMO's proposed Fixed Cost Adjustment (FCA). While the proposed 12-month technology and region-specific VWAP methodology may provide a reasonable estimate of foregone market revenue, Delta considers that it may not fully capture the costs associated with maintaining operational availability during prolonged intervention events. Compensation frameworks play an important role in preserving incentives for participants to remain physically and commercially capable of responding when the power system is under stress. Where compensation does not adequately recognise these costs, there is a risk that the incentive to maintain availability is weakened, potentially undermining the reliability outcomes the framework is intended to support.

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Delta notes that the draft determination records substantial stakeholder support for the FCA proposal, including support from AEMO and a range of market participants, while only one stakeholder opposed its inclusion. Delta supported AEMO's proposal, to include a fixed cost adjustment for upfront directions, because it would provide greater confidence that compensation outcomes appropriately recognise the costs associated with maintaining dispatchable capacity and operational readiness during periods of market stress. Thermal generating units incur material fixed operating costs that are not reflected through short-run energy revenues alone. The purpose of compensation frameworks is not merely to reimburse marginal operating costs, but to maintain appropriate incentives for participants to remain available to provide energy and essential services when the market most needs them.

The events of 2022 demonstrated the importance of dispatchable plant remaining physically and commercially capable of operating through prolonged periods of market intervention. Where compensation arrangements do not adequately recognise the costs associated with maintaining availability, incentives to remain physically and commercially available may be weakened, increasing risks to power system reliability during periods of market stress. Delta therefore encourages the AEMC to reconsider the FCA proposal in the final determination. Alternatively, the AEMC should provide a clearer explanation of how the proposed VWAP methodology alone adequately reflects the costs borne by participants whose continued availability underpins reliability outcomes during intervention events. This should include how compensation outcomes under this methodology will continue to support availability incentives during periods of market stress.

APC Compensation Guidelines and Technical Limitation Assessments

Delta acknowledges that the draft determination proposes amendments to the APC Compensation Guidelines (Guidelines). However, Delta considers that the proposed changes do not address the specific concerns raised in Delta's consultation submission regarding the treatment of technical limitations. Delta's experience following the June 2022 administered pricing event highlighted that aspects of the current Guidelines were open to interpretation, creating uncertainty regarding how claims would be assessed and creating uncertainty in the operation of the framework. Uncertainty regarding the treatment of technical limitations may materially influence operational decision-making during intervention events and may weaken the effectiveness of the compensation framework in supporting availability when required.

Delta considers improving the compensation framework requires more than amendments to the National Electricity Rules alone. The Guidelines are an important component of the framework because they establish the assessment methodology and processes through which compensation claims are considered in practice. Delta considers greater clarity is required regarding the treatment of technical limitations, including limitations associated with fuel availability, fuel procurement constraints and logistical supply restrictions. These issues are particularly important for thermal generators, whose operational capability can be influenced by factors that extend beyond the immediate technical capability of the generating unit itself.

Clear and transparent criteria, supported by objective thresholds and assessment principles, would improve consistency, reduce the scope for post-event interpretation, and provide market participants with a greater degree of confidence regarding likely compensation outcomes. This confidence is critical if compensation frameworks are to continue providing effective incentives for participation during periods of market stress.

Delta therefore requests that the AEMC explicitly address these concerns in the final determination and clarify how the proposed review of the APC Compensation Guidelines will be undertaken alongside the amendments to the National Electricity Rules. While the Rules establish the overarching compensation framework, the Guidelines provide the assessment methodology and practical criteria through which compensation claims are determined. As such, the effectiveness of the proposed rule changes cannot be considered independently of the Guidelines. Delta considers it essential that the review of the Guidelines explicitly examine the treatment of technical limitations, including fuel availability, fuel procurement constraints and logistical supply restrictions, to ensure the framework operates consistently and as intended. Providing this clarity would assist participants in understanding how the broader compensation reform package will be implemented and would ensure that issues identified through the 2022 administered pricing event are comprehensively addressed.

Specific Request to Consider Inclusion of Compensation for Minimum System Load Directions

While this issue arises outside the immediate scope of the draft determination, Delta considers it relevant to the broader compensation framework because any future directions requiring generating units to reduce output to 0 MW would ultimately be assessed under the compensation arrangements being considered through this review. AEMO has recently briefed industry on measures being developed to address system security risks associated with minimum system demand conditions. While a range of actions may be taken by AEMO before directions are required, there remains the possibility that some generating units could be directed to reduce output to 0 MW.

Delta requests that the AEMC consider the impacts of such directions on generating units that cannot operate at or near 0 MW without incurring significant additional costs. For certain thermal generating technologies, reducing output to 0 MW and subsequently returning to service requires specific operating procedures, additional fuel consumption and restart activities that impose costs beyond normal market operation.

In addition, some generating units have limited operational flexibility as they approach 0 MW, creating increased operational risks and potentially extending the time required to return to commercial operation. These impacts may result in both direct costs and opportunity costs arising from compliance with a direction.

Delta therefore requests that the AEMC consider whether the proposed compensation framework adequately recognises the direct costs, opportunity costs and operational impacts associated with directions to operate at 0 MW for system security purposes.

Thank you for your consideration. Please contact Joel Aulbury, Delta's Market Compliance & Regulation Manager at joel.aulbury@deltapae.com.au, should you wish to discuss any aspects of this submission.

Yours sincerely,

ANDY YOUNG
ENERGY MARKETS RISK MANAGER