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Improving Compensation Frameworks — Draft Determination – 9 July 2026

EnergyAustralia is one of Australia's largest energy companies with around 2.1 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We appreciate the opportunity to respond on the draft determination of the Improving Compensation Frameworks rule change. The draft rule resolves many of the issues raised, including elements we have raised in our response to the consultation paper.

One overarching observation is that the AEMC should reflect the policy intent unambiguously in the final rule text. Certainty matters most to participants, and we consider that several issues remain unclear, such as the overall minimum system load (MSL) directions treatment, whether claims can be aggregated to meet the compensation threshold and any commentary on scheduling errors compensation.

AEMO's discretion should follow one consistent standard

In our submission to the consultation paper, we supported AEMO receiving and assessing all compensation claims, while noting that AEMO simultaneously manages dispatch efficiency, constraints, scarcity mechanisms, and system security interventions, functions that can be at odds with impartial assessment of a claim arising from those same interventions. We further asked that AEMO's eligibility determinations be subject to clear and accessible review, and that claimants have a defined pathway to challenge a determination without disproportionate cost or procedural burden. The response has been that legal processes for challenges are available to claimants. However, the concern we raised was about the structural independence of the assessment process itself, not the availability of downstream legal remedies.

The AEMC has provided three changes, that taken individually have a reasonable administrative rationale, but cumulatively they shift the balance between AEMO's discretion and independent oversight in favour of greater discretion to AEMO:

- AEMO rather than the AEMC will appoint a replacement independent expert following a successful objection. We understand the practical rationale, given the contractual difficulties experienced in 2022. We note, however, that this removes the AEMC, which is an independent party, from a check that currently exists in the rules, at the same time as AEMO's overall role in the framework is expanding.

- Independent expert fee governance will be addressed in the guidelines rather than the rules. We agree that fee arrangements may benefit from flexibility at that level. However, fee governance bears directly on the practical independence of the expert assessment process our submission was concerned with.

- Removing the eligibility assessment step and incorporating this as part of the general assessment process. We understand and agree that this removes duplication, but it also removes the ability of a claimant to understand or challenge an adverse eligibility outcome specifically, rather than the claim assessment as a whole.

We recommend the final rule require AEMO to publish the criteria it applies when deciding whether a claim is complex enough to refer, whether a direction falls within a defined category (including any capacity or MSL direction category that emerges from the process discussed below), and whether a claimant is ineligible under the new notice-based mechanism. This mirrors the transparency the Commission has already required of AEMO's independent expert panel, would not constrain AEMO's operational discretion to direct the power system, and is a more workable response to the concern we raised.

Treatment of directions to increase or decrease output

The draft determination declines to adopt a distinct cost-recovery treatment for capacity directions on two grounds: (1) that such directions "should rarely be used" and are expected to remain an "absolute last-resort mechanism," and (2) that a workable definition would introduce administrative complexity and subjectivity.

A capacity direction, as described in the draft determination, is a direction for storage plant to consume energy to ensure reliability at a later point. This is difficult to distinguish, in substance, from a MSL direction requiring storage to charge or hold a state of charge for the same underlying reliability purpose. The draft determination does not address whether or how these two direction types would be distinguished for cost-recovery classification purposes, notwithstanding that AEMO's own submission raised comparable classification difficulties as a reason not to define capacity directions at all. If that boundary is genuinely difficult to draw, we would welcome the AEMC's view on whether MSL directions fall inside or outside capacity direction definition, since the current draft treats MSL related compensation as out of scope. As we mentioned in our submission to the MSL governance and market arrangements consultation, there is scope for coordination the work on the two rule changes.

Our recommendation on this issue is that the AEMC defines MSL-related conditions and the compensation pathway. The timeline of the two rule changes supports coordination and consider it would improve outcomes for market participants.

A direction to increase output, for example, requiring a battery to discharge, or a generator to run, is compensated relatively clearly under the draft rule, whether as energy under clause 3.15.7 or as another compensable service under clause 3.15.7A. It is far less clear how the rules treat a direction to reduce or cease output. Our view is that a scheduled generating unit being directed to reduce output due to MSL should allow for recovering operating costs, direct costs and opportunity costs.

Clauses 3.15.7A(a) to (e) are retained without amendment in the draft rule. AEMO retains sole discretion, exercised in its "reasonable opinion", to determine whether a Directed Participant was required to provide another compensable service in order to comply with a direction. Where AEMO determines it was not, clause 3.15.7A(e) removes any entitlement to compensation, including the ability to make an additional claim under clause 3.15.7B. We understand the AEMC intends to remove this provision as part of Stage 3 of implementation, replacing it with a consolidated compensation model. We recommend the removal be brought forward to improve the compensation regime. This change does not depend on other changes proposed for Schedule 3 and therefore.

We would then note that we see no distinction between MSL directions for charging or reducing output. Both are AEMO interventions for the same system security reason, and each can leave a Directed Participants out of pocket. We would welcome the AEMC's confirmation that both are intended to be treated similarly under the compensation regime to ensure technology neutrality is maintained.

Threshold for claims

While we understand the rationale for increasing the minimum claim threshold to $10,000, however, it is not clear from the drafting whether the $10,000 threshold is assessed per claim, per directed resource, or in aggregate across all of a participant's affected units arising from the same direction or event. Clause 3.15.7B(a4), for example, frames the threshold as applying "in respect of a single direction", while the claim amount itself is calculated under clause 3.15.7B(a) by reference to costs incurred "in respect of its directed resource". A participant with several units, each individually affected by less than $10,000 under the same direction, may or may not be able to aggregate those amounts into a single claim, depending on which reading applies.

This matters because the purpose of the threshold, as we understand it, is to screen out immaterial claims, not to exclude participants who are materially affected in aggregate but not unit by unit. Consistent with our overarching point above, we recommend the AEMC clarify in the rules whether claims can be aggregated across a participant's affected units for the purpose of meeting the threshold.

Independent expert panel objection process

The draft rule changes who appoints a replacement independent expert following a successful objection, from the AEMC to AEMO. The objection mechanism does not seem to be in scope of change. We recognise that the objection step adds processing time to the claim and the AEMC indicated it has never been used. The process is intended to aid credibility and confidence in impartiality. This could also be achieved by involving participants in selecting the composition of the independent expert panel through consultation and a majority of votes. We consider it is critical for the process to be built on integrity, impartiality and agreement.

Scheduling errors - a peripheral gap

Separate from directions, we recommend the AEMC revisit compensation for scheduling errors, which this rule change leaves unchanged on the view that the Integrating Energy Storage Systems (IESS) rule change already addressed the relevant issue, by calculating compensation as the difference between the error and non-error dispatch scenarios. That fix addressed the risk of negative compensation arising from applying spot prices directly. However, it does not clearly extend to direct costs unrelated to lost market revenue, in particular start-up costs where a scheduling error causes a unit to start, or to opportunity costs that materialise once the error period has ended.

The scheduling error compensation methodology compares a participant's actual market revenue to the market revenue it would have earned has the error not occurred (the "different loading level" test). Where a scheduling error causes a unit to start that would otherwise not be dispatched, the counterfactual revenue is zero, but it does not consider the unit's start-up cost exceeding revenue and thus being left worse off overall. The methodology measures a change in market revenue, not a change in financial positions.

We consider there is no reason for a participant's direct and opportunity costs to be treated differently depending on whether the underlying disruption is classified as a direction or a scheduling error. Our recommendation is that the AEMC align scheduling errors compensation with the treatment proposed for the other market interventions.

Implementation timeline

We note AEMO's supporting analysis proposes later commencement dates for Schedules 2 and 3 than the draft rule specifies. As the party responsible for system and process delivery, AEMO is best placed to assess what is achievable, and we would not object to the Commission accommodating a more realistic timeline, provided this does not compress the stakeholder consultation that the compensation guidelines depend on.

Besides the issues we raised in our submission, based on the draft rule, we support:

- the shift to a technology- and region-specific volume-weighted average price (VWAP) for preliminary compensation, and the 100 GWh data-sufficiency threshold as a pragmatic trigger for the regional fallback
- harmonising direct costs and extending opportunity costs across all three compensation frameworks
- AEMO receiving and assessing all compensation claims in the first instance
- the requirement for AEMO to maintain a panel of "qualified and available" independent experts, noting our recommendation above on how that panel is composed
- the extended and aligned 60-business-day claim submission period to ensure sufficient time for a claimant to prepare the claim
- the staged implementation approach, noting our comments around changes to clause 3.15.7A being brought forward to Schedule 1

If you would like to discuss this submission, please contact me via email at Ana.Spataru@energyaustralia.com.au.

Regards

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