SUBMISSION

EUAA
Energy Users Association of Australia

AEMC IMPROVING COMPENSATION FRAMEWORKS (ERC0425)

3 SEPTEMBER 2026

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, steel, aluminium, paper, food and beverages. Combined, our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the National Electricity Objectives (NEO) so that our members can continue to provide a fit for purpose product for their customers.

Thank you for the opportunity to make a submission under the *Improving Compensation Frameworks (ERC0425)* consultation.

The AEMC's Draft Determination proposes a suite of amendments to the compensation frameworks for directions, administered pricing, and market suspension. Many of these changes respond directly to issues exposed during the June 2022 market suspension, when compensation processes proved fragmented, inconsistent, and in some cases created incentives that undermined market efficiency. As the Draft Determination notes, the review found that the frameworks must "provide clear and transparent methodologies that support the objectives and promote efficiency and effectiveness".

The EUAA supports the intent of the Draft Rule and welcomes improvements in governance, alignment, and methodology. However, several elements require strengthening to ensure the final rule delivers a framework that protects consumers, maintains system integrity, and avoids embedding new risks or costs.

DISCUSSION

OPPORTUNITY COST COMPENSATION

The Draft Determination proposes allowing opportunity costs to be claimed across all compensation frameworks. While this aligns with the EUAA's position that opportunity costs must be recognised, it also heightens the need for strict guardrails.

The Draft Determination acknowledges that opportunity cost claims require careful assessment because they rely on counterfactual operating scenarios. It notes that "opportunity costs for a specific period cannot be accurately determined through a predictable and formulaic preliminary compensation method". This reinforces the EUAA's concern that without clear constraints, claims may become subjective, inflationary, and open to gaming.

To protect consumers, opportunity cost compensation must be limited to circumstances where:

- the participant has a genuinely constrained resource (e.g., hydro storage, bidirectional plant),
- the intervention materially alters the participant's operating strategy, and
- the participant can demonstrate a quantifiable and verifiable reduction in profit.

The Draft Rule's requirement that all opportunity cost claims be referred to an independent expert is appropriate, but the EUAA considers that the AEMC's guidelines must provide explicit, codified methodologies to ensure consistency and prevent disputes.

BENCHMARKING AND PRELIMINARY COMPENSATION

The EUAA supports the Draft Determination's adoption of a rolling 12-month technology specific volume-weighted average price (VWAP) for preliminary compensation.

The Draft Determination states that VWAP "is more likely, in the long-term, to reflect the participants' costs of providing energy and other services" and reduces the risk of systemic over- or under-compensation.

This approach improves predictability, reduces administrative burden, and limits bespoke claims. It also aligns incentives by reducing the attractiveness of strategic withdrawal during administered pricing or market suspension.

The EUAA seeks clarity on:

- whether the VWAP will be calculated on a rolling basis or fixed annual periods,
- how technology classifications will be defined, and
- how the 100 GWh threshold for category-specific VWAPs will be applied.

These details materially affect consumer exposure to compensation costs and must be transparent.

COST RECOVERY AND RISK ALLOCATION

The Draft Determination proposes several changes to cost recovery, including clarifying recovery for administered pricing and directions compensation.

The Draft Determination argues that capacity directions are rare and that defining them would introduce complexity with limited benefit. It states that "the practical benefits will be immaterial and are likely to be outweighed by administrative burden and complexity".

The EUAA strongly supports this position. Consumers cannot continue to be the default risk-bearer for generator operational decisions. The June 2022 events demonstrated that some generators withdrew capacity because they expected higher compensation under directions. Requiring generators to contribute to compensation funds would:

- discourage strategic withdrawal,
- align incentives with system reliability, and
- ensure those who create or exacerbate intervention conditions bear an appropriate share of costs.

The EUAA also supports alignment between electricity and gas compensation frameworks where justified, as this improves predictability and reduces administrative burden.

TRANSPARENCY AND REPORTING

The Draft Determination proposes replacing participant-category reporting with reporting by cost recovery market participants (CRMPs). While this aligns with the IESS rule change, it reduces visibility for consumers. The Draft Determination acknowledges EUAA's concern but concludes that the change "would reduce the risk of inaccurate or misleading information".

The EUAA considers that transparency is not an administrative burden—it is a fundamental safeguard.

Compensation liabilities can be large, unpredictable, and region-specific. Consumers require timely and accurate information to manage cashflow and risk.

The EUAA recommends that the final rule require:

- publication of outstanding compensation claims,
- estimated regional cost recovery amounts, and
- progress updates on assessment timelines.

These measures would materially improve confidence in the frameworks and support prudent financial planning for large energy users.

GOVERNANCE AND ADMINISTRATION

The EUAA supports the Draft Determination's consolidation of compensation frameworks into a single NER section, noting that the current fragmentation has caused confusion and delays. The Draft Determination correctly identifies that "clear and functional rules" are essential for predictable outcomes during market stress .

The EUAA also supports:

- AEMO receiving and assessing all claims,
- consistent thresholds for claims and independent expert referrals,
- harmonised information standards, and
- extended time limits for submitting claims.

These changes improve alignment, reduce regulatory burden, and support more efficient administration.

CONCLUDING REMARKS

The EUAA supports the AEMC's efforts to improve the efficiency, clarity, and governance of the compensation frameworks. The Draft Rule makes meaningful progress, but several areas require strengthening to ensure consumers are protected from unnecessary or inflated compensation costs.

The final rule must ensure that:

- opportunity cost compensation is tightly controlled and evidence-based,
- cost recovery reflects the principle that risks should be borne by those best placed to manage them, and
- transparency is strengthened, not weakened.

Consumers cannot continue to be the financial backstop for market participants' commercial decisions. The final rule must deliver a framework that is efficient, predictable, transparent, and aligned with the long-term interests of consumers.

The EUAA welcomes further discussions with us and our members around the issues raised in this submission.

Do not hesitate to be in contact with EUAA Policy Manager Dr Leigh Clemow, should you have any questions.

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