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Australian Energy Market Commission

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Improving Compensation Frameworks – Draft Determination

Origin Energy (Origin) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) *Improving Compensation Frameworks* Draft Determination.

We broadly support the Draft Determination which seeks to ensure compensation is cost-reflective and applied in a consistent, transparent / administratively efficient way to ensure incentives for market participants to support reliability and security of supply are maintained. However, a key issue that still needs to be addressed is the availability of compensation for market participants subject to minimum system load (MSL) decommitment directions, as discussed below.

1. General comments on the draft Rule

Moving to a volume-weighted average price (VWAP) methodology for preliminary compensation should, in principle, make outcomes more predictable for participants. The harmonisation of direct costs and extension of opportunity cost recovery across the directions, market suspension and administered pricing frameworks reinforce this predictability, whilst removing the inconsistent incentives that can arise when compensation differs by intervention type.

Origin supports the more targeted, per-unit and per-trading-interval assessment of administered pricing compensation. This better preserves incentives for participants to keep supplying services during administered pricing periods. Aligning minimum claim thresholds and independent expert referral criteria is also a sensible simplification that will help reduce administrative burden for claimants without materially compromising the integrity of the assessment process.

The AEMC's adoption of a consistent 60-business-day limit for lodging compensation claims across all three frameworks, rather than retaining the shorter 33-day period AEMO proposed, is most sensible. Claims involving opportunity costs in particular take considerable time and internal resourcing to prepare accurately, and this is especially true during the periods of market stress that typically give rise to compensation events in the first place. A harmonised, workable timeframe better reflects that reality without compromising participants' ability to be fully compensated.

Consolidating claims governance under AEMO is appropriate, as a single administrator is better placed to apply a consistent methodology across claim types, reduce the administrative burden on participants navigating multiple processes, and efficiently assess claims drawing on visibility of relevant dispatch and direction data. However, sufficient safeguards should be established and maintained around AEMO's independence in assessing claims that arise from its own actions.

The Draft Determination proposes a staged implementation approach for the suite of compensation reforms. While Origin is supportive of sequencing reforms according to their implementation complexity, we consider it important that the timeframes be informed by AEMO's high-level impact assessment which is currently underway.

2. Provision of compensation for decommitment directions

AEMO's MSL procedures allow it to direct generating units to decommit (reduce output to zero) to manage periods of very low operational demand. These directions are issued under AEMO's existing direction

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power in Chapter 4 of the National Electricity Rules (the Rules). However, it has advised that a unit that is directed to reduce generation or decommit is not providing a compensable service and therefore not eligible for compensation.[1]

In Origin's view, this is not consistent with the new objective for directions compensation which is "to enable Directed Participants to be compensated for the costs associated with complying with a direction."[2] In the context of decommitment, these costs can include restart costs, fuel and gas nomination penalties, foregone contract cover, additional wear and tear from cycling and opportunity costs. Operational costs can be particularly acute for inflexible units such as legacy coal-fired generators.

Accordingly, Origin considers the AEMC should bring decommitment within the compensable-directions framework as part of the harmonised, administratively simple approach this consultation is developing, consistent with the objective of ensuring compensation frameworks provide the right incentives to support reliability and security during periods of system and market stress.

If you wish to discuss any aspect of this submission further, please contact Steve Williams at steve.williams@originenergy.com.au.

Yours sincerely,

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[1] AEMO, *MSL procedures and directions: Overview of proposed changes to procedures – inflexible units*, July 2026.
[2] AEMC, *Improving compensation frameworks*, Draft rule determination, 9 July 20206, p. 34.

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