

---

Australian Energy Market Commission

## CONSULTATION PAPER

### Review of Compensation Guidelines

3 March 2016

# GUIDELINES

## **Inquiries**

Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

E: [aemc@aemc.gov.au](mailto:aemc@aemc.gov.au)

T: (02) 8296 7800

F: (02) 8296 7899

Reference: EPR0048

## **Citation**

AEMC 2016, Review of Compensation Guidelines, Consultation Paper, 3 March 2016, Sydney.

## **About the AEMC**

The AEMC reports to the Council of Australian Governments (COAG) through the COAG Energy Council. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the COAG Energy Council.

This work is copyright. The Copyright Act 1968 permits fair dealing for study, research, news reporting, criticism and review. Selected passages, tables or diagrams may be reproduced for such purposes provided acknowledgement of the source is included.

## **Foreword**

The Australian Energy Market Commission (AEMC or Commission) has prepared this Consultation Paper to facilitate public consultation in respect of potential amendments to the Compensation Guidelines referred to in clause 3.14.6 of the National Electricity Rules (NER).

### **The Compensation Guidelines**

The Compensation Guidelines support the operation of clause 3.14.6 of the NER which describes how compensation is to be determined by the AEMC if a claim is made by an eligible party following the application of an administered price cap or administered floor price. The Compensation Guidelines provide guidance to:

- the Commission when determining whether compensation should be paid and the amount of compensation payable under the NER;
- any experts that the Commission may engage to assist the Commission in assessing a claim for compensation; and
- potential claimants and AEMO on the information required to be provided in support of a claim for compensation.

### **Why the Compensation Guidelines are being reviewed**

On 4 February 2016, the final rule determination was published on the rule change for compensation arrangements following application of an administered price cap and administered floor price. The Compensation Guidelines are required by the NER to be amended before the final rule on this rule change commences on 29 September 2016. In particular, consequential amendments need to be made to the Compensation Guidelines. As well as considering these consequential changes, the AEMC also intends to consider whether other aspects of the Compensation Guidelines should be amended.

In reviewing the Compensation Guidelines, the AEMC must follow the transmission consultation procedures in Clause 6A.20 of the NER, which includes stakeholder consultation. The purpose of this consultation paper is to seek initial stakeholder feedback on potential changes to the current Compensation Guidelines.

In assessing potential changes to the Compensation Guidelines, the AEMC must have regard to the National Electricity Objective (NEO).

### **Issues for Consultation**

This Consultation Paper identifies certain aspects of the final rule which require consequential changes in the Compensation Guidelines.

This paper also identifies other potential issues relating to aspects of the Compensation Guidelines that may have a material impact on the amount of compensation that can be

claimed by eligible participants and would be recovered from market customers. These include the types of direct and opportunity costs that can be claimed, the definition and methods of valuing opportunity costs, the approach for assessing opportunity cost claims and information requirements for parties involved in assessment of a claim.

Submissions on this consultation paper are due by no later than 31 March 2016.

# Contents

<b>1</b>	<b>Background .....</b>	<b>1</b>
1.1	The compensation mechanism during an administered price limit event.....	1
1.2	Final rule on compensation arrangements following application of an administered price cap and administered floor price .....	2
1.3	Compensation Guidelines .....	3
1.4	Process for this review of the Compensation Guidelines .....	4
<b>2</b>	<b>Assessment framework.....</b>	<b>5</b>
2.1	The reliability and security of the electricity system.....	5
2.2	The price of electricity supply .....	6
2.3	Transparency and regulatory certainty.....	6
<b>3</b>	<b>Issues for consultation - consequential changes to reflect the final rule .....</b>	<b>7</b>
<b>4</b>	<b>Other issues for consultation.....</b>	<b>9</b>
4.1	Claims for direct costs .....	9
4.2	Claims for opportunity costs .....	9
4.3	Claims by ancillary service providers and non-scheduled generators.....	11
4.4	Information requirements relating to a claim for compensation.....	12
4.5	Other potential changes .....	13
<b>5</b>	<b>Lodging a submission .....</b>	<b>14</b>
5.1	Lodging a submission electronically .....	14
5.2	Lodging a submission by mail or fax .....	14



# 1 Background

This chapter sets out the following background information relating to this review:

- a summary of the current arrangements during an administered price limit event;
- the final rule determination on compensation arrangements following application of an administered price cap and administered floor price;
- the Compensation Guidelines; and
- the process for this review of the Compensation Guidelines.

## 1.1 The compensation mechanism during an administered price limit event

The compensation provisions in clause 3.14.6 of the NER are a component of the broader framework involving the market price cap, market floor price, cumulative price threshold, administered price cap and administered floor price. This framework is designed to protect customers from extended periods of high prices.

The National Energy Market (NEM) is a gross, energy-only market. The potential for volatility of spot prices for both energy and ancillary services is an important aspect of market design and operation. The ability of prices to move from -\$1,000/MWh up to \$13,800/MWh<sup>1</sup> is designed to allow generators and other market participants to earn a reasonable return on assets and recover fixed costs, providing a signal for investment.

However, this volatility also creates risk for parties who participate in the wholesale market. A persistently high spot price can lead to participant financial distress and, in extreme cases, may impact the stability of the wider market.

While the management of risk by individual market participants is an essential and unavoidable aspect of participating in the NEM, the NER contains a number of mechanisms designed to help manage risks to individual market participants and systemic market wide risks posed by periods of sustained high prices:

- a spot market price cap and a market floor price which apply during the normal functioning of the market;
- a rolling cumulative price threshold that applies over a seven day period. The cumulative price threshold is currently set at \$207,000 and is calculated by the cumulative sum of spot prices in a region across a rolling seven day period.<sup>2</sup> If the total exceeds the cumulative price threshold, an administered price period commences in which the spot price is collared in the region between the

---

<sup>1</sup> Current Market Price Cap, see Schedule of Reliability Settings, 12 February 2015, [www.aemc.gov.au](http://www.aemc.gov.au).

<sup>2</sup> Ibid.

administered floor price of -\$300 per MWh and the administered price cap of \$300 per MWh, and cannot exceed these limits for the entirety of the administered price period;<sup>3</sup> and

- a compensation mechanism for eligible parties who have incurred losses due to the application of an administered price period.

The application of the administered price cap may cause some participants to incur a loss, where the participant's direct or opportunity costs<sup>4</sup> are in excess of \$300 per MWh. The potential for them to incur a loss may create a disincentive to supply energy during an administered price period, particularly if opportunity costs are high. The rule change will, when commenced, allow participants to submit a claim for a net loss incurred over the eligibility period.<sup>5</sup>

The AEMC is responsible for assessing these claims for compensation following application of an administered price cap and administered floor price.

## **1.2 Final rule on compensation arrangements following application of an administered price cap and administered floor price**

On 4 February 2016, the Commission made a final rule and accompanying final determination on the COAG Energy Council rule change on compensation arrangements following the application of an administered price cap and administered floor price.<sup>6</sup> The final rule amends provisions in clause 3.14.6 of the NER relating to:

- the purpose of compensation;
- eligibility criteria;
- participants that are eligible to claim compensation;
- processes for assessing compensation claims; and
- the process to recover compensation costs.

As a result of the Commission's final rule, consequential changes will need to be made to the Compensation Guidelines. These aspects are discussed in sections 3 and 4.

---

<sup>3</sup> The administered price period continues until the rolling seven day cumulative price threshold drops back below the level of the cumulative price threshold. The administered price period ceases at the end of the trading day in which the price drops below the cumulative price threshold.

<sup>4</sup> Broadly, opportunity cost is the value of the next best alternative use of a resource.

<sup>5</sup> NER Clause 3.14.6 of the new rule is due to commence operation on 29 September 2016. AEMC, *Final rule determination - National Electricity Amendment (Compensation arrangements following application of an administered price cap and administered floor price) Rule 2016*, 4 February 2016, p2.

<sup>6</sup> AEMC, *Final rule determination - National Electricity Amendment (Compensation arrangements following application of an administered price cap and administered floor price) Rule 2016*, 4 February 2016.



## 1.3 Compensation Guidelines

### 1.3.1 Purpose of Compensation Guidelines

The Compensation Guidelines support the operation of clause 3.14.6 of the NER which describes how compensation is to be determined by the AEMC if a claim is made by an eligible party following the application of an administered price cap or administered floor price.

The Compensation Guidelines provide guidance to:

- the Commission when determining whether compensation should be paid and the amount of compensation payable under the NER;
- any experts that the Commission may engage to assist the Commission in assessing a claim for compensation; and
- potential claimants and AEMO on the information required to be provided in support of a claim for compensation.

### 1.3.2 Establishment and previous amendments to the Compensation Guidelines

On 30 June 2009, the first Compensation Guidelines were published by the Commission.<sup>7</sup> This was in response to the National Electricity Amendment (Compensation Arrangements under Administered Pricing) 2008 which imposed a requirement on the Commission to develop and publish Compensation Guidelines.<sup>8</sup>

On 17 February 2011, the Compensation Guidelines were reviewed and amended by the Commission following the first practical application of the Compensation Guidelines to a claim in 2010.<sup>9</sup> In this review, the amendments to the Compensation Guidelines included:<sup>10</sup>

- amending the confidentiality section so it is consistent with the AEMC's obligations to protect confidential information under the relevant legislation;
- including the principles the Commission will apply in exercising its discretion to recover any costs from a claimant;

---

<sup>7</sup> AEMC, *The Determination of Compensation following the application of the administered price cap, market price cap, market floor price or administered floor price, Guidelines*, 30 June 2009,

<sup>8</sup> AEMC, *National Electricity Amendment (Compensation Arrangements under Administered Pricing) Rule 2008 No. 17*, 18 December 2008.  
<http://www.aemc.gov.au/getattachment/03e0be31-4d38-442e-90ae-63dc5960218b/Rule-as-made.asp>

<sup>9</sup> AEMC, *Final decision, Compensation claim from Synergen Power Pty Ltd*, 8 September 2010.

<sup>10</sup> AEMC, *Compensation Guidelines under Clause 3.14.6 of the National Electricity Rules, Final Decision on Amended Guidelines*, 17 February 2016, pi.

- clarifying how scheduled load may be eligible to claim compensation and the calculation of that compensation; and
- clarifying the calculation of compensation for scheduled network service providers.

### 1.3.3 Rules provisions

Clause 3.14.6(c) of the NER includes provisions, among other things, which require the AEMC to develop and publish Compensation Guidelines that:

- outline the methodology to be used to calculate the amount of any compensation payable in respect of a claim under clause 3.14.6, including the methodology for calculating direct and opportunity costs;<sup>11</sup> and
- set out the information AEMO and a claimant must provide to enable the AEMC to make a determination as to compensation under clause 3.14.6.<sup>12</sup>

In addition, new clause 11.84.2 of the NER requires the Compensation Guidelines to be amended prior to the commencement of the final rule. The Compensation Guidelines are to be amended by the AEMC in accordance with the transmission consultation procedures to reflect the final rule, that will commence on 29 September 2016.<sup>13</sup>

## 1.4 Process for this review of the Compensation Guidelines

Under clause 3.14.6(f) of the NER, the AEMC may from time to time, in accordance with the transmission consultation procedures, amend or replace the Compensation Guidelines. The approach the AEMC proposes to take to reviewing and amending the Compensation Guidelines is outlined below:

- the process commences with this paper setting out issues relating to the proposed amended Compensation Guidelines;<sup>14</sup>
- draft Compensation guidelines and an explanatory statement will be published for stakeholder comment around June 2016;<sup>15</sup> and
- final Compensation Guidelines will be published around September 2016.<sup>16</sup>

---

<sup>11</sup> NER Clause 3.14.6(c)(3).

<sup>12</sup> NER Clause 3.14.6(c)(4).

<sup>13</sup> AEMC, *National Electricity Amendment (Compensation Arrangements following application of an Administered Price Cap and Administered Floor Price) Rule 2016 No .1*, 4 February 2016, Rule 1184.2, p10.

<sup>14</sup> NER Clause 6A.20(d).

<sup>15</sup> The AEMC must allow at least 30 business days for these submissions, in accordance with NER Clause 6A.20(b) and (c).

<sup>16</sup> NER Clause 6A.20(e).

## 2 Assessment framework

This section sets out the assessment framework that the AEMC intends to apply for this review of the Compensation Guidelines.

The assessment of changes to guidelines is different from the assessment of changes to the NER. For changes to the NER, the AEMC must assess whether a proposed rule, will, or is likely to, contribute to the achievement of the National Electricity Objective (NEO),<sup>17</sup> as set out in Section 7 of the National Electricity Law (NEL).

This is distinct from the assessment of proposed changes to the Compensation Guidelines, in which the AEMC must follow the transmission consultation procedures.<sup>18</sup> However, section 32 of the NEL provides that “in performing or exercising any function under this Law, the Regulations or the Rules, the AEMC must have regard to the national electricity objective”.<sup>19</sup> Therefore, in amending the Compensation Guidelines, the AEMC must have regard to the NEO.

On this basis, in assessing the proposed changes to the Compensation Guidelines, the Commission may consider the following matters:

### 2.1 The reliability and security of the electricity system

A reliable electricity system is one that has a high likelihood of supplying all consumer needs and underpins economic activity and investment decisions. A secure electricity system is one that is being operated or managed such that all vital technical parameters such as voltage, equipment loading and power system frequency are all within design limits and are stable.

The AEMC will have regard to the potential impact of any changes to the Compensation Guidelines to maintaining the reliability of supply of electricity and the reliability and security of the national electricity system. The proposed changes in part relate to the types of direct and/or opportunity costs, and therefore the amount of compensation, for which eligible participants may be able to make a claim for compensation following an administered price cap or administered floor price. A key benefit of paying compensation is the reliability and/or security benefit to relevant customers, because participants will have an improved incentive to supply energy and ancillary services and consume load during an administered price period.

---

<sup>17</sup> The NEO is "to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to: (a) price, quality, safety, reliability and security of supply of electricity; and (b) the reliability, safety and security of the national electricity system."

<sup>18</sup> NER Clause 6A.20.

<sup>19</sup> National Electricity (South Australia) Act 1996, National Electricity Law - Schedule, Section 32.

## **2.2 The price of electricity supply**

If a claim for compensation is paid, it is recovered from market customers and may flow through to electricity prices paid by retail customers. Therefore, changes in the methodology for calculating compensation in the Guidelines may alter the amount of compensation for which a participant is able to make a claim, which may impact the price of electricity.

## **2.3 Transparency and regulatory certainty**

Part of the reason for the Compensation Guidelines is to improve the transparency of the compensation claim assessment process. Changes to the Compensation Guidelines could include clarity around the methodology for determining opportunity costs and amendments to the information that is required to be provided by a claimant, AEMO or the AEMC relating to the assessment of a claim. Greater transparency should mean more active stakeholder involvement and regulatory decisions which better take into account stakeholder concerns.

### **3 Issues for consultation - consequential changes to reflect the final rule**

This section outlines aspects of the final rule which require amendments in the Compensation Guidelines.<sup>20</sup> The AEMC proposes that all of the relevant consequential changes be incorporated into the Compensation Guidelines.

#### **Amend the purpose of compensation**

The final rule removes, as a stated purpose of compensation, the incentive to invest in plant that provides services during peak periods and clarifies that the purpose of compensation only relates to the provision of energy or ancillary services or consumption of load during an administered price period.<sup>21</sup> This change relates to section 5 of the Compensation Guidelines.

#### **Introduce new criteria based on the eligibility period**

The final rule amends the eligibility criteria from a focus on compensation for the difference between an eligible participant's dispatch offer and the dispatch price in individual trading intervals, to an assessment of net loss over the eligibility period.<sup>22</sup> This change relates to sections 8, 9, 10 and Appendix A of the Compensation Guidelines.

#### **Amend eligible participants and criteria to claim compensation**

The final rule includes eligibility for non-scheduled market generators to claim compensation. This is discussed further in Chapter 4.

The final rule amends eligibility for scheduled network service providers, by removing the ability of these participants to make a claim for compensation following the application of a market price cap, market floor price and administered floor price. As a result, these participants will only be eligible to make a claim for compensation following an administered price cap.<sup>23</sup>

These changes relate to section 8 of the Compensation Guidelines.

---

<sup>20</sup> AEMC, *National Electricity Amendment (Compensation Arrangements following application of an Administered Price Cap and Administered Floor Price) Rule 2016 No .1*, 14 February 2016.

<sup>21</sup> The final rule clarified the references from 'other services' to 'ancillary services'.

<sup>22</sup> This starts from the first trading interval when the spot price is set by the administered price cap or administered floor price, until the last trading interval of that day. NER Clause 3.14.6 of the new rule, due to commence operation on 29 September 2016.

<sup>23</sup> AEMC, *Final Rule Determination, National Electricity Amendment (Compensation Arrangements following application of an administered price cap and administered floor price) Rule 2016*, 4 February 2016, p26-27.

### **Remove references to market suspension**

The final rule removes references to market suspension from clause 3.14.6 of the NER as it does not result in the application of an administered price period. This change relates to section 8 of the Compensation Guidelines.

### **Remove references to market price cap and market floor price**

The final rule removes references to market price cap and market price floor from the eligibility criteria as they occur during the normal function of the market, outside of the constraints of the administered price period.<sup>24</sup> These changes relate to sections 1, 5, 6, 8, 9 and 10 of the Compensation Guidelines.

### **Publish notices relating to a claim**

The final rule includes a requirement for the AEMC to publish notices for the initial receipt of a claim and the commencement of the formal assessment of a claim.<sup>25</sup> This is not included in the current Compensation Guidelines.

### **Remove expert panel and provide discretion to engage an expert**

The final rule removes the requirement for the AEMC to appoint an expert panel to advise on claims for compensation. Instead, the AEMC is provided with discretion to draw on external expertise, if required.<sup>26</sup> This relates to section 1, 7, 9 and 10 of the Compensation Guidelines.

### **Public consultation only for claims involving opportunity costs**

The final rule removes public consultation for direct cost only claims. Public consultation will only be required for claims involving opportunity costs.<sup>27</sup> This may require amendments to the confidentiality section of the Compensation Guidelines.<sup>28</sup> This relates to section 4 and 7 of the Compensation Guidelines.

#### **Question 1**

**(a) Are there any other consequential changes from the final rule that should be made to the Compensation Guidelines?**

**(b) Are these consequential changes to the Compensation Guidelines appropriate?**

---

<sup>24</sup> Ibid, p27.

<sup>25</sup> AEMC, *Final Rule Determination, National Electricity Amendment (Compensation Arrangements following application of an administered price cap and administered floor price)* Rule 2016, 4 February 2016, p39.

<sup>26</sup> Ibid, p40.

<sup>27</sup> Ibid, p39.

<sup>28</sup> Ibid, p39.

## 4 Other issues for consultation

This section discusses other areas of the Compensation Guidelines that the AEMC has identified for consultation. These relate to aspects of the Compensation Guidelines which are likely to have a material impact on the amount of compensation that can be claimed by eligible participants.

### 4.1 Claims for direct costs

In the current Compensation Guidelines, a number of categories of direct costs are permissible to include in the calculation of a claim for compensation.<sup>29</sup> This includes costs relating to fuel, operations and maintenance and wear and tear. The calculation of these costs will need to be amended to reflect the new eligibility criteria in the final rule.<sup>30</sup>

The current Compensation Guidelines also includes exclusions for cost categories that are not permissible to include in the calculation of a claim for compensation. These include repair costs in the event of plant failure and all other direct costs that cannot be attributed to the operation of the unit during the administered price limit event.<sup>31</sup>

#### Question 2

**(a) Are the current types of direct costs for which eligible participants can make a claim for compensation appropriate and exhaustive?**

**(c) Are the current exclusions for claiming direct costs appropriate? If not, how should they be amended?**

### 4.2 Claims for opportunity costs

#### Definition of opportunity cost

In the current Compensation Guidelines, opportunity costs are defined as the foreclosure of opportunities to use scarce resources more profitably at another point in time.<sup>32</sup> Given that opportunity costs relate to opportunities that could have occurred, rather than costs that were actually incurred, the approach for how these are identified is more significant. The magnitude of the costs and therefore the potential

---

<sup>29</sup> AEMC, *Compensation Guidelines under Clause 3.14.6 of the National Electricity Rules, Amended Guidelines*, 17 February 2011, p13-14.

<sup>30</sup> The final rule amends the eligibility criteria from a focus on the difference between the dispatch price and dispatch offer in trading intervals to a net loss over the eligibility period.

<sup>31</sup> AEMC, *Compensation Guidelines under Clause 3.14.6 of the National Electricity Rules, Amended Guidelines*, 17 February 2011, p14.

<sup>32</sup> AEMC, *Compensation Guidelines under Clause 3.14.6 of the National Electricity Rules, Amended Guidelines*, 17 February 2011, p15.

compensation, could also be high. For that reason this is an area of focus for the Compensation Guidelines.

Changing the definition of opportunity costs could involve broadening it beyond "future opportunities foreclosed" to include opportunities foreclosed at the same time. This may then, for example, allow ancillary service providers to make a claim for opportunity costs, when dispatched in an ancillary service market at times when the ancillary service price is capped and the energy price is uncapped,<sup>33</sup> and the opportunity to sell to the energy market may be forgone.

Defining opportunity costs more broadly may create incentives for generators to operate during administered price limit events. It may also, however, weaken the price protection for consumers provided by the administered price cap.

### **Assessing claims for opportunity costs**

In the current Compensation Guidelines, the approach for assessing opportunity costs is based on whether the claimant can identify that its plant has either technical or commercial limitations which may make it energy-constrained.<sup>34</sup> Technical limitations relate to replenishing the resources, such as water or gas, that are used to generate electricity during the relevant trading intervals and may limit the amount of MWh that can be produced over a time period (i.e. week, month, year).<sup>35</sup> Commercial limitations relate to commercial incentives or disincentives for using energy in the relevant trading intervals due to the original input costs, such as a penalty for overdrawing gas over a stipulated limit or cost of storing or withdrawing gas.<sup>36</sup>

The existing criteria for assessing claims for opportunity costs need to be amended to reflect the final rule. The final rule replaces the approach for assessing claims for compensation on an individual trading intervals basis, with an assessment of compensation over the eligibility period.

In addition, there may be opportunities to expand the criteria used to determine whether opportunity costs are a relevant consideration, to support the objective of compensation to maintain incentives for participants to supply energy and other services during an administered price period. For example, the current criteria do not acknowledge the opportunity costs of participating in another market, such as selling gas on a spot market instead of running a gas-fired generator.

---

<sup>33</sup> This relates to the situation in which an administered price cap is triggered in an ancillary service market and therefore applies in all ancillary service markets in the region, but not the energy market.

<sup>34</sup> AEMC, *Compensation Guidelines under Clause 3.14.6 of the National Electricity Rules, Amended Guidelines*, 17 February 2011, p15.

<sup>35</sup> Ibid, p15.

<sup>36</sup> Ibid, p22.



## Valuing claims for opportunity costs

In the current Compensation Guidelines, the preferred method of valuing opportunity costs is based on the hierarchy of principles. That is, the preferred method of calculating opportunity costs is as per the order outlined below:<sup>37</sup>

1. The preferred method is to use a market based valuation of opportunity cost. This valuation approach should reasonably closely reflect the characteristics of the claimant's energy limited facility, that being its location, the time period over which opportunity cost is assessed and its cost structure;
2. If an appropriate market based valuation is not available then the claimant is to use market values over a similar past period; and
3. If neither of the above valuation options are available, opportunity costs should be calculated based on processes and models used by the claimant for determining their dispatch offers and managing their trading risks.

In general, the AEMC has not identified any issues with the hierarchy of principles approach. However, the third valuation approach listed above may need to be amended, given that the final rule amended the eligibility criteria from the difference between the dispatch price and the price specified in a dispatch offer, to whether a claimant incurred a net loss over the eligibility period. Stakeholder comment is sought on whether the hierarchy of principles approach and the valuation methods within it, are appropriate or could be improved.

### Question 3

**(a) Is the current definition of opportunity cost reasonable or could it be improved?**

**(b) Are the proposed criteria for assessing claims for opportunity costs appropriate or could they be improved? Are there any other criteria which should also be considered?**

**(c) Is the hierarchy of principles approach appropriate and are the methods of valuing opportunity costs appropriate?**

## 4.3 Claims by ancillary service providers and non-scheduled generators

The current Compensation Guidelines state that ancillary service providers can claim direct costs relating to the provision of ancillary services during an administered price

---

<sup>37</sup> AEMC, *Compensation Guidelines under Clause 3.14.6 of the National Electricity Rules, Amended Guidelines*, 17 February 2011, p16.

period, however does not state what types of direct costs are permissible to include in a claim for compensation or whether opportunity costs are able to be claimed.<sup>38</sup>

The final rule extends eligibility to claim compensation to non-scheduled market generators. Non-scheduled market generators do not participate in central dispatch and do not submit a dispatch offer, however they may choose to export power to the NEM during an administered price period and therefore may make a claim for compensation.<sup>39</sup>

Stakeholder comment is sought on the types of costs which may be incurred by ancillary service providers and non-scheduled generators during an administered price period.

#### **Question 4**

**(a) What types of direct and/or opportunity costs should ancillary service providers be eligible to make a claim for compensation relating to the provision of services during an administered price period?**

**(b) What types of direct and/or opportunity costs should non-scheduled market generators be eligible to make a claim for compensation relating to the provision of services during an administered price period?**

### **4.4 Information requirements relating to a claim for compensation**

The current Compensation Guidelines outline the information that is required to be provided by a claimant in support of a claim for compensation and information that needs to be provided from AEMO and the AEMC relating to the assessment of a claim.

These information requirements will need to be amended to reflect the new eligibility criteria in the final rule and address the situation in which multiple claims for compensation are submitted by a claimant relating to the same eligibility period which applies in different regions.

#### **Question 5**

**(a) Are there any other changes which should be made relating to information that is required to be provided by parties involved in the assessment of a claim?**

---

<sup>38</sup> This only relates to the provision of Frequency Control Ancillary Services (FCAS) during an administered price limit event. It does not relate to the provision of other ancillary services such as System Restart Ancillary Services (SRAS) and Network Support and Control Ancillary Services (NSCAS).

<sup>39</sup> AEMC, *Final Rule Determination, National Electricity Amendment (Compensation Arrangements following application of an administered price cap and administered floor price) Rule 2016*, 4 February 2016, p24.

## 4.5 Other potential changes

The current Compensation Guidelines state that, in practice, the Commission intends to review the Compensation Guidelines every three years, or at an earlier time in light of market circumstances.<sup>40</sup> Given the rarity of claims for compensation relating to the application of an administered price limit event in the past,<sup>41</sup> there does not appear to be a need to update the Compensation Guidelines every three years. Stakeholder feedback is sought on whether it would be more appropriate to review the Compensation Guidelines only when there is a material change in market circumstances.

Stakeholder comment is also sought on any other aspect of the Compensation Guidelines.

### **Question 6**

**(a) Do the Compensation Guidelines need to be reviewed every three years or could they be reviewed only when there is a material change in circumstances?**

**(b) Stakeholder views are sought on any other issues relating to the Compensation Guidelines under clause 3.14.6 of the NER?**

---

<sup>40</sup> AEMC, *Compensation Guidelines under Clause 3.14.6 of the National Electricity Rules, Amended Guidelines*, 17 February 2011, p3.

<sup>41</sup> There has only been one claim for compensation arising from such a period since the NEM commenced operation in 1998.

## **5 Lodging a submission**

The Commission invites written submission on this market review. Submissions are to be lodged online or by mail by 31 March 2016 in accordance with the following requirements.

Where practicable, submissions should be prepared in accordance with the Commission's Guidelines for making written submissions on market reviews.<sup>42</sup> The Commission publishes all submissions on its website subject to a claim of confidentiality.

All enquiries on this project should be addressed to Andrew Pirie on (02) 8296 7800.

### **5.1 Lodging a submission electronically**

Electronic submissions must be lodged online via the Commission's website, [www.aemc.gov.au](http://www.aemc.gov.au), using the "lodge a submission" function and selecting the project reference code EPR0048. The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Upon receipt of the electronic submission, the Commission will issue a confirmation email. If this confirmation email is not received within 3 business days, it is the submitter's responsibility to ensure the submission has been delivered successfully.

### **5.2 Lodging a submission by mail or fax**

The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated. The submission should be sent by mail to:

Australian Energy Market Commission

PO Box A2449

Sydney South NSW 1235

The envelope must be clearly marked with the project reference code: EPR0048.

Alternatively, the submission may be sent by fax to (02) 8296 7899.

Except in circumstances where the submission has been received electronically, upon receipt of the hardcopy submission the Commission will issue a confirmation letter.

If this confirmation letter is not received within 3 business days, it is the submitter's responsibility to ensure successful delivery of the submission has occurred.

---

<sup>42</sup> This guideline is available on the Commission's website.