Thursday 24 September 2015

Mr Chris Spangaro
Senior Director
Australian Energy Market Commission
Level 6, 201 Elizabeth Street Sydney
NSW, 2000
By electronic lodgement

Dear Mr Spangaro,

**RE: Compensation arrangements after an administered price cap and administered floor price (REF ERC0176)**

GDF SUEZ Australian Energy (GDFSAE) appreciates the opportunity to comment on the Australian Energy Market Commission (AEMC) Draft Rule Determination– Compensation arrangements following application of an administered price cap and administered floor price (Draft Determination).

GDFSAE supports the proposed changes to the eligibility criteria which would make the eligibility period based on the time period from when the administered price commences, to the end of that day. This overcomes the ambiguities outlined in the Draft Determination with the current eligibility criteria.

GDFSAE also supports the extension of the eligibility criteria to include non-scheduled market generators, as it is possible that this category of generators could incur costs due to the imposition of administered pricing.

GDFSAE notes that the proposed rule would change the purpose of compensation to be only to maintain incentives for participants to supply energy during an administered price period. This change would eliminate any opportunity for a generator to claim compensation for revenue foregone which was required to support investment in peaking generators.

GDFSAE recognises that the market price cap (MPC) and cumulative price threshold (CPT) are intended to preserve the necessary price signals to ensure sufficient investment is maintained in the National Electricity Market (NEM). It is important to recognise however, that the level of the MPC and CPT are established for the whole of the NEM based on general considerations of investment and pricing signals, and cannot be specific to any given participant or set of circumstances.

GDFSAE believes that while it might be true that the MPC and CPT would be sufficient to maintain the necessary signals for investment in peaking plant for many circumstances in the NEM, there remains the possibility that for a specific set of circumstances surrounding a given administered pricing event, these pricing signals may prove to be inadequate.

It is difficult to predict in advance the specific circumstances that might apply to an administered pricing event, and how it could impact on market participants. GDFSAE accepts that if a generator were to seek compensation for investment revenue foregone, the generator would need to provide necessary explanation as to why the spot revenue received under the MPC and CPT mechanisms was inadequate to cover its investment costs. The AEMC would then make a decision on the merits or otherwise of this claim.

GDFSAE is concerned that the proposed Rule change eliminates up front, any opportunity for generators to claim compensation for investment costs. GDFSAE believes that it is better to leave the opportunity for investment claims to be made, with the compensation guidelines making clear the requirement for generators to satisfy the AEMC the reasons why any claim is warranted.

GDFSAE would potentially support the elimination in the Rules of the option to seek investment claims if there had been a history of previous claims that were found to be unwarranted. However since there have been no such claims to date, it seems that the Rule change is seeking to resolve an issue that is not impacting on the NEM.

GDFSAE trusts that the comments provided in this response are of assistance to the AEMC in its deliberations. Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 03 9617 8331.

Yours sincerely,

**Chris Deague**
Wholesale Regulations Manager