



AGL Energy Limited

ABN: 74 115 061 375
Level 24, 200 George St
Sydney NSW 2000
Locked Bag 1837
St Leonards NSW 2065
t: 02 9921 2999
f: 02 9921 2552
agl.com.au

Ms Katy Brady

Australian Energy Market Commission

PO Box A2449

Sydney South NSW 1235

22 June 2018

Dear Katy,

ERC0225 Participant compensation following market suspension

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) Consultation Paper on the proposed participant compensation following market suspension rule change request.

AGL supports the introduction of participant compensation arrangements for electricity market suspension events.

The Consultation Paper notes that during the extended 2016 market suspension in South Australia, the Australian Energy Market Operator (AEMO) could rely on its ability to issue directions or upon the goodwill of market participants. AGL was one of many participants who contributed to restoring and maintaining the power system during the market suspension event and who incurred financial losses from doing so. Accordingly, AGL considers it would be appropriate to embed a market suspension compensation framework in the National Electricity Rules (NER).

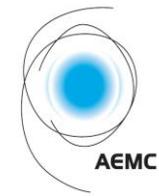
Should the proposed rule be made, AGL considers that compensation should be limited to a participant's direct costs only, where those direct costs have been incurred as a result of acting in accordance with verbal instructions or requests from AEMO during a period of market suspension. AGL provides more detail on this and other specific AEMC questions in the stakeholder feedback template.

If you have any queries about this submission, please contact Liz Gharghori on (03) 8633 6723 or lgharghori@agl.com.au.

Yours sincerely,

Elizabeth Molyneux

General Manager Energy Markets Regulation



Participant compensation following market suspension: stakeholder feedback template

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in this paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

Organisation: AGL Energy

Contact name: Liz Gharghori

Contact details (email / phone): lgharghori@agl.com.au , 03 8633 6723, 0498 444 045

Questions		Feedback
Chapter 4 – Assessment Framework		
1.	Is the assessment framework appropriate for considering the proposed rule changes?	Yes. In particular AGL supports the AEMC's consideration of the effect on incentives, and the transparency afforded to participants that would come from embedding a compensation process in the NER.
2.	Are there other relevant considerations that should be included in assessing the proposed rule changes?	
Chapter 5 – Section 5.1 – Is a compensation framework required?		
3.	Is a compensation framework required for MSPS periods?	Yes. As the AEMC consultation paper notes, AGL incurred significant financial losses from operating Torrens Island Power Station during the extended market suspension in 2016. AEMO was also put in the position of having to rely upon the goodwill of AGL and other participants during this period, in the absence of a regulatory lever. Accordingly, it is appropriate to embed a MSPS compensation framework in the NER.

Questions		Feedback
4.	If not, what other options (if any) should be considered?	
Chapter 5 – Section 5.2.3 – Objective of compensation		
5.	What should be the objective of the proposed MSPS compensation framework?	To compensate participants for any direct costs incurred as a result of acting in accordance with verbal instructions or requests (as distinct from Directions issued under the NER) from AEMO/AEMO control room during a period of market suspension.
6.	How should a MSPS compensation framework effectively incentivise voluntary participation during MSPS periods without also incentivising inefficient bidding behaviour and dispatch outcomes?	<p>It can be argued that this compensation scheme itself would incentivise inefficient bidding, as without the scheme in place, there would be no economic incentive for the participant to bid at all. Having said this, participants will face other pressures to participate during market suspension.</p> <p>SA black demonstrated that participants are highly likely to voluntarily participate during MSPS periods. AGL does not consider that this is a one-off example. The energy industry is under considerable public scrutiny and the reputational damage a participant may face in not ‘doing their part’ during market suspension could be significant.</p> <p>The very existence of a MSPS compensation framework will bolster this existing social and political pressure.</p> <p>AGL considers that the framework should allow only for the recovery of direct costs, along with the ability to recover those costs only once rather than ‘shopping’ between different compensation frameworks. This is discussed further in 9. and 12. below.</p>

Questions		Feedback
Chapter 5 – Section 5.3.1 – How should compensation be calculated?		
7.	How should compensation be calculated?	
	(a) Is the APP compensation model the appropriate approach?	<p>Yes, AGL supports the adoption of the APP compensation model given it is based on incentives that align with that of the proposed rule change. As the AEMC Consultation Paper describes, the potential for generators with high costs to incur losses may create a disincentive for them to supply energy and ancillary services.</p> <p>AGL acknowledges that APP have occurred only a handful of times, and the compensation process only once, but this should not deter the application of a similar process for market suspension, given that is also an event that is not expected to occur often.</p> <p>Should a similar approach be adopted, the MSPS compensation framework should embed timeframes, the use of independent experts, and whether public consultation is required. On this last point, AGL considers that the MSPS compensation framework should be limited to direct costs only. Aligning this with the APP process means the public consultation stage would not be required.</p>
	(b) What are the advantages and disadvantages of alternative approaches to the APP compensation model – for example, a “cost plus” approach or the use of a pre-determined percentile price?	
	(c) Does a hybrid approach warrant consideration, for example combining elements of different frameworks?	<p>AGL agrees that there could be merit in embedding a base amount of compensation to provide predictability and certainty in the MSPS compensation process. However, given the expected low frequency of market suspension, let alone market suspensions during which significant direct</p>

Questions		Feedback
		costs are incurred, a case-by-case assessment process is not concerning.
	(d) Should there be an element of automation in the calculation of compensation?	Administratively automation is easier, however given the rarity of market suspension events, this proposed compensation process is unlikely to be used often. Therefore, automation is not an essential element.
	(e) What is an appropriate balance between predictability and accuracy of compensation?	
Chapter 5 – Section 5.3.2 – Who should be eligible to claim compensation?		
8.	Who should be entitled to or able to claim compensation?	Any category of participant that incurs direct costs as a result of acting in accordance with verbal instructions or requests from AEMO/AEMO control room during a period of market suspension.
	(a) Should parties in neighbouring regions be entitled to, or eligible to claim, compensation if they incur a loss due to scaling?	No, as this is not a direct cost. See response to 9. below for further detail.
	(b) To what degree should non-scheduled generators be entitled to, or eligible to claim, compensation?	Yes, but only if the participant has incurred direct costs as a result of acting in accordance with verbal instructions or requests from AEMO/AEMO control room during a period of market suspension.
	(c) Should market participants be entitled to, or eligible to claim, compensation with respect to scheduled loads?	Yes, but only if the participant has incurred direct costs as a result of acting in accordance with verbal instructions or requests from AEMO/AEMO control room during a period of market suspension.

Questions		Feedback
Chapter 5 – Section 5.3.3 – What costs should be claimable?		
9.	What costs should be claimable? Direct costs, loss of revenue, opportunity costs?	<p>Only direct costs should be claimable.</p> <p>The key purpose of the compensation framework is to encourage participants to support the restoration and/or maintenance of electricity supply during a market suspension.</p> <p>The ability to claim for amounts other than those directly incurred in supporting the key purpose may counter the incentives the rule change is seeking to embed – that is, participants may ‘shop’ between MSPS compensation and receiving a direction from AEMO, to maximise their recoverable amount.</p>
Chapter 5 – Section 5.3.4 – Should any thresholds apply?		
10.	Should any minimum thresholds apply below which compensation is not payable?	<p>AGL supports the setting of a \$5,000 threshold per AEMO market suspension event for the sake of consistent with the anticipated rule change request AEMO is developing with respect to the current framework for Affected and Directed Participant compensation.</p> <p>That said, should the APP compensation model be applied, it may not be worth setting a minimum threshold. This is because the potential high costs a participant may face to engage in the APP compensation assessment process would mean that a MSPS compensation claim would not be pursued unless the value were quite high.</p>
Chapter 5 – Section 5.3.5 – How should compensation payment costs be recovered?		
11.	How should compensation payment costs be recovered?	AGL supports cost recovery from any customers that receive a benefit, and therefore this should not be limited to the region/s where the market suspension takes place.

Questions		Feedback
Chapter 5 – Section 5.3.6 – Claiming compensation under more than one framework		
12.	Should the framework include a provision to manage situations where compensation claims could be made under more than one framework with respect to the same event? If so, what approach should be adopted?	<p>The framework should prevent any ‘double dipping’ of compensation – that is, a participant should only receive one payment for costs that could be claimed under more than one framework.</p> <p>Should an alternative framework allow for the recovery of different costs, the participant should still be able to recover those different costs. For example, if a participant is directed for one day in a 10-day suspension period then that participant should be able to claim one day as a directed payment and the remainder through the MSPS compensation framework for direct costs.</p>
Chapter 5 – Section 5.4 – Risk management		
13.	What risks are critical to manage in designing a MSPS compensation framework?	
14.	How can they best be managed?	
Chapter 5 – Section 5.5 – Regulatory and administrative burden		
15.	How could the design of the MSPS compensation framework minimise regulatory and administrative burdens on market participants, market bodies and consumers?	
16.	Which organisation should administer the compensation framework?	AGL does not have a strong view on this matter, as market suspension is not anticipated to occur frequently. AGL supports the AEMC or AEMO taking on this role.
17.	What timeframes should govern the compensation framework?	
18.	How should administrative costs be recovered?	Administrative costs of the MSPS framework would likely include staffing/office requirements and the costs of engaging an independent expert.

Questions	Feedback
	<p>Should AEMO administer the framework, the staffing/office component would likely be funded by increasing market participant annual fees. The costs of the independent expert would likely be borne by market participants, as is the case in the directions compensation framework.</p> <p>Should the AEMC administer the framework, it would require a budget increase from government to cover its additional staffing/office costs. Market participants should cover the costs of the independent expert.</p>