



Australian Energy Market Commission

## FINAL REPORT

# COMPENSATION CLAIM FOR DIRECT COSTS

Shell Energy Retail Pty Ltd  
Oakey Power Station

06 APRIL 2023

# DETERMINATION

## INQUIRIES

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## ABOUT THE AEMC

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

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## SUMMARY

- 1 The National Electricity Rules (NER) under clause 3.14.6 and the Australian Energy Market Commission (AEMC) compensation guidelines set out a process for market participants to claim compensation for certain losses during an administered price period where the administered price cap (APC) or administered floor price is applied. The administered pricing compensation framework is designed to protect participants such as generators, scheduled network service providers, scheduled loads, ancillary service providers and demand response service providers from losses during a price limit event to maintain the incentive for them to continue to supply (or consume) energy or services (as the case may be). In this way, administered pricing compensation supports a reliable supply of electricity to customers during price limit events.
- 2 Shell Energy Retail Pty Ltd (Shell) has made a compensation claim for direct costs in respect of its Oakey Power Station following the application of the APC in Queensland between 13 June 2022 and 15 June 2022. Oakey Power Station is a scheduled generator that is used as a peaking generator.
- 3 Shell has claimed a total amount of [REDACTED] for direct costs, which includes fuel costs, operation and maintenance costs and other costs including ancillary services costs. Shell has not claimed compensation for costs that have already been subject to an assessment by AEMO.
- 4 The Commission has verified the information submitted by Shell and made a reduction in the amount of compensation payable. This is because Shell has made a claim for compensation for the value of start costs which includes escalation of those costs until the time when the maintenance would be undertaken. Given that the compensation is paid now, the AEMC has not included future escalation of those costs.
- 5 The Commission has decided that compensation should be paid by AEMO to Shell in respect of its compensation claim for direct costs, and that the amount of compensation that Shell is entitled to is \$498,871.
- 6 The Commission is satisfied that:
  - Shell is eligible to claim compensation in respect of its Oakey Power Station during the administered price period outlined above, for each eligibility period to which its claim relates;
  - there is a compelling reason for the Commission to depart from the guidelines in relation to the period of assessment of compensation on 13 June 2022 and 15 June 2022;
  - Shell notified the AEMC and AEMO of its intention to claim compensation in accordance with clauses 3.14.6(h) and (i) of the NER;
  - the information provided by Shell to support and substantiate its claim complies with the compensation guidelines;
  - other than in respect of applying escalation to start costs, the direct costs claimed by Shell are consistent with the categories of cost permitted in the compensation guidelines;

- 7 The total compensation amount of \$498,871 for this direct cost only claim over the assessment period is calculated as follows:
- direct costs incurred in the eligibility period(s) which included fuel costs, operation and maintenance costs and other costs in the amount of [REDACTED]
  - minus actual revenue from the spot market in the amount of [REDACTED].
- 8 The Commission notes that its decision on the amount of direct costs payable to Shell is less than the amount claimed by Shell.
- 9 The Commission will write to AEMO to advise of the total amount of compensation payable to Shell for each relevant eligibility period by trading interval, exclusive of GST. AEMO will then recover the cost of compensation from market customers who purchased energy from the spot market in the relevant eligibility periods in the region(s) in which the administered price period applied.<sup>1</sup>

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<sup>1</sup> Clause 3.15.10 of the NER.

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# 1 INTRODUCTION

## **Administered pricing compensation**

The National Electricity Rules (NER) under clause 3.14.6 and the Australian Energy Market Commission (AEMC) compensation guidelines (published by the AEMC under clause 3.14.6(e) of the NER) set out a process for market participants to claim compensation for certain losses during an administered price period where the administered price cap (APC) or administered floor price is applied.

The administered pricing compensation framework is designed to protect participants such as generators, scheduled network service providers, scheduled loads, ancillary service providers and demand response service providers from losses during a price limit event to maintain the incentive for them to continue to supply (or consume) energy or services (as the case may be).

## **Market events in June 2022**

On 12 June 2022, the cumulative price threshold (CPT) was exceeded for the Queensland region and the APC of \$300/MWh was applied under clause 3.14.2(d1) of the NER from 6:55pm on that day. Price scaling applied to the other mainland National Electricity Market (NEM) regions when energy was flowing towards Queensland. On 13 June 2022, the CPT was exceeded in the NSW, Victoria and South Australia regions (from 6:35pm in NSW, 10:00pm in South Australia and 10:05pm in Victoria). The APC of \$300/MWh was therefore applied in each mainland NEM region.

The application of the APC in those regions coincided with reductions in the amount of generation bid into the market, resulting in a requirement for AEMO to intervene to maintain system reliability. Ultimately AEMO determined at 2:05pm on 15 June 2022 that it was necessary to suspend the spot market in all regions of the NEM under clause 3.14.3 of the NER. During this period of market suspension, spot prices were set in accordance with the market suspension pricing schedule published by AEMO. On 22 June 2022, AEMO released its criteria and process for lifting market suspension.

Administered price periods officially ended when the CPT was no longer exceeded. In South Australia, this occurred on 22 June 2022 and in NSW, Queensland and Victoria, this occurred on 23 June 2022. Normal dispatch pricing resumed on 23 June 2022. The market suspension was formally lifted by AEMO in all regions from 2:00pm on 24 June 2022.

## **Structure of this document**

This document is set out as follows:

- Chapter 2: details of Shell's claim
- Chapter 3: Commission's assessment of claim
- Appendix A: Background, context and purpose of administered pricing compensation
- Appendix B: AEMC's role and process for administered pricing compensation
- Appendix C: Chronology of events in Shell's compensation assessment process.

## 2 SHELL'S CLAIM

### 2.1 Shell's claim

On 22 June 2022, Shell provided notification of its intent to claim compensation in relation to the administered price period in Queensland between 13 June 2022 and 15 June 2022. For the purposes of this claim, this is the administered price period to which the claim relates. This notification was received within the prescribed timeframe in the NER.<sup>2</sup>

Shell is claiming compensation for Oakey Power Station in Queensland. Shell is registered by AEMO as a generator under the NER, and the Oakey Power Station is classified as a scheduled generating unit under Chapter 2 of the NER, registered to Shell.

Shell is claiming direct costs in operating Oakey Power Station in Queensland during the period commencing at 4:50pm on 13 June 2022 and ceasing at 2:35pm on 15 June 2022. Each trading day (or part of a trading day) within this period is a separate eligibility period for the purposes of this claim.<sup>3</sup> Shell is not claiming compensation over periods for which compensation has already been assessed by AEMO.

### 2.2 Information provided by Shell and AEMO

Shell provided information to the AEMC in accordance with the requirements in the compensation guidelines on 3 August 2022, 7 September 2022 and 17 October 2022.

The Commission verified certain information provided by Shell with AEMO and received information from AEMO confirming the spot market revenue earned by Shell in this period.

AEMO has also notified the Commission of other forms of compensation that the claimant has sought from AEMO for the relevant period, and confirmed that compensation claims made with AEMO are for different periods to those claimed from the AEMC. The claims Shell submitted to AEMO relate to the periods from 7:05am to 8:45am on 13 June 2022 and from 2:40pm to 10:15pm on 15 June 2022 for directions compensation and market suspension compensation respectively.

The Commission commenced formal assessment of the compensation claim on 3 November 2022. A chronology of this compensation assessment process is provided in Appendix C.

### 2.3 Confidentiality

Shell made a claim for confidentiality in respect of gas fuel costs and start costs. Shell has stated that this information is commercially sensitive.

As set out in the compensation guidelines, when performing its functions under clause 3.14.6 of the NER, the AEMC is required to take all reasonable measures to protect from unauthorised use or disclosure information given to it in confidence.<sup>4</sup>

<sup>2</sup> Clause 3.14.6(i) of the NER.

<sup>3</sup> Clause 3.14.6(a) of the NER.

<sup>4</sup> Section 24, Australian Energy Market Commission Establishment Act 2004. Section 31 of the National Electricity Law.

## 3 THE COMMISSION'S ASSESSMENT OF SHELL'S CLAIM

In assessing Shell's claim for compensation, the Commission has had regard to:

- its functions under clause 3.14.6 of the NER
- the compensation guidelines<sup>5</sup>
- its powers under the National Electricity Law
- the information and documents provided by Shell to support its claim (including any further information and documents provided in consultation with Shell pursuant to clause 3.14.6(m) of the NER)
- the information provided by AEMO in accordance with the compensation guidelines

### 3.1 Application of the compensation guidelines

In making this decision, the Commission is required to apply the compensation guidelines unless it is satisfied that there are compelling reasons not to do so.<sup>6</sup> The Commission has determined there is a compelling reason to depart from the compensation guidelines in relation to the period for the assessment of compensation on 13 June 2022 and 15 June 2022. This is described in more detail in section 3.2 below.

### 3.2 Eligibility

The Commission confirms that Shell's claim meets the eligibility criteria set out in the NER.<sup>7</sup>

Shell is registered with AEMO as a generator and is a party eligible to apply for compensation with respect to its scheduled generating unit. Shell is claiming compensation in relation to its Oakey Power Station. AEMO has confirmed that this scheduled generating unit was dispatched during the APP.

Shell's claim arises out of a price limit event in which the spot price for a trading interval was set by the APC during an administered price period.<sup>8</sup> For the purposes of clause 3.14.6 of the NER, a price limit event occurs when the spot price is set by the APC during an administered price period or as a result of price scaling.<sup>9</sup>

Under the NER and compensation guidelines, a claimant is eligible for compensation if it has incurred total costs during the eligibility period that exceed the total revenue it received from the spot market during that period.<sup>10</sup> An eligibility period is the period starting at the beginning of the first trading interval in which the price limit event occurs in a trading day

5 AEMC, Compensation guidelines, Final guidelines, 21 October 2021.  
[https://www.aemc.gov.au/sites/default/files/documents/final\\_amended\\_compensation\\_guidelines.pdf](https://www.aemc.gov.au/sites/default/files/documents/final_amended_compensation_guidelines.pdf)

6 Clause 3.14.6(n) of the NER.

7 Clause 3.14.6(b) of the NER.

8 Clause 3.14.6(a) of the NER.

9 In accordance with clause 3.14.2(e)(2) of the NER.

10 Clause 3.14.6(b) of the NER.



and ending at the end of that trading day (i.e. at 4:00am on the following day).<sup>11</sup> As a result, the following eligibility periods are relevant for determining claims for compensation under clause 3.14.6:\*

**Table 3.1: Eligibility periods for compensation in each region**

<b>TRADING DAY</b>	<b>QUEENSLAND</b>	<b>NSW</b>	<b>SOUTH AUSTRALIA</b>	<b>VICTORIA</b>
<b>12 June 2022</b>	From 6:55pm to end of trading day	-	-	-
<b>13 June 2022</b>	Entire trading day	From 6:35pm to end of trading day	From 10:00pm to end of trading day	From 10:05pm to end of trading day
<b>14 June 2022</b>	Entire trading day	Entire trading day	Entire trading day	Entire trading day
<b>15 June 2022</b>	Entire trading day	Entire trading day	Entire trading day	Entire trading day

Note: \* all times specified in this document are in Eastern Standard Time.

Claims for compensation may also be made as a result of price scaling. Price scaling occurs due to the application of clause 3.14.2(e)(2) of the NER. If an adjoining region is exporting energy across a regulated interconnector to a region where the price is capped at the APC, then under clause 3.14.2(e)(2), price scaling is applied to also cap the price in the exporting region to a level reflecting the importing region's administered price with an adjustment for interconnector losses.<sup>12</sup>

Shell's claim is for the period from 4:50pm on 13 June 2022 to 2:35pm on 15 June 2022. Each trading day (or part of a trading day) within this period is a separate eligibility period for the purposes of this claim.<sup>13</sup> This means that although Shell has claimed compensation from 4:50pm on 13 June 2022 until 2:35pm on 15 June, the Commission must consider all costs incurred and revenues earned in the trading days from 13 June until 15 June (i.e. from 4:00am on 13 June until 4:00am on 16 June) in assessing Shell's eligibility for compensation for those eligibility periods.

The Commission assesses fuel costs, operation and maintenance costs and wear and tear costs. Shell has demonstrated that the total costs incurred during each eligibility period exceeded the total revenue received from the spot market during that period. The Commission initially assessed fuel costs and found that Shell made a net loss based on fuel costs alone.

This is outlined below:

<sup>11</sup> Clause 3.14.6(a) of the NER.

<sup>12</sup> See clause 3.14.2(e)(2) of the NER.

<sup>13</sup> Clause 3.14.6(a) of the NER. See also definition of 'trading day' in Chapter 10 of the NER.

**Table 3.2: Shell’s claim per eligibility period**

<b>ELIGIBILITY PERI- OD</b>	<b>FUEL</b>	<b>REVENUE</b>	<b>LOSS</b>
<b>12/06/2022 (from 6:55pm to end of trading day)</b>	■	■	■
<b>13/06/2022 (entire trading day)</b>	■■■■■	■■■■■	■■■■■
<b>14/06/2022 (entire trading day)</b>	■■■■■	■■■■■	■■■■■
<b>15/06/2022 (entire trading day)</b>	■■■■■	■■■■■	■■■■■

Shell is claiming direct costs in operating Oakey Power Station during the period commencing 4:50pm on 13 June until 2:35pm on 15 June 2022 through the administered pricing compensation process administered by the AEMC. Shell has notified the AEMC that it has made claims for both directions compensation and market suspension compensation to AEMO for the periods:

- Between 7:05am and 8:45am on 13 June. Shell was directed by AEMO during this period and has claimed directions compensation from AEMO.
- between 2:40pm and 10:15pm on 15 June 2022. Shell was directed to run by AEMO during these time intervals and has submitted a claim to AEMO for market suspension compensation.

For the period between 8:45am on 13 June and 4:50pm on 13 June and for the period after 10:15pm on 15 June, Shell was not dispatched, and therefore has not made a claim for compensation over this period.

AEMO has notified the Commission that it has processed Shell’s claims through AEMO’s directions and market suspension compensation process.

*Compelling reason for departing from the guidelines in relation to 13 and 15 June 2022*

Application of the compensation guidelines to claims arising from the events of June 2022 has highlighted shortcomings that create the potential for adverse compensation scheme outcomes.

While the compensation guidelines contemplate that claimants might have received or be entitled to compensation from other sources in respect of the same events and costs,<sup>14</sup> the

<sup>14</sup> Section 5.1.5 of the compensation guidelines state that in determining the amount of compensation payable, the Commission may take into account the value of any other sources of compensation paid to the claimant where that compensation arises out of the same events and covers the same costs that are the subject of this compensation claim.

events of June 2022 saw a confluence of factors including transmission outages, fuel shortages, coal plant outages and high energy demand produce sustained high energy prices that resulted in extended administered price periods, an extended period of market suspension and the issue of directions by AEMO.

In relation to these events, some market participants have become entitled to payments, or made claims for compensation, from multiple different mechanisms in the NER administered by different market bodies (i.e. AEMO and the AEMC), covering overlapping periods of time and similar categories of costs. It is clear from the compensation guidelines, the AEMC's previous rule determinations and general legal principles that market participants should not be compensated twice for the same losses.

Applying the compensation guidelines in assessing claims which have already been assessed by AEMO would require the AEMC to (in effect) re-make and potentially revise earlier compensation decisions determined, and compensation amounts awarded, by a separate market body. This is because:

- The method set out in the compensation guidelines for taking account of other compensation (which includes any directions and market suspension compensation) requires the AEMC to make a determination in relation to *all* costs and revenues across each eligibility period, which is defined in the NER and the compensation guidelines as an entire trading day (or the period from the first trading interval when a price limit event occurs to the end of the trading day).
- The formula provided in the guidelines for calculating administered pricing compensation contemplates an adjustment to be made for other compensation payable to avoid compensation being paid twice, as follows:

**Figure 3.1:** Formula for the total claimable amount

$$TCA = \sum_t (DC_t + OC_t + OTH_t - REV_t)$$

- Where:
  - TCA = Total Claimable Amount
  - $DC_t$  = Direct costs incurred in the eligibility period(s).
  - $OC_t$  = Opportunity costs incurred over the relevant period of time.
  - $REV_t$  = Actual or potential revenue.
  - $OTH_t$  = Any other adjustments to the amount of compensation payable to be taken into consideration by the Commission.

- $t$  = relevant period of time for which a claim is being made.
- Application of the formula requires the AEMC to assess costs for the entirety of the eligibility period(s), including sub-periods which are the subject of a separate compensation claim that has already been determined and awarded by AEMO or its Independent Expert. Taking account of the other compensation payable by way of a deduction of the amount of that other compensation in the formula (through the  $OTH_t$  variable) would therefore have the effect of re-making any previous determination(s).

This was, in the AEMC's view, not a circumstance that was specifically envisaged when the compensation guidelines were drafted or last amended.

The AEMC has therefore elected to depart from the compensation guidelines by only assessing Shell's claim for compensation under clause 3.14.6 of the NER over periods in which compensation has not already been awarded under another process.

The Commission considers this approach appropriate in this case because the compensation awarded to Shell by AEMO is compensation for "direct costs" under clause 3.14.5B(d), and "net direct costs" under 3.15.7B(a3), of the NER. While those concepts are not necessarily the same in all cases as the "direct costs" referred to in clause 3.14.6 of the NER, the Commission has reviewed the claims made by Shell to AEMO and confirmed that they cover the same classes of direct costs as Shell's claim for administered pricing compensation. As a result, if the compensation guidelines were to be applied strictly, the Commission would essentially be assessing the same costs as already assessed under the processes administered by AEMO.

This means that the Commission will assess the periods from 4:50pm on 13 June 2022 to 2:35pm on 16 June 2022. The Commission will not assess the periods between 7:05am and 8:45am on 13 June 2022 and between 2:40pm and 10:15pm on 15 June 2022 for which AEMO and its Independent Expert have already determined and awarded compensation. As noted above, for the period between 8:45am on 13 June and 4:50pm on 13 June and for the period after 10:15pm on 15 June, Shell was not dispatched, and therefore has not made a claim for compensation over this period.

This departure is in accordance with the compensation guidelines' objective to avoid double payment of compensation. It avoids the revision or earlier compensation decisions determined by a separate body, the impacts of which could include:

1. Financial impacts on market participants that have already structured their affairs, and potentially their arrangements with third parties, based on awards made to date; and
2. The duplicated time and effort involved in re-assessing costs that have already been assessed by another body over the same time period under equivalent legislative criteria.

### 3.3 Components of total claimable amount

In accordance with the compensation guidelines, the total claimable amount of compensation, Total Claimable Amount (TCA), is to be based on the calculation at figure 3.2 below.<sup>15</sup>

**Figure 3.2:** Formula for the total claimable amount

$$TCA = \sum_t (DC_t + OC_t + OTH_t - REV_t)$$

Where:

TCA = Total Claimable Amount.

DC<sub>t</sub> = Direct costs incurred in the eligibility period(s).

OC<sub>t</sub> = Opportunity costs incurred over the relevant period of time.

REV<sub>t</sub> = Actual or potential revenue.

OTH<sub>t</sub> = Any other adjustments to the amount of compensation payable to be taken into consideration by the Commission.

t = relevant period of time for which a claim is being made. The claimant is to define the time period(s) for which it is making a claim for compensation which should be limited to periods where the price limit event applies. The relevant time period may vary depending on the type of claim. The AEMC would assess whether the claimant has demonstrated the requirements for a claim in the relevant time period(s).

The components used in this basic calculation are to be based on aggregated costs and revenues. This claim is for direct costs only so the parts of the calculation relating to opportunity cost (i.e. OC<sub>t</sub>) do not apply in this case.

### 3.4 Calculation of direct costs

Shell is claiming compensation for the direct costs it incurred during the application of the APC in the administered price period. The Commission has scrutinised the costs incurred by Shell in detail and its conclusions for each type of direct costs are set out below.

#### **Fuel costs**

<sup>15</sup> Section 5.1.1 of the Compensation guidelines.

In accordance with the compensation guidelines, claimants may claim compensation for fuel costs incurred during the relevant eligibility period(s). Higher than normal fuel costs may also be included, with supporting reasoning to explain why they were incurred.<sup>16</sup>

Shell has claimed fuel costs incurred during the relevant eligibility period.

The amount that Shell has claimed is [REDACTED].

Shell has provided an itemised breakdown of fuel costs, along with evidence in the form of usual business documents such as invoices to substantiate the claim. The Commission further engaged with Shell to request further information to justify all fuel costs being incurred.

The Commission has determined that the fuel costs being claimed are permitted under the guidelines.<sup>17</sup>

The Commission has reviewed the fuel cost information provided by Shell and verified certain information with AEMO, including dispatch quantities. AEMO has confirmed the dispatch quantities provided by Shell for Oakey Power Station. The AEMC considers sufficient evidence has been provided to substantiate the cost being claimed.

The Commission has calculated that the fuel costs are in the amount of [REDACTED].

### **Operation and maintenance**

In accordance with the compensation guidelines, claimants may claim compensation to cover operation and maintenance expenses directly attributable to the pattern of operation to provide energy, wholesale demand response or market ancillary services during the relevant eligibility period(s).<sup>18</sup>

Shell has claimed operating and maintenance costs (i.e. start-up costs) relating to the advancement of future maintenance requirements. The amount that Shell has claimed is [REDACTED].

Shell has provided evidence including technical documentation and relevant invoices to substantiate the claim.

Subject to the matters discussed below, the Commission has determined that the operation and maintenance costs being claimed are permitted under the guidelines.<sup>19</sup>

The Commission has reviewed the operation and maintenance costs information provided by Shell and considers sufficient evidence has been provided to substantiate the underlying maintenance costs being claimed. However, Shell's claim for compensation includes escalation of start costs until the time that maintenance would be required. The AEMC does not agree that escalation should be included in the compensation because compensation is to be paid in the present.

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16 See Clause 3.14.6(e) of the NER and section 5.2.1 of the Compensation guidelines.

17 See Clause 3.14.6(e) of the NER and section 5.2.1 of the Compensation guidelines.

18 See Clause 3.14.6(e) of the NER and section 5.2.2 of the Compensation guidelines.

19 See section 5.2.2 of the Compensation guidelines.

Excluding the escalation of costs to the future, the Commission has calculated the operation and maintenance costs to be in the amount of [REDACTED].

### **Ancillary services costs**

Shell has claimed the costs of contingency raise frequency control ancillary services (FCAS) during this period. The amount that Shell has claimed is [REDACTED].

Contingency FCAS correct the supply/demand balance in response to major frequency disturbances causing frequency to move outside the normal operating frequency band, which can occur after contingency events such as the loss of a generating unit or major load. Contingency raise FCAS are recovered from market generators and market small generator aggregators in the relevant requirement region.<sup>20</sup> The recovery of contingency raise FCAS is determined for each generator to be the proportion of energy generated by the participant in the requirement region multiplied by the total cost of the FCAS procurement.<sup>21</sup> Because of this, market generators and market small generator aggregators incur raise contingency FCAS costs as a by-product of generating in the market. If a generator had not been generating, they would not have incurred contingency raise FCAS costs.

Shell has provided evidence from AEMO of the FCAS costs it incurred to substantiate the claim.

Oakey Power Station is registered as a market generator. When the power station is operating, it makes up a proportion of the total energy generated in the requirement region. Operating during the relevant eligibility periods therefore caused Oakey Power Station to incur FCAS costs for contingency raise FCAS based on the formula for contingency raise FCAS cost recovery formula set out in AEMO's settlements guide.<sup>22</sup>

Although not specifically listed as a type of direct cost in section 5.2 of the compensation guidelines when the spot price during an administered price period is set by the APC, the contingency raise FCAS costs incurred by Oakey Power Station are directly attributable to the pattern of operation to provide energy during the relevant eligibility periods. If Oakey Power Station had not provided energy during the relevant eligibility periods then it would not have incurred any contingency raise FCAS costs. Further, AEMO's directions compensation process generally permits contingency raise FCAS costs as an additional net direct cost which may be recovered by directed participants as a result of being directed to provide services.<sup>23</sup>

For the reasons above, the Commission has determined that Shell is entitled to compensation for the FCAS costs as direct costs under the NER and compensation guidelines.<sup>24</sup>

<sup>20</sup> Clause 3.15.6A(f) of the NER.

<sup>21</sup> Clause 3.15.6a(f) of the NER. See also AEMO, Settlements guide to ancillary service payment and recovery, [https://aemo.com.au/-/media/files/electricity/nem/data/ancillary\\_services/2020/settlements-guide-to-ancillary-services-payment-and-recovery.pdf?la=en](https://aemo.com.au/-/media/files/electricity/nem/data/ancillary_services/2020/settlements-guide-to-ancillary-services-payment-and-recovery.pdf?la=en)

<sup>22</sup> AEMO, Settlements guide to ancillary services payment and recovery, [https://aemo.com.au/-/media/files/electricity/nem/data/ancillary\\_services/2020/settlements-guide-to-ancillary-services-payment-and-recovery.pdf?la=en](https://aemo.com.au/-/media/files/electricity/nem/data/ancillary_services/2020/settlements-guide-to-ancillary-services-payment-and-recovery.pdf?la=en)

<sup>23</sup> IES Advisory Services, 2022, AEMO Directions to Participants in South Australia, Final Determination Report, , Synergies Economic Consulting, 2022, Additional compensation claims arising from AEMO directions during billing weeks 13 to 16, 2022 Final Determination, [https://aemo.com.au/-/media/files/electricity/nem/market\\_notices\\_and\\_events/market\\_event\\_reports/2022/final-report-sa-directions-billing-weeks-13-to16-2022.pdf?la=en](https://aemo.com.au/-/media/files/electricity/nem/market_notices_and_events/market_event_reports/2022/final-report-sa-directions-billing-weeks-13-to16-2022.pdf?la=en)

<sup>24</sup> See Clause 3.14.6(e) of the NER and section 5.2.2 of the Compensation guidelines.

The Commission has reviewed the FCAS costs provided by Shell and verified this information with AEMO against market data.

The Commission has calculated the FCAS costs to be [REDACTED].

### **General wear and tear**

In accordance with the compensation guidelines, claimants may claim compensation for general wear and tear directly attributable to the pattern of operation during the relevant trading intervals.<sup>25</sup>

Shell has not made a claim for operational or maintenance costs.

### **Excluded costs**

In accordance with the compensation guidelines, claimants may not claim compensation for certain categories of costs set out in section 5.2.4 unless they can demonstrate a compelling case based on extraordinary circumstances.

Shell has not made a claim for any excluded costs.

## **3.5 Calculation of actual or potential revenue**

In accordance with the compensation guidelines, the Commission is required to deduct from the claim the amount of actual or potential revenue (including spot market revenue) earned during the relevant eligibility period(s).

### **Spot market revenue**

Shell has provided information on its spot market revenue during the application of the APC in the administered price period. AEMO has also provided details of the spot market revenue that Shell has received in respect of the period over which the claim for compensation has been made.

The Commission has reviewed the information as to spot market revenue by Shell in the amount of [REDACTED] and confirmed this income value with information provided by AEMO.

## **3.6 Other adjustments**

### **Financing costs**

In accordance with the compensation guidelines, the Commission may recognise reasonable financing costs with respect to the time between the event occurring and any compensation being awarded. The Commission may also have regard to the timing of relevant revenues had the compensation events not occurred. In determining such costs, the Commission can also take into account any unreasonable delays from the claimant in providing the necessary information. The Commission assesses any financing costs on a case-by-case basis.<sup>26</sup>

Shell has not made a claim for financing costs.

<sup>25</sup> See Clause 3.14.6(e) of the NER and section 5.2.3 of the Compensation guidelines.

<sup>26</sup> See section 5.1.5 of the Compensation guidelines.



### **Other sources of compensation**

In determining the amount of compensation payable, the Commission may take into account the value of any other sources of compensation paid, to be paid, or under consideration to be paid, to the claimant where that compensation arises out of the same events and covers the same costs that are the subject of this compensation claim.<sup>27</sup>

Shell and AEMO have provided information on other compensation received during the administered price period for which this claim relates.

As discussed in section 3.2 Shell did not claim compensation through the administered pricing compensation process for the following periods:

- Between 7:05am and 8:45am on 13 June. Shell was directed by AEMO during this period and has claimed directions compensation from AEMO.
- Between 2:40pm and 10:15pm on 15 June 2022. Shell was directed to run by AEMO during these time intervals and has submitted a claim to AEMO for market suspension compensation.

AEMO has provided the details of these claims to the AEMC.

As discussed in section 3.2, the Commission has determined there is a compelling reason to depart from the compensation guidelines in relation to the assessment of compensation for periods where compensation has already been assessed on 13 and 15 June 2022. The Commission has not assessed the periods in which AEMO's Independent Expert has already made a final determination for the compensation payable to Shell. This has the effect of taking into account any other sources of compensation in a way that avoids double payment of compensation and the re-making of the existing compensation assessment.

## **3.7 Recovery of the AEMC's costs**

The Commission does not seek to recover any administrative and processing costs incurred by the Commission in carrying out its functions in respect of this claim. This is because the Commission has currently decided not to recover costs from claimants for direct cost only claims made in relation to the June 2022 administered price period.

See Appendix B for details on cost recovery.

## **3.8 Conclusions**

**The Commission has determined that Shell is entitled to be paid AEMO in relation to its compensation claim.**

The Commission is satisfied that:

- Shell is eligible to claim compensation in respect of its Oakey Power Station during the administered price period outlined above, for each eligibility period to which its claim relates;

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<sup>27</sup> See section 5.1.5 of the Compensation guidelines.

- there is a compelling reason for the Commission to depart from the guideline in relation to the assessment of compensation for periods where compensation has already been assessed on 13 June 2022 and 15 June 2022;
- Shell notified the AEMC and AEMO of its intention to claim compensation in accordance with clauses 3.14.6(h) and (i) of the NER;
- the information provided by Shell to support and substantiate its claim complies with the compensation guidelines;
- other than in respect of the future value of start costs, the direct costs claimed by Shell are consistent with the categories of cost permitted in the compensation guidelines;

**The Commission has determined that Shell is entitled to and should receive total compensation of \$498,871 (exclusive of GST) in respect of its claim**

This total compensation amount \$498,871 for this direct cost only claim is calculated as follows:

- direct costs incurred in the eligibility period(s) which included fuel costs, operation and maintenance costs and other costs in the amount of [REDACTED]
- minus actual revenue from the spot market in the amount of [REDACTED].

The Commission notes that its decision on the amount of direct costs payable to Shell is less than the amount claimed by Shell.

The Commission will write to AEMO to advise of the total amount of compensation payable for each relevant eligibility period by trading interval, exclusive of GST. AEMO will then recover the cost of compensation from market customers who purchased energy from the spot market in the relevant eligibility periods in the region(s) in which the administered price period applied.<sup>28</sup>

The NER provide the process and formulas for AEMO to recover the compensation payable from market customers in the region affected by the imposition of an administered price.<sup>29</sup>

Clause 3.15.10(c) of the NER also requires AEMO to include in preliminary and final settlement statements separate details of any compensation amounts payable by or to market participants within 25 business days of AEMO being notified by the AEMC that compensation is to be paid under clause 3.14.6 of the NER.

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<sup>28</sup> Clause 3.15.10 of the NER.

<sup>29</sup> Clause 3.15.10 of the NER.

## ABBREVIATIONS

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
APC	Administered price cap
CPT	Cumulative price threshold
Commission	See AEMC
Compensation guidelines	AEMC, Compensation guidelines, Final guidelines, 21 October 2021
NEM	National Electricity Market
NER	National Electricity Rules

## A BACKGROUND AND PURPOSE OF AEMC ADMINISTERED PRICING COMPENSATION PROCESS

Wholesale spot prices in the National Electricity Market (NEM) can vary within a range of between minus \$1,000<sup>30</sup> and \$15,500 per MWh.<sup>31</sup>

Persistent high or low prices can create risks for participants and impact the stability of the market. To limit this variation, at times of extreme prices where the cumulative price threshold (CPT)<sup>32</sup> is exceeded, an administered price cap of \$600 per MWh and/or administered floor price of -\$600 per MWh is applied to spot prices.<sup>33</sup>

At the time of the June 2022 market events to which this claim for compensation relates:

- the MPC was \$15,100/MWh<sup>34</sup>
- the CPT was \$1,359,100; and<sup>35</sup>
- the APC was \$300/MWh.<sup>36</sup>

The National Electricity Rules (NER) under clause 3.14.6 and the Australian Energy Market Commission (AEMC) compensation guidelines (published by the AEMC under clause 3.14.6(e) of the NER) set out a process for market participants to claim compensation for any losses during an administered pricing period where the administered price cap (APC) or administered floor price is applied.

### **The purpose of administered pricing compensation is to minimise disincentives during administered price periods**

The potential for market participants such as generators, particularly those with high costs, to incur a loss during these administered price periods may create a disincentive for them to supply energy and ancillary services, which could in turn have a negative impact on the security and reliability of the electricity system.

To minimise these disincentives, the NER allow participants to claim administered pricing compensation if they incur a loss during price limit events, being periods in which the spot

30 This amount is the 'market floor price' under clause 3.9.6(b) of the NER.

31 This amount is the 'market price cap' (MPC) under clause 3.9.4 of the NER. Under clause 3.9.4(d) of the NER, the MPC must be adjusted in line with the consumer price index each year. At the time of the market events occurring in June 2022, the MPC was \$15,100/MWh. As of July 2022, the MPC is \$15,500/MWh.

32 The CPT represents the limit of aggregate dispatch prices over a period of seven days (2016 trading intervals). Under clause 3.14.1(e) of the NER, the CPT must be adjusted in line with the consumer price index each year. At the time of the market events occurring in June 2022, the CPT was \$1,359,100. As of 1 July 2022, the CPT is now set at \$1,398,100.

33 Clause 3.14.1 of the NER.

34 Under clause 3.9.4(d) of the NER, the MPC must be adjusted in line with the consumer price index each year. As of 1 July 2022, the MPC is \$15,500/MWh.

35 Under clause 3.14.1(e) of the NER, the CPT must be adjusted in line with the consumer price index each year. As of 1 July 2022, the CPT is \$1,398,100.

36 As a result of the making of the *National Electricity Amendment (Amending the administered price cap) Rule 2022*, the administered price cap is \$600/MWh on and from 1 December 2022 until the end of 30 June 2025.

price is set by the APC during an administered price period.<sup>37</sup> The AEMC administers this compensation process. Prior to June 2022, there has only been one claim for compensation arising from an administered price period (which occurred in January/February 2009).<sup>38</sup>

The administered pricing compensation process is designed to protect participants such as generators, scheduled network service providers, scheduled loads, ancillary service providers and demand response service providers from losses during a price limit event to maintain the incentive for them to continue to supply (or consume) energy or services (as the case may be).

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37 See clause 3.14.6 of the NER. A price limit event also includes where the spot price for a trading interval is set as a result of price scaling (i.e. the application of clause 3.14.2(e)(2)), and for market participants in respect of scheduled load where the spot price for a trading interval is set by the administered floor price or the result of price scaling (under clause 3.14.2(e)(4)) and for ancillary service providers where the ancillary service price for a trading interval is set by the APC during an administered price period.

38 AEMC 2010, Compensation claim from Synergen Power Pty Ltd, Final decision, 8 September 2010. <https://www.aemc.gov.au/markets-reviews-advice/compensation-claim-from-synergen-power>

## B AEMC'S ROLE AND PROCESS FOR ADMINISTERED PRICING COMPENSATION

### **Eligibility to claim for compensation**

Parties eligible to make a claim for administered pricing compensation are:

- Scheduled Generators, Non-Scheduled Generators and Scheduled Network Service Providers to supply energy,
- Ancillary Service Providers to supply ancillary services,
- Market Participants with scheduled loads to consume energy, and
- Demand Response Service Providers to supply wholesale demand response

These parties can claim compensation if they supplied energy or other services during an administered pricing period and incurred a net loss. That is, their direct and/or opportunity costs exceeded their total revenue from the spot market over an entire "eligibility period" (the period from the first trading interval of a trading day where the spot price is set by the administered price cap, until the end of that trading day). There may be multiple eligibility periods within an administered price period.

Direct costs are costs directly incurred by eligible participants due to a price limit event.

Opportunity costs are the value of opportunities foregone by eligible participants due to the price limit event as defined in the compensation guidelines.

### **Making a claim**

The compensation guidelines set out how participants can make a claim for compensation for direct costs and opportunity costs following the application of an APC. The AEMC is required to apply the compensation guidelines in assessing claims for compensation unless it is satisfied there are compelling reasons not to do so.

If a party decides to make a claim, the following applies:

- The claimant must provide notification in writing that it is making a claim within five business days of notification by AEMO of the end of the administered price period to both:
  - AEMC at
  - AEMO at
  - This notification in writing will include the:
    - administered price period and price limit event (Price limit events(s) refer to a period in which the spot price is set by the APC during an administered price period or as a result of price scaling.
    - Region(s) in which the administered price period and price limit event applied.
- The notification will state whether the claim is a direct cost claim or a claim that includes opportunity costs.

- It is possible to claim direct costs and opportunity costs for the same price limit event.

### **Commencing formal assessment of a claim**

- After receiving the notification to make a claim, the AEMC will publish a notice of receipt. The AEMC will then seek information from the claimant that we consider required to enable assessment of the claim - if the claim includes opportunity costs, this information must include the methodology used by the claimant to determine its opportunity costs.
- The claimant subsequently provides substantiation. The onus is on the claimant to provide evidence and justification. There is no set time period for this step. Any claims of confidentiality in respect of information provided by the claimant to the AEMC must be specified in the claim.
- The AEMC will commence formal assessment as soon as practicable after receiving sufficient information from the claimant.
- A notice will be published on the AEMC website that formal assessment has started.

### **Assessing and making a final determination with respect to a claim**

- The assessment process for direct and opportunity costs is set out in the Claims will be assessed in accordance with the statutory timeframes.
- For **direct cost claims**, the following key steps apply:
  - a. Commencement of formal assessment (once sufficient information is received from claimant – see above)
  - b. Assessment of claim
  - c. Consultation with claimant
  - d. Final determination of compensation payable (45 business days after formal commencement)
  - e. AEMC notifies AEMO of final amount payable
  - f. AEMO includes details of amounts payable by or to market participants within 25 days of being notified by the AEMC
- For **opportunity cost** claims the following key steps apply.
  - a. Commencement of formal assessment (once sufficient information is received from claimant see above)
  - b. Assessment of claim
  - c. Publish claimant's proposed methodology and AEMC's draft methodology for public consultation (within 35 business days of formal commencement)
  - d. Close of consultation (minimum of 20 business days after publication of draft methodology)
  - e. Final determination of compensation payable (35 business days after close of submissions)
  - f. AEMC notifies AEMO of final amount payable

- g. AEMO includes details of amounts payable by or to market participants within 25 days of being notified by the AEMC

**Recovery of AEMC's costs of claim**

Under clause 3.14.6(v) of the NER, the Commission may recover from a claimant any costs incurred by the AEMC in carrying out its functions in respect of its claim. The AEMC may require the claimant to pay all or a proportion of those costs to the AEMC prior to the claim being considered or determined.

The Commission will exercise its discretion in deciding whether to recover processing and administrative costs from the claimant and will assess any costs to be recovered from a claimant on a case-by-case basis.

The Commission has decided not to recover costs from claimants for direct cost claims made in relation to the June 2022 administered price period.



## C CHRONOLOGY OF SHELL'S COMPENSATION ASSESSMENT PROCESS

The following table sets out the timing of Shell's compensation assessment process.

**Table C.1: Chronology of Shell's claim**

<b>DATE/TIME</b>	<b>EVENT</b>
22 June 2022	Notice of claim received
3 August 2022, 7 September 2022 and 17 October 2022	Supporting information received
3 November 2022	Commencement of formal assessment
February 2023 - March 2023	Consultation with claimant
6 April 2023	Final decision published