



INFORMATION

AUSTRALIAN ENERGY MARKET COMMISSION LEVEL 15, 60 CASTLEREAGH STREET SYDNEY NSW 2000
T: 02 8296 7800 E: AEMC@AEMC.GOV.AU W: WWW.AEMC.GOV.AU

Review into electricity compensation frameworks

On 2 November 2023, the Australian Energy Market Commission (AEMC) self-initiated a review of electricity compensation frameworks following the disruptive market events of June 2022. The Commission has released a consultation paper to gather perspectives on how the market suspension, administered pricing and directions compensation frameworks can work more effectively. We encourage stakeholders to make a submission by 1 February 2024 to shape and inform the Review.

The Commission is reviewing the objectives and methodology, governance, and administrative arrangements of electricity compensation frameworks when applied alone and in combination

The AEMC is reviewing the **objectives and methodology** of the frameworks to consider improvements to their design which would support the long-term interests of consumers. Matters for consideration include the suitability of current objectives and methodologies, and incentives to encourage the participation of generators and other market participants. Considerations of **governance** will focus on the roles and responsibilities for administering the compensation frameworks, including which market body should be responsible for receiving and assessing claims.

The review of **administrative** arrangements will consider whether implementation changes are required to help ensure the frameworks achieve their objectives, allow appropriate timelines, and provide clarity to market participants (particularly with overlapping claims).

The Review intersects and complements the Commission's existing work plan and will consider matters raised by a new rule change request

The Review aligns with multiple AEMC projects seeking to improve outcomes for consumers, including the gas *Compensation and dispute resolution frameworks* rule change.

Following feedback from stakeholders in the *Improving security frameworks for the energy transition* rule change, the Commission noted there was strong support for considering changes to the directions compensation framework as part of a broader review. Consequently, the issue of directions compensation will no longer be considered in that rule change, but instead, will be considered through this review.

The Review will also consider issues raised by Tilt Renewables in their recent rule change request regarding opportunities to improve the cost recovery process for capacity directions.

The Review stems from the June 2022 market events which included administered pricing events, directions, and market suspension.

In June 2022, a combination of factors led to significant operational challenges in the National Energy Market. Sustained high prices led to Queensland exceeding the cumulative price threshold (CPT) on 12 June 2022. This led to the application of the administered price cap (APC) of \$300/MWh being applied in Queensland. This was then followed by the CPT being exceeded in New South Wales, Victoria and South Australia on 13 June 2022 and the APC being applied in these regions. Due to ongoing operational challenges in the power system, the Australian Energy Market Operator suspended the market on 15 June 2022.

These events saw the application of different compensation frameworks including the:

- directions compensation framework
- administered pricing compensation framework, and
- market suspension compensation framework

As of June 2023, approximately \$131 million in compensation payments was made to participants under the compensation frameworks. This figure represents 0.5% of annual market revenue. During the June events and the following compensation assessment processes, several issues were identified with the various frameworks, including how they worked together.

The Review will not impact claims already assessed or under assessment during the Review. However, it will ensure that learnings from the application of these frameworks (both in isolation and in combination) are implemented to improve outcomes for market participants.

We encourage stakeholders to make a submission to the Review consultation process by 1 February 2024

Stakeholders can help shape the Review process and the final scope by making a submission as part of the consultation period.

Due date: Written submissions responding to this consultation paper must be lodged with the Commission by 1 February 2024.

How to make a submission: Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code **EPR0095**.

For more information contact:

Adviser, **Tom Meares** (02) 8296 0674

Director, **Kate Degen** (02) 8296 7812

Media enquiries: media@aemc.gov.au

2 November 2023