

1 February 2024

Mr Tom Meares
Australian Energy Market Commission (AEMC)
Level 15, 60 Castlereagh Street Sydney NSW 2000

Lodged electronically via AEMC website

Dear Mr Meares

**Review into Electricity Compensation Frameworks –
Consultation Paper (EPR0095)**



EnergyAustralia

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EnergyAustralia (EA) is one of Australia's largest energy companies with around 2.4million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We own, contract, and operate a diversified energy generation portfolio spanning coal, gas, battery storage, demand response, solar, and wind assets. Combined, these assets comprise over 5GW of generation capacity.

EA broadly welcomes the opportunity to respond to the AEMC's Review into Electricity Compensation Frameworks (the Review). As a first step, this consultation paper provides a timely opportunity to deep dive into the objectives, functionality, governance and administration of the NEM's compensation frameworks. We applaud the AEMC's efforts to self-initiate this important review to ensure that the frameworks remain operational and fit-for-purpose, particularly in light of the 2022 Energy Crisis and the overlapping interactions of these frameworks. From our own experience and industry engagement, it is clear that this market event resulted in a challenging and confusing period for all involved.

While EA does not believe that major flaws exist in the objectives and methodology of the frameworks, we consider better operational, informational and process driven improvements are necessary to avoid a repeat of events. As the NEM continues to transform, further reliability and, more prominently security shortfalls are likely to occur and require utilisation of AEMO's scarcity mechanisms, including directions.

EA has address the key areas of the AEMC's questions in the Review below. For the avoidance of doubt, please note that our responses refer to the (1) Directions, (2) Administered Pricing and (3) Market Suspension compensation frameworks.

Assessment Framework

EA supports the AEMC's assessment framework criteria. While we agree that market efficiency and good regulatory practice are important principles underpinning the Review, in our view priority should be placed on the proper implementation of the frameworks. This should include efforts to ensure all aspects of the frameworks are relevant for today's market, clear and targeted information/guidance is provided to market participants and where possible, operations across the frameworks are streamlined.

Achieving the Objectives

As we noted above, broadly speaking, the objectives set out under each of the three frameworks remain appropriate, relevant and operationally workable. However our primary concern has been with the implementation of the objectives, transparency and timeliness of market processes (including information sharing and compensation payments), and their interactions between frameworks. We acknowledge that during the design of each compensation framework, it was not envisaged that such interaction was necessary or even possible, however the June 2022 event has demonstrated that all scenarios require appropriate planning to avoid confusion, unnecessary complexity and the risk of additional unforeseen consumer costs.

EA does not believe that a perverse incentive to be directed exists within the directions compensation framework. We also do not consider that additional measures to achieve market participation, including the AER's recommendations, are necessary. The NER clearly sets out strong incentives for market participants to offer available supply into the market. Instead, with respect to the June 2022 event, we believe two operational issues played out, which resulted in the significant number of directions. Firstly, sustained high prices in a number of NEM jurisdictions resulted in the Administered Price Cap at \$300Mh/w being triggered. The APC had not been reviewed for some time and was no longer fit-for-purpose for today's market operations¹. Additionally, complexity within the APC framework and broad industry confusion on its operating parameters, including its methodology meant that some generators bid unavailable and were instead, in some instances, directed.

Improvements should be focused on the methodology and processes that sit behind the directions and APC frameworks to improve transparency, participant guidance, operational interactions within and between framework. Further changes should also recognise and account the full range of technologies in today's market. For example, different types of technologies rely on direct and/or opportunity costs in their bidding and dispatch strategy, yet only the APC recognises and enables compensation of opportunity cost. EA believes that which the increase of inverter-based resources and energy storage, both sets of costs should be made available under all three compensation frameworks – doing so will ensure that the market is able to operate effectively and efficiently during critical periods, and at least cost to consumers. Similarly, extending the rules to allow constrained on participants to receive compensation when providing essential system service (ESS), would minimise the need, frequency and volume of ESS called under directions.

Methodology and Governance

The compensation frameworks are complex and when utilised irregularly, they are difficult to engage with, especially during periods of market stress when multiple frameworks are in play. This complexity is true for framework operators and market participants alike. We believe that streamlining the methodology, governance and administrative/process elements of each framework will help to alleviate confusion, increase information and general understanding of circumstances and actor requirements, and speed up compensation payments and cost recovery. EA also supports the AEMC's suggestion to merge the APC and market suspension frameworks, noting that they share a common objective and have similar methodologies. Addressing all of these elements will deliver benefits to consumers and streamlining the frameworks should largely remove instances of overlapping compensation claims.

¹ Recent updates to increase the APC to \$600MW/h now better accommodate the fixed costs of generators and should remove the risk of generator unavailability due to price risk.

With respect to governance arrangements, EA believes that a single body should be appointed to manage all compensation frameworks. AEMO appears to be best placed, noting that they have carriage of the directions and market suspension compensation frameworks. We support AEMO's management of direct cost assessments and agree that harmonising broadly defined definitions² and applying fixed but transparent and timely transactions will keep administrative activities and costs efficient. However, we have some concerns with respect to AEMO's ability to properly and accurately assess opportunity cost claims in a flexible manner, particularly noting that each assessment will be vastly different from the next claim. EA notes that an independent expert currently provides assistance to the AEMC in its opportunity cost assessment functions, and our strong preference would be for this role to continue. I.e. AEMO would receive and manage (approve/reject) opportunity cost claims across each framework, but the assessment should be conducted by the independent expert.

Administration

EA supports codification of key framework mechanics, including information on claim eligibility, a minimum information standard, time limits on gathering supporting information and claim assessments, the provision of clear and transparent justification (and evidence as appropriate) for decisions, access to a dispute resolution pathway, and suitable timely provision for cost recovery and compensation payments. As above, EA supports harmonisation of definitions across the framework, but believe that these need to be broad enough to accommodate different technologies but workable so as not to add complexity or subjectivity to claim assessments.

With respect to cost recovery, we believe that costs should be recovered from the region in which the supply shortfall was corrected (i.e. who is the beneficiary), irrespective of whether multiple jurisdictions were impacted by a market event.

If you would like to discuss this submission, please contact me on 0422 399 181 or Dan.Mascarenhas@energyaustralia.com.au.

Regards

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² Which account for technology and framework differences.