26 September 2024

Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

Submitted online at: www.aemc.gov.au

Dear Ms Collyer

Review into Electricity Compensation Frameworks – Draft Report

Origin Energy Limited (Origin) welcomes the opportunity to provide comment on the Australian Energy Market Commission's (AEMC) Review into Electricity Compensation Frameworks – Draft Report (the Draft Report).

As noted by the AEMC, having an efficient and effective compensation regime is an important requirement for the National Electricity Market to support reliability and security during periods of system and market stress. Origin broadly supports the AEMC's draft recommendations which are consistent with this objective and, having regard to recent experience, should assist with addressing the identified shortcomings in the existing framework. We have provided comment on aspects of the Draft Report below.

1. Opportunity Cost

Origin agrees that the scope of claimable costs for compensation should include opportunity costs across all frameworks including directions. As opportunity costs may be readily incurred by market participants during any intervention, this change will enable the three frameworks to meet their objectives, being either:

- to enable generators to be compensated for the costs of complying with a direction, or
- to maintain the incentive to provide services.

In applying this standard equally to all technology types alongside a mechanism for the recovery of direct costs, this will better ensure impacted participants are returned to the position they would have been in had the intervention not occurred.

2. Harmonisation of upfront payment mechanism for directions and market suspension compensation

Origin supports upfront payment for directions compensation being based on the volume weighted average price (VWAP) received by assets of the same technology type over the previous 12 months. In most cases, this approach is likely to result in more cost-reflective outcomes relative to the current 90th percentile approach, since calculations are based on technology-specific prices.

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For consistency and to simplify the compensation process, Origin agrees that the upfront compensation payment for market suspension should be revised to reflect the greater of the market suspension pricing schedule (MSPS) and the upfront directions payment (to be calculated using VWAP).

To the extent that the upfront payment mechanism prioritises timeliness of cost recovery over precision in the cost estimate, it could still result in generators incurring a loss in some circumstances. We therefore agree the compensation regime should allow market participants to claim additional costs (including opportunity costs). The scope to claim additional costs should also not be contingent on a minimum threshold amount being exceeded.

3. Scope of Direct Costs

The discrepancies that currently exist in the direct cost categorisations across all three compensation frameworks are unnecessary and have arisen largely due to the independent evolution of those frameworks. In this context, the codification of a single list of claimable direct costs would reduce confusion around eligibility, and enable costs to be determined and payments made in a more timely manner where appropriate.

Origin agrees with the AEMC's proposed list, which includes energy input costs, operating and maintenance expenditure, wear and tear, and other costs, all directly attributable to operation. Given gas-powered generators typically have a limited number of unit starts prior to maintenance being required, it is important the 'other costs' category enables GPG operators to claim the costs associated with procuring any additional hedge cover in circumstances where a direction results in units being unavailable.

An additional cost category should also be created specifically for battery storage systems which, when directed, should be eligible for compensation due to:

- the potential voiding of warranties where operating parameters, such as the number of periodic charge cycles, are exceeded, and

- lifecycle costs in the form of increased or earlier-than-scheduled maintenance, and / or a shortened economic asset life being incurred.

4. Guidelines for additional compensation claims

The AEMC has noted the significant uncertainty regarding opportunity costs during the events of June 2022 may have been caused by, amongst other things, limited guidance as to what could be considered an opportunity cost claim.[1] Accordingly, Origin agrees that the AEMC should develop comprehensive compensation guidelines to provide greater clarity for claimants.

These guidelines should be developed in consultation with stakeholders and, as a minimum, clearly set out:

- the methodology to be used in calculating the level of compensation payable, and

- the scope of the supporting information to be provided by claimants.

It would also be useful for the guidelines to include hypothetical examples, to illustrate how an opportunity cost claim should be made, including in cases where there are notional costs associated

[1] AEMC 2023, *Consultation Paper – Electricity Compensation Review*, pp. 21.

with managing a limited number of plant starts, and how warranty-related and lifecycle battery costs are to be quantified.

The guidelines should inform the Independent Expert's assessment, increasing the transparency and timeliness of the claims process, and ensuring consistency of decision-making over time (in the event that different experts are appointed).

5. Process Time-limits

To facilitate the timely processing and finalisation of compensation claims, all parties (claimants, AEMO and Independent Experts) should be subject to defined timelines. Origin generally supports the AEMC's draft recommendation to align timeframes for compensation claims across all frameworks with AEMO's intervention settlement timetable. It allows market participants to make a claim for additional compensation up to 33 business days following the end of the billing week in which an intervention event occurs, having sufficient regard for generators' competing operational obligations following a period of market stress. Given the relative complexity of opportunity cost claims, the AEMC's compensation guidelines will be instrumental in assisting claimants meet this deadline effectively.

If you wish to discuss any aspect of this submission further, please contact Steve Williams at steve.williams@originenergy.com.au or on 0409870998.

Yours Sincerely,

S Cole

Shaun Cole
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