26 September 2024

Mr. Tom Meares
Project Lead
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
SYDNEY NSW 2000

Submitted online at www.aemc.gov.au

Dear Mr. Meares

Re: EPR0095 Review into electricity compensation frameworks, Draft Report

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to respond to the Australian Energy Market Commission's Review into electricity compensation frameworks, Draft Report.

As a major provider of electricity to Queensland, the National Electricity Market and large energy users throughout Australia, Stanwell is invested in providing reliable and affordable energy for today and into the future.

Stanwell is committed to supporting State and Commonwealth Government emissions reduction targets, and in recognition of the changes that will need to occur in the energy market to achieve these targets, we are currently developing renewable energy, storage, and hydrogen technologies and projects within Queensland to support the transition to renewable energy and help to ensure Queensland electricity supply remains secure and reliable now and into the future.

This submission contains the views of Stanwell and should not be construed as being indicative or representative of the views or policy of the Queensland Government.

Introduction

Stanwell acknowledges the work of the Australian Energy Market Commission (AEMC) in conducting the self-initiated review into the compensation frameworks in the National Electricity Market (NEM) and preparing the Draft Report. We are mindful of the important role the AEMC plays in making and amending the National Electricity Rules (NER) that govern the operation of the NEM, and we thank the AEMC for the opportunity to respond to the proposed Recommendations in the Draft Report.

Stanwell is generally supportive of the 14 Recommendations in the Draft Report. In our view the Recommendations will contribute significantly to ensuring the NEM has a compensation regime that is predictable and administratively simple, while also helping to ensure the correct incentives are in place to support reliability and security during times of system and market stress.

However, we also see scope within the Recommendations to provide better flexibility, timely outcomes for market participants and their customers, and a fairer compensation regime overall.

Fair and reasonable compensation for generators under ISF contracts

The AEMC's position as outlined in the Draft Report is to not make changes to the NER to compensate constrained-on generators, and instead rely on the procurement of system security services by the Australian Energy Market Operator (AEMO) as the '…*the primary mechanism for the management of system security moving forward*…' in line with the March 2024 *Improving security frameworks for the energy transition* rule change (ISF).[1]

[1] Australian Energy Market Commission, *Improving security frameworks for the energy transition*, 28 March 2024.

While Stanwell appreciates that procuring security services through the ISF rule is designed to help alleviate the need to utilise Directions as a procurement mechanism, we also recognise that services procured under contract to support system security during periods of system and market stress should, at a minimum, cover the compensation that a generator would otherwise have received for being Directed to provide those same services. For example, market participants who are not ISF contracted have the flexibility to not offer their generation and services into the market when it is uneconomical to do so. In these circumstances AEMO may then Direct these participants to provide their services, and in return, Directed participants are entitled to receive compensation under the compensation framework.

In our view, market participants who provide system services through an ISF procurement contract should not be disadvantaged due to their contract position when the services they provide coincide with periods of system stress or market events.

To help alleviate any disparity between an ISF contracted position and the Directions compensation framework, we suggest market participants who provide services during system or market events under an ISF procurement contract should be afforded the ability to make up any shortfall between the amount of the ISF contracted services and the Directions compensation amount. We also propose this be given the force of law through the NER with provision made to ensure ISF contracts cannot be for less than the Directions compensation amount. In the event there is a shortfall between the contracted amount and the Directions compensation amount, market participants would then be afforded the legal right to make up the difference (where the Directions compensation is higher), by applying for additional compensation through the NER Directions compensation framework.

This should also include Directed participants who provide an 'other compensable service',[2] including batteries, units providing synthetic inertia, system strength, and units providing System Restart Ancillary Services (SRAS) that would normally be eligible for 'fair payment compensation'. We believe this approach would better support the ISF procurement regime, incentivise market participants to contract for system security services, help to ensure that sufficient security services are available when needed, and lessen the use of Directions as a procurement mechanism.

Modifying the calculation timeframe provides a more accurate outcome

Stanwell supports the use of the volume-weighted average price (VWAP) being the basis of calculating compensation amounts under the Directions and market suspension frameworks. However, we are concerned compensation amounts calculated over a twelve-month period may unfairly or inaccurately compensate participants. For example, a unit that may have outperformed others across the same technology class within the previous 12-month period, may be disadvantaged through a compensation regime that also accounts for a unit that may not have performed as well or significantly underperformed during the same period and vice versa.

We instead suggest a modified calculation timeframe reduced from the previous 12 month average to an average taken from the previous (rolling) 90 days. In our view this would better reflect the market in the lead up to an event (including capturing market participants' reactions to market events), and more accurately reflect market participants positions and responses within the relevant market event timeframe. By reducing the calculation and averaging timeframe, we believe compensation would be fairer and lessen the risk that a market participant would receive an unfair advantage or disadvantage as a result of averaging across the previous twelve-month timeframe.

Assessment of claims within a timely manner supports compensation fairness

As noted earlier, Stanwell generally agrees with the 14 Recommendations proposed by the AEMC and we agree the Recommendations should support greater certainty, predictability and administrative ease for market participants and the market operator. We do note however, that the Recommendations do not appear to provide an allocated timeframe for AEMO to advise and settle compensation claims.

In the aftermath of the 2022 market events, AEMO and the AEMC were required to assess a considerable volume of claims across the administered pricing, market suspension, and directions frameworks, with claims still outstanding some two years later. The longer the timeframe between the market event and date of decision, the greater the risk that retailers will be unable to pass the compensation costs through to customers, for example in circumstances where the customer is no longer a customer of the retailer.

[2] AEMC, Improving security frameworks for the energy transition, Rule determination, 28 March 2024.

Stanwell recently had to recover compensation claims from current and former customers for the 2022 events and faced significant resistance. The recovery of these amounts was complicated by new ownership structures at former customers and customers were resistant to pay the large, unexpected additional charges, for which they thought they had already paid, multiple times. To assist with compensation recovery, Stanwell suggests the charges be applied to the market participants who are the current retailers to the customers and that were consuming at the time of the market event.

Stanwell appreciates that reviewing and assessing compensation claims is a considerable task, however, this task is exacerbated when there are no clear assessment and finalisation timeframes in place. Under the proposed changes to the current compensation framework, AEMO recommends limiting the timeframe for participant lodgement of claims to align with the Intervention Settlement Timetable, allowing participants 33 business days following the end of a billing week in which a price event occurs, to submit claims for additional compensation. In a similar vein, Stanwell suggests applying an approach akin to that used in the *NEM Settlement Estimates Policy* (SEP)[3] where set timeframes are in place to assess and settle claims, help alleviate the delays associated with finalising claims, and minimise the impacts on market participants and their customers.

For example, we propose that AEMO finalise all compensation claims within a 20-week period (aligning with existing arrangements for revision 1). Where no determination has been made, or there is an element of the claim that has not been agreed or that is in dispute (up to 100 percent) after the 20-week timeframe has lapsed, then a dispute-like arrangement could be applied. For claims that have not been finalised within the 20-week timeframe, a payment of 50 per cent of any outstanding compensation payment would be made for claims that are assessed as *prima facie* eligible for compensation.

AEMO and the independent expert would continue to assess and issue any outstanding compensation amounts with a true-up for any outstanding amounts available when finalised. The initial payment of all agreed amounts and 50 per cent of any unresolved amounts is likely to make resolution of these final elements simpler and will reduce bill-shock for consumers as a maximum of 50 per cent of the unresolved compensation could be recovered at a later date.

The objective of this approach is to help ensure that as many eligible compensation payments as possible are made within a standard AEMO revision timeframe, simplifying the process for retailers and consumers. This way, market participants should have their claims settled within a period that is fair and reasonable and customers are not left with large, unscheduled bills years after an event, while charging the current retailer for the customers at the time of the event would also assist in compensation recovery.

Conclusion

Stanwell commends the AEMC for conducting the self-initiated review of the electricity compensation framework. We generally support the 14 Recommendations proposed, and we agree the Recommendations provide a consistent and less complex NER Compensation Framework.

We believe the amendments we have proposed will help to ensure a more level playing field for determining compensation across a range of participants. These suggested adjustments would also better ensure market participants are not unfairly advantaged or disadvantaged for providing services during times of system and market stress, while also positively contribute to reducing the risk and burden on market participants where claims from the current retailers can be settled within a reasonable timeframe.

Stanwell welcomes the opportunity to discuss this submission further. Please contact Lya McTaggart by email at lya.mctaggart@stanwell.com

Yours sincerely

Ian Chapman
Manager, Market Policy and Regulatory Strategy

[3] Australian Energy Market Operator, *National Electricity Market Settlement Estimates Policy* Version 2, 3 June 2024.