

26 September 2024

Tiffany O'Keefe
Australian Energy Market Commission (AEMC)

Submitted via www.aemc.gov.au

Dear Ms O'Keefe

Draft Report for the Review into electricity compensation frameworks (EPR0095)

Hydro Tasmania appreciates the opportunity to provide a response to the Draft Report for the *Review into electricity compensation frameworks (EPR0095)*. As the market events of June 2022 demonstrated, it is essential to the continued functioning of the market in times of crisis to have compensation frameworks that are easy to use, well-understood and provide sufficient compensation to ensure participants are made whole.

We appreciate the work of Australian Energy Market Commission (AEMC) in conducting this review and note the challenge of assessing the efficacy of frameworks that have only been used once or twice since their implementation. **Hydro Tasmania supports the 14 recommendations made in the Draft Report.** In particular, we support the inclusion of opportunity costs as compensable costs under all three frameworks. We feel this is an essential improvement to ensure the frameworks remain fit for purpose as the generation mix in the National Electricity Market (NEM) continues to change.

Please see Attachment A for Hydro Tasmania's more detailed comments.

Hydro Tasmania commends the AEMC on their work so far in this self-initiated review and look forward to engaging further as the process progresses. To discuss any aspect of this submission in more detail, please contact Dani Williams at danielle.williams@hydro.com.au.

Yours sincerely



John Cooper
Manager Market Regulation

ATTACHMENT A – Hydro Tasmania response to the Draft Report for the review into electricity compensation frameworks

Inclusion of opportunity costs (Recommendations 2, 6, 7)

Hydro Tasmania is supportive of the AEMC’s recommendation to include opportunity costs as compensable costs under all three frameworks. Whilst opportunity costs exist for all technology types, they play a larger role in determining supply costs for some technology types (e.g. hydropower and battery systems). Allowing opportunity costs to be claimed under all three frameworks will ensure the burden of supply during times of market stress falls equally on all participants, which is a technology-neutral approach. As the NEM continues to decarbonise, opportunity costs will play an increasing role in determining supply costs and the inclusion of opportunity costs under all three compensation frameworks will assist in reducing the risk of the market events of June 2022 reoccurring.

We are supportive of opportunity costs being assessed by an independent expert, following the submission of claims to AEMO. Considering the complexity of determining and assessing opportunity cost claims, it is our view that an independent expert, provided they have experience in this area, is best placed to assess them.

Hydro Tasmania agrees with the issues raised by the AEMC in the report regarding the complexities associated with assessing opportunity cost claims. We acknowledge the challenges market bodies will face in ensuring a common understanding of opportunity costs as a value concept across participants, whilst also acknowledging how opportunity costs can vary between different technology types and operation methods. For the successful integration of these claims within the frameworks, it is integral that market bodies provide appropriate guidance on the definition of opportunity costs, the information required for a claim, and the timeline for assessment of claims.

Additionally, it is vital that the opportunity cost guidelines that currently exist for the administered pricing compensation framework are revised and consulted on prior to being implemented across all frameworks. Hydro Tasmania looks forward to providing feedback on the guidelines and their content, including methods for calculating opportunity costs, when they are provided.

Governance and administrative changes (Recommendations 5-14)

As mentioned in our submission¹ to the consultation paper, it is Hydro Tasmania’s view that there are several low-cost, low-effort changes to administrative and governance areas that would improve stakeholders understanding and trust in the compensation frameworks. We are supportive of the recommendations that AEMC has made in these areas.

Hydro Tasmania shares the AEMC’s view that participants unfamiliarity with the frameworks, along with confusion regarding claim application processes and boundaries for overlapping claims contributed to the ineffectiveness of the frameworks during the time. Having alignment across the frameworks with regard to time limits for claim application, types of claimable direct costs, guidelines for opportunity costs, and the level of supporting evidence required for claims will all

¹ Hydro Tasmania submission: <https://www.aemc.gov.au/sites/default/files/2024-02/EPR0095%20-%20Submission%20Received%20-%20Hydro%20Tasmania%20-%2020240201.PDF>

assist in improving participants' understanding of the framework processes. We also support AEMO being the responsible body for all compensation claims.

Progression of subsequent rule changes

Hydro Tasmania is pleased to see the AEMC's progression of this review and is keen to see implementation of changes in a timely manner. The recommendations put forward by the AEMC cover all parts of the three frameworks and will have varying degrees of complexity to implement.

We appreciate the AEMC's recent work in increasing the level of the APC to \$600² and the improvements to the directions framework made under the ISF rule change³. Whilst this work will reduce the chances of the events of June 2022 occurring again it is important to continue progressing this review. We look forward to seeing the AEMC's plan for how this review will be actioned into rule change proposals.

It is Hydro Tasmania's preference that the implementation of this review is split into several rule changes with recommendations grouped by similar themes and level of complexity to implement. This will allow low-effort, low-complexity administrative recommendations to be progressed promptly, whilst giving appropriate time and consultation to those that are more complex (e.g. the inclusion and calculation of opportunity costs).

² Review of the Form of the Reliability Standard and APC: <https://www.aemc.gov.au/market-reviews-advice/review-form-reliability-standard-and-apc>

³ Improving Security Frameworks for the Energy Transition: <https://www.aemc.gov.au/rule-changes/improving-security-frameworks-energy-transition>