

6 November 2024

Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2000

Lodged via email: anna.collyer@aemc.gov.au;
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Dear Ms Collyer,

SUBMISSION TO EPR0095 – REVIEW INTO ELECTRICITY COMPENSATION FRAMEWORKS

Delta Electricity (Delta) responds to the AEMC's draft report on its review of electricity compensation frameworks. Delta generally agrees with the recommendations in the draft report, and this was conveyed through input into the Australian Energy Council's submission, including:

- Draft recommendation 2, where participants should be eligible to claim opportunity costs in each of the directions, administered pricing and market suspension compensation frameworks.
- Draft recommendation 6, where AEMO, using the independent expert function, should assess claims for administered pricing in addition to the directions and market suspension compensation frameworks. All claims for opportunity costs should be assessed by the independent expert.

Delta considers these two recommendations will improve the effectiveness as well as instil a consistent and objective approach across all three compensation frameworks.

While the period for receiving submissions has closed, Delta has been advised by the AEMC that it will accept a late submission to this review process. This submission specifically addresses changes that Delta considers will improve the APC compensation framework.

Background

Following the June 2022 event, thermal generators, including Delta, submitted APC opportunity cost compensation claims to recover a modest amount compared to the revenue loss and missed opportunities resulting from the June 2022 event.

This was the first opportunity to test the effectiveness of the APC compensation framework resulting from a volatile period in the market and one which relied on the co-operation of generators and the market operator.

The AEMC's final decision, CRP0142, has raised significant concerns, as it revealed a clear misunderstanding of how thermal coal generators operate within the market and the real-time commercial risk vs reward decisions they must make. In particular, the decision did not adequately



account for the logistics of coal contracting and supply, which cannot simply 'ramp up' to respond to short-term crises or events.

It is noted that another thermal coal generator, EnergyAustralia, withdrew its application for opportunity cost compensation upon the release of the AEMC's draft opportunity cost methodology paper. The Commission was not satisfied EnergyAustralia was technically limited or that its behaviour indicated it was technically limited. Similar to Delta, EnergyAustralia claimed a lack of viable coal sources and low coal deliveries that led to it being technically limited.

The decision (and in the case of EnergyAustralia, a preliminary view) to find both thermal coal generators were not sufficiently coal constrained is inconsistent with the extensive reporting of the challenges faced in procuring coal, including in AEMO's *NEM market suspension and operational challenges in June 2022* report that highlighted "Reduced coal production at local mines and reduced deliveries from remote mines meant that a number of major power stations in New South Wales experienced very low coal stocks..."¹

The Commission's decisions for EnergyAustralia and Delta can be contrasted with the decision in CRP0140 (Snowy Hydro) which, despite the same market events, the applicant was awarded compensation. Delta would argue that the over-arching deciding factor was, or at least the perception that it is, the type of fuel.

The APC compensation framework must operate objectively, and independent of political influences. The framework must be transparent to function effectively to maintain market confidence during future APC events.

Recommendations

Delta acknowledges the AEMC's draft recommendation to move the assessment of opportunity cost claims to AEMO and independent experts is an improvement in this regard.

Delta believes that for the APC compensation framework to be effective in the future, greater clarity is required regarding how decisions will be made. Delta considers the following changes would improve the framework:

1. Establish a Clear and Transparent Threshold for Technical Limitations

The Rules and/or Guidelines should define a clear threshold for determining whether a generator is technically limited by fuel supply. While the Commission's draft and final decisions acknowledged Delta's low coal position, they concluded that coal was always available and noted that the stockpile increased after the APC was lifted. This reasoning failed to account for the fact that this was as a result of bringing scheduled deliveries forward and the fact that both the New South Wales and Commonwealth Governments introduced the Coal Supply Emergency to ensure

¹ AEMO, 2022, NEM market suspension and operational challenges in June 2022, p 24.



that coal was made available to domestic electricity generation at a price less than the inflated export price.

The AEMC reasoning is subjective and introduces uncertainty into how the compensation framework is applied. A clear, objective threshold for technical limitations based on fuel type must be defined in the Rules and/or Guidelines.

2. **Ensure Compensation Analysis Aligns with Established Criteria**

The analysis of compensation claims must strictly adhere to the criteria outlined in the Rules and Guidelines. The Commission's final decision in CRP0142 rejected a claim of technical limitation, citing that coal was brought forward from July and August to June, and only limited efforts were made to restore the coal stockpile. This reasoning extends beyond the defined criteria for technical limitations.

The Rules and Guidelines do not consider the reasons behind a generator's limitation when assessing such claims. This additional layer of judgment undermines the compensation process, where a generator could meet the limitation criteria in the Rules and Guidelines, but still fail due to subjective assessments during the review process.

The Rules and Guidelines should explicitly remove subjectivity and personal discretion in the assessment of limitations, as this ambiguity allows excessive leeway for decision-makers. Otherwise, this ambiguity will undermine the objective of the compensation framework, to adequately incentivise participants to supply electricity during price limit events.

Addressing these issues will:

- Promote transparency within the market.
- Reduce uncertainty in how the framework is applied.
- Provide better guidance to market participants considering future compensation claims.

To discuss further please contact Delta's Market Compliance and Regulation Manager Joel Aulbury at joel.aulbury@de.com.au.

Yours sincerely,



STEVE GURNEY
COMPANY SECRETARY/GENERAL COUNSEL

