



## Review into electricity compensation frameworks

### The Commission self initiated a review into the electricity compensation frameworks

In November 2023, the Commission self-initiated a review into the national electricity market (NEM) electricity compensation frameworks for directions, market suspension and administered pricing. This is because the June 2022 disruptive market events highlighted limitations in the objectives, methodologies, governance, and administrative components of the compensation frameworks, thereby compromising their efficiency and effectiveness. Using the insights gained by market participants and market bodies following these events, the Commission has made the following final recommendations to:

- specify a separate objective for directions compensation
- allow opportunity costs in each compensation category
- improve the method for calculating directions compensation
- nominate AEMO to receive all compensation claims and assess them together with the independent expert
- improve administrative rules and timelines, and clarifying obligations on claimants.

In making its final recommendations, the Commission took into account the recent increase to the administered price cap (APC) from \$300/MWh to \$600/MWh for the period from 1 July 2025 to 30 June 2028.

Together with the APC increase, the final recommendations aim to improve the collective functioning of these frameworks to provide market participants with the confidence necessary to ensure electricity supply during market disruptions, thereby promoting the reliable supply of electricity services to consumers.

### We have made several recommendations to improve the electricity compensation frameworks

#### We recommend an objective for the directions compensation framework

- The NER should be amended to provide a separate, formal objective for the directions compensation framework, being to enable directed participants to be compensated for the costs associated with complying with a direction. The Commission maintains that the objectives for administered pricing and market suspension remain the same.

#### We recommend improvements to the compensation methodologies

- Participants should be able to claim for opportunity costs for directions, administered pricing and market suspension compensation. This will allow all three frameworks to meet their objectives and allow generators to recover their costs of supplying during times of market stress and recognise the value forgone by doing so. The AEMC's compensation guidelines will also provide clarifications to the method for assessing opportunity costs.
- Upfront compensation payments for the directions framework should be calculated based on the volume weighted average price (VWAP) for the preceding 12 months by technology type and region. The Commission also recommends applying the VWAP approach to upfront compensation payments for market suspension claims.
- The Commission recognises the concerns that have been raised by stakeholders regarding the impact of constraining actions to address minimum system load (MSL) and other system security issues. We consider that in the first instance, it is appropriate for the Australian Energy Market Operator (AEMO) to continue to work with stakeholders on its proposed approach to seek to resolve the issues emerging from MSL including on the questions of

compensation for directions, as well as through considering the use of transitional services contracts under the *Improving security frameworks* rule change. We also note that, more broadly, the use of constraint tools for system security purposes raises questions that extend beyond the compensation arrangements for participants.

### **We recommend streamlining governance for the compensation frameworks**

- AEMO should be established as the single point for participants to lodge all claims for compensation.
- The independent expert should assess all claims for administered pricing compensation (including direct costs), as well as all claims for opportunity costs.
- The Commission will retain responsibility for developing guidelines on opportunity cost claims.

### **We recommend a range of administrative improvements**

- administered pricing compensation should be assessed by trading interval within an eligibility period rather than by net revenue in an eligibility period - and be assessed on an individual unit level rather than across all units that make up a claim for compensation
- there should be the same time limits on all compensation claims including claims for administered pricing compensation
- the same types of direct costs should apply to all compensation frameworks and be identified in a single list
- cost recovery for administered pricing compensation should be determined on a trading interval basis, with costs recovered from the region where the price is set by the APC
- the same standards of supporting information should be required across all compensation frameworks
- the timeframe for market participants to provide information to support additional claims, including opportunity cost claims, be extended to 60 business days.

### **We recommend a fast-tracked rule change to implement our recommendations**

The recommendations in this Review have undergone rigorous consultation with stakeholders, and have been informed by submissions to the *Improving security frameworks* rule change. We also consider that each of the recommendations, when implemented, will improve the compensation frameworks in accordance with the National Electricity Objective. Accordingly, the Commission's view is that the final recommendations to amend the NER could be implemented through a fast-tracked rule change so that there can be timely delivery of these improvements.

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