



Compensation arrangements after an administered price cap and administered floor price

Stakeholder submissions invited on new rule change request

The AEMC has commenced consultation on a rule change request to revise the compensation arrangements following the application of an administered price cap and administered floor price.

Background

An administered price cap occurs after a sustained period of high wholesale pool prices in the National Electricity Market. By limiting prices, the cap reduces volatility and limits the risks for market participants of high prices. It can also cause some market participants to incur a loss, where they supply electricity at a time when the cap applies and their costs are higher than the cap. The National Electricity Rules provide for compensation in some circumstances for participants who have incurred a loss under an administered price cap.

Administered pricing events occur rarely, with only five applied in the history of the National Electricity Market, and only one compensation claim made to date.

The rule change request

The rule change request was received from the COAG Energy Council in response to the AEMC's recommendations in the *Review of Compensation Arrangements following an Administered Price, Market Price Cap or Market Price Floor* in 2013.

The rule change request reflects the key recommendations from that review. It proposes to improve the effectiveness of compensation arrangements relating to administered price periods, by amending the National Electricity Rules in the following areas:

- clarify that the sole purpose of compensation is to maintain incentives for participants to supply energy during an administered price period, as opposed to also having a purpose relating to encouraging investment;
- introduce new compensation eligibility criteria based on when the total costs incurred by the participant exceed the total spot market revenue over the eligibility period;
- clarify the type of participants that are eligible for compensation;
- increase the efficiency and flexibility of the compensation assessment process;
- clarify the cost recovery process for compensation claims.

Issues for consultation

A consultation paper was released today to facilitate stakeholder comment on the issues raised by the rule change request. This takes into account the fact that stakeholder's views have already been considered in the AEMC recommendations.

The AEMC has also prepared indicative drafting of a proposed rule based on the COAG Energy Council's rule change request. Stakeholder comment is sought on this drafting.

Submissions

The consultation paper and the COAG Energy Council's rule change request are available on the AEMC website. Stakeholders are invited to make written submissions in response to issues raised and the rule change request by **4 June 2015**.

For more information:

AEMC Senior Director, **Chris Spangaro** 02 8296 7800

Media: Communications Specialist, **Tim O'Halloran** 02 8296 7800

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