

23 December 2015

Mr John Pierce
Chairman
Australian Energy Market Commission
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By online submission: <http://www.aemc.gov.au/Contact-Us/Lodge-a-submission>

Dear Mr Pierce

Submission: Additional consultation paper on APC compensation (ERC0176)

Thank you for the opportunity to provide feedback on the additional consultation paper published by the AEMC with respect to the proposed rule change for the compensation arrangements following application of an administered price cap and administered floor price.

AEMO agrees with the AEMC's preliminary view that it is appropriate to include eligibility for ancillary services providers to claim compensation following an administered price limit event. Based on our understanding, there are circumstances under which an ancillary services provider may incur costs which cannot fully be recovered during periods where an administered price is capped at \$300. Such circumstances arise due to the interplay between:

- The administered pricing regime, which permits the ancillary services markets to be capped even though the energy market is uncapped.
- The co-optimisation of ancillary services and energy markets, which has the objective of maximising spot market trading across both.

AEMO agrees that as a consequence of permitting eligibility to ancillary services providers, it is necessary to extend the proposed recovery arrangements accordingly. We note that the proposed recovery of compensation amounts awarded to ancillary services providers be done using the same energy-based apportionment to Market Customers. Although this is a straight-forward and workable arrangement, AEMO suggests that the AEMC may also wish to consider a recovery arrangement which is based on the methodologies outlined in clause 3.15.6A of the National Electricity Rules.

The cost recovery arrangements specified in the additional consultation paper involve a calculation based on the proportion of energy for each Market Customer summed over the eligibility period. This arrangement is not compatible with functionality currently implemented in AEMO's market systems. AEMO proposes, if the rule is made, to make changes to its market systems for the calculation of recovery amounts. However it is likely that these changes would not be implemented until the end of 2016.

In order to avoid a delay in the potential commencement of the rule, AEMO considers it appropriate to use an interim solution for the settlement of recovery amounts prior to the implementation of market system changes.

If you would like to discuss any aspect of the submission, please contact Chris Muffett, Specialist Market Analysis on (02) 8884 5317 or at chris.muffett@aemo.com.au

Yours sincerely



Joe Spurio
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