



4 June 2015

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Submitted online: www.aemc.gov.au

Dear Mr Pierce

ERC0176 - Compensation arrangements following application of an administered price cap and administered floor price

Origin Energy (Origin) appreciates the opportunity to provide comments to the Australian Energy Market Commission (Commission) Consultation Paper on compensation arrangements following the application of an administered price cap and administered floor price.

1. Improved transparency regarding eligibility to claim compensation

A participant should be able to recover the direct and opportunity costs from generating through an administered price period where they exceed total revenue. We agree with the Commission that uncertainty and risk of incurring a loss could create a disincentive for a participant to supply energy through an administered price period and be detrimental to the reliability of supply.¹

The new eligibility period, from the first trading interval when the spot price is capped until the last trading interval of that day, provides transparency around when a participant would be eligible for compensation. We acknowledge, as identified by the Commission, that the proposal could produce some inefficiencies through the dispatch of high cost plant but consider the reliability benefits from the initiative are likely to offset any short term productive inefficiencies. The targeted rule change proposal is likely to be effective in incentivising operational decisions to supply energy through an administered price event.

2. A more flexible claim assessment process

Origin agrees that the compensation process should provide flexibility between an assessment of direct costs that are unlikely to be contentious, and opportunity costs that are inherently more complex requiring broader assessment and consultation. In our view the proposed tiered approach for the appointment of experts to determine compensation for direct and opportunity costs is appropriate. A single expert is likely to be sufficient to adequately determine compensation requirements for direct costs while a three member panel and public consultation would be more appropriate for assessing the compensation requirements and methodology for opportunity costs.

¹ AEMC 2015, Compensation Arrangements following application of an Administered Price Cap and Administered Floor Price, Consultation Paper, 7 May 2015, Sydney. p. 2.

Origin considers the Commission is the correct body for appointing an expert to determine compensation claims. This would be consistent with the role of AEMO in nominating an expert to determine compensation for directed participants.² The independent expert should not be nominated by the dispute resolution advisor where the compensation arrangements recognise the legitimacy of a participant to claim compensation for direct and opportunity costs.

3. New arrangements for cost recovery

Origin supports clarifying the arrangements for the recovery of compensation costs. To the extent that there is any uncertainty around cost recovery, there is merit in identifying that the AEMC, through the use of experts, determines the level of direct and opportunity costs incurred above total revenue received. Clarifying that costs are to be recovered on a regional rather than on a NEM-wide basis should minimise the potential for cross-subsidisation and be consistent with the cost recovery basis for the other services.

Should you have any questions or wish to discuss this information further, please contact Ashley Kemp on (02) 9503 5061 or ashley.kemp@originenergy.com.au.

Yours sincerely,



Steve Reid
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Energy Risk Management

² Under NER clause 3.12 and 3.15.7.