



Compensation arrangements after administered price limit events

Stakeholder submissions invited on additional consultation paper

The AEMC has commenced an additional round of consultation on specific issues relating to eligibility for ancillary services providers to claim compensation following an administered price limit event.

Background

An administered price cap occurs after a sustained period of high wholesale pool prices in the National Electricity Market. By limiting wholesale prices, the cap reduces volatility and limits the risks for market participants of high prices. However, it can also cause some market participants to incur a loss, such as where they supply services at a time when the cap applies and their costs are higher than the cap. This may create a disincentive for them to supply services, which can impact reliability and security.

To minimise this disincentive, the National Electricity Rules provide for compensation in some circumstances for participants who have incurred a loss under an administered price cap. The AEMC is the body that manages the compensation process and determines the amount of compensation.

Administered price limit events have in the past occurred rarely, with only five applied in the history of the National Electricity Market, prior to the series of these events which occurred in October and November 2015. There has only been one compensation claim made to date.

On 17 October 2013, the COAG Energy Council submitted a rule change request to the AEMC seeking to amend the National Electricity Rules in relation to compensation arrangements following the application of an administered price cap and administered floor price. The AEMC initiated this rule change on 5 May 2015 and published the draft determination on 13 August 2015. Documents relating to this rule change request are available on the AEMC's website.

Draft determination and material change in circumstances

In this draft determination, the Commission decided to remove eligibility for compensation for ancillary services providers following the application of an administered price limit event. The basis for this decision was:

- allowing compensation might weaken the protection for consumers from high prices afforded by the administrative price cap, particularly where the compensation is based on opportunity loss after high prices occurred in the energy market; and
- the historic infrequency of administered price caps occurring in ancillary services markets.

Subsequent to publication of the draft determination, the first ever application of an administered price cap in an ancillary services market in the National Electricity Market occurred. Changing conditions in the market suggest that these events may not be as rare in the future as expected when the draft determination was published.

As a result of these events, the Commission is further considering its draft determination decision to remove eligibility for ancillary services providers to claim compensation.

The Commission's additional consultation paper is in respect of specific issues relating to eligibility for ancillary services providers to claim compensation relating to administered price limit events.

Issues for consultation

An additional consultation paper was released today to facilitate an additional round of consultation in respect of specific issues relating to eligibility for ancillary services providers to claim compensation following the application of an administered price limit event. The issues include consideration of a price and reliability trade-off in respect of allowing compensation.

Any compensation would be recovered from market customers such as retailers and may flow through to higher prices for consumers.

Submissions

Stakeholders are invited to make written submissions in response to this additional consultation paper, and the indicative amendments to the draft Rule, by no later than 10 December 2015.

For information contact:

AEMC Director, **Richard Khoe** (02) 8296 7800

AEMC Senior Adviser, **Andrew Pirie** (02) 8296 7800

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