



## Review of Arrangements for Compensation following an Administered Price, Market Price Cap or Market Floor Price

### Issues Paper: 26 May 2011

**The AEMC is initiating this review to ensure that specific aspects of the market frameworks which provide investment signals and manage the risks to market participants caused by periods of high wholesale market prices are robust and effective in delivering efficient market outcomes.**

#### Overview of the current compensation arrangements

Under the Rules, compensation may be payable to certain market participants following the application of an administered price cap (APC), administered floor price, market price cap (MPC) or market floor price. This is because these mechanisms, if applied, effectively limit wholesale market spot price movements to within a specified price envelope. They do so in order to contain unmanageable price risks for certain market participants. However, in doing so they may also reduce the amount of wholesale market revenue other market participants receive such that costs exceed revenues. Where this occurs, compensation may be payable.

The AEMC is responsible for determining whether compensation is payable to an eligible market participant under these circumstances. The AEMC also determines the amount of compensation payable. In assessing a claim for compensation, the Commission will take into account the direct costs and opportunity costs incurred in supplying energy or services during the periods in which the APC, administered floor price, MPC or market floor price were applied.

The compensation mechanism is one component of the market's broader MPC-Cumulative Price Threshold (CPT)-APC-Compensation mechanism. This mechanism establishes a framework to provide investment signals and manage risks faced by retailers and other market participants.

Most claims for compensation are likely to be made by generators following the application of an APC. The only claim to date, the Synergen Power claim, related to such a situation. However, the compensation provisions are applicable to several types of participants and in several circumstances. As such, this review will consider the arrangements for compensation across all circumstances covered by clause 3.14.6.

#### Objectives of the review

This review of the arrangements for compensation following an APC, administered floor price, MPC or market floor price is being initiated by the AEMC to consider the operation and effectiveness of the current compensation arrangements in clauses 3.14.6 and 3.15.10 of the Rules.

The objectives of this review are:

- to ensure that the compensation provisions in the Rules are aligned with the objectives of paying compensation; and
- where appropriate, to recommend changes to the Rules to remove any ambiguities and improve the effectiveness, transparency and consistency of the arrangements for determining and paying compensation under clauses 3.14.6 and 3.15.10 of the Rules.

#### The AEMC's Terms of Reference

The Terms of Reference (TOR) for this review set out the issues which will, at a minimum, be considered. These issues were identified during the resolution of the compensation claim by Synergen Power Pty Ltd, which was determined by the AEMC in 2010 and is the only claim to date under these provisions.

During the processing of that claim, several issues with the current Rules were identified and the Commission stated that it intended to undertake a review into those matters.

The TOR require the AEMC to consider, at a minimum, the following key areas:

**The AEMC invites public submissions on the Issues Paper.**

**Submissions are due by 7 July 2011.**

- the objectives of paying compensation under clause 3.14.6 and therefore the circumstances in which a claimant should be eligible to make a claim for compensation (including the use of the term “dispatch offer”);
  - the process by which compensation is determined under clause 3.14.6, including:
  - the role of the AEMC and the three member panel;
  - the role of the consultation process in light of the limits on the AEMC’s power to disclose information subject to a claim of confidentiality;
  - the timing for communicating to stakeholders that a compensation claim is under consideration; and
  - the desirability for flexibility in the timing associated with the processing of compensation claims;
- concerns raised in submissions on the Commission’s draft report on the Synergen Power compensation claim that may be better considered as part of this review; and
- clarifying how AEMO recovers any compensation from market customers under clause 3.15.10.

### **Issues Paper**

The Commission has commenced this review by publishing an Issues Paper.

The Issues Paper describes, and seeks submissions on, each of the matters referred to in the TOR. Specifically, the Issues Paper seeks stakeholder comments on the scope of the review and the issues that will be addressed. The Commission is particularly interested in stakeholder views on the effectiveness of the compensation provisions and whether there are any other issues not explicitly identified in the TOR that should also be addressed.

This review is likely to have important implications for a range of stakeholders, including generators, retailers, market customers, scheduled network service providers and the AEMO. Stakeholders are therefore encouraged to contribute to the outcomes of this review.

**Submissions close on 7 July 2011.**

### **Next stage for this review**

In accordance with the AEMC’s TOR, the AEMC intends to publish a draft report and a final report for this review, in addition to the Issues Paper. The AEMC aims to conclude this review in the first half of 2012.

For information contact:

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

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

AEMC Advisor, **Claire Rozyn** (02) 8296 7800