



Compensation arrangements after administered price periods

Stakeholder submissions invited on draft rule determination

The AEMC has made a draft rule which seeks to revise the compensation arrangements for market participants following the application of an administered price period.

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 electricity at a time when the cap applies and their costs are higher than the cap. This may create a disincentive for them to supply energy, which can impact reliability.

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 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 Commission's decision

The Commission's draft determination, which includes a draft rule, seeks to improve the compensation arrangements for market participants relating to administered price periods, by changing the National Electricity Rules in the following areas:

- amending the purpose of compensation, such that the objective only relates to reliability of supply during administered price periods, as opposed to also having a purpose relating to encouraging investment;
- amending the eligibility criteria such that compensation can be claimed from the first trading interval when the spot price is set by the administered price cap or administered floor price, until the last trading interval of that day, instead of the assessment of compensation on a trading interval basis;
- improving the flexibility, efficiency and transparency of the process by which the AEMC determines the amount of compensation; and
- amending other elements, including the process by which compensation is recovered from consumers, and extending eligibility to non-scheduled generators.

The draft rule is a more preferable rule because some of the changes are different from what the rule change request proposes.

Reasons for the Commission's decision

The changes would contribute to the National Electricity Objective (NEO) by:

- enhancing the reliability of electricity supply;
- increasing transparency and reducing administration costs of the assessment process; and
- contributing to efficient recovery of compensation costs from consumers

The Commission's draft determination seeks to improve the compensation arrangements for market participants relating to administered price periods.

Submissions

Stakeholders are invited to make written submissions in response to this draft determination, and the draft rule, by no later than 24 September 2015.

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