



24 September 2015

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

Submitted online: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Pierce

### **ERC0176 – Compensation arrangements following application of an APC and AFP**

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

#### *1. Support the change to the eligibility criteria*

Origin continues to support the change in eligibility criteria whereby compensation can be claimed from the first trading interval when the spot price is capped until the last trading interval of that day. The proposal provides transparency and simplifies when a participant could be eligible to claim compensation and is likely to be effective in incentivising operational decisions to supply energy through an administered price event. We agree with the Commission that the revised eligibility criteria could lead to some productive inefficiencies from the dispatch of high cost generation but these are likely to be outweighed by the reliability benefits from the change.<sup>1</sup>

#### *2. Assessment process should involve an independent expert*

Origin agrees with the Commission that the compensation process should provide flexibility between an assessment of the direct costs and the opportunity costs incurred by a claimant during an administered price period. We consider that it is important, however, that an independent expert or panel of experts be appointed by the Commission to assess both direct and opportunity costs. We do not agree with the Commission that the requirement to appoint an independent expert could result in an inefficient assessment process or necessarily enhance the timeliness of the assessment process where the Commission conducts the assessment.

We consider the Commission should remain independent of the assessment process given its primary function as a rule making body. The requirement to appoint an independent expert could also promote consistency within the Rules between the compensation arrangements following a direction by the Australian Energy Market Operator under clause 3.15.7A and compensation arrangements following an administered price event under clause 3.14.6.

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<sup>1</sup> AEMC 2015, Compensation arrangements following application of an administered price cap and administered floor price, Rule Determination, 13 August 2015, Sydney. p. 22.

*3. Purpose of compensation limited to incentivise the supply of energy*

Origin agrees with the Commission that the objective for compensation arrangements is to maintain an incentive to supply energy during an administered price period. A participant should be able to recover the direct and opportunity costs from generating through an administered price event without the uncertainty of incurring a loss. We do not, however, agree that an objective of compensation be extended to incentivising scheduled load to consume energy.

Administered price periods have occurred under periods of market stress from a tightening in the supply and demand balance. The high spot prices experienced prior to an administered price cap being triggered are intended to act as a market clearing signal for load, in addition, to providing revenue for generators to recover the capital cost of generation investment. Scheduled load is characterised by pumps within hydro pump storage systems and it is not clear why it should be incentivised to operate under an administrative price period.

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](mailto:ashley.kemp@originenergy.com.au).

Yours sincerely,



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