Australian Energy Market Commission

Proposed Compensation Guidelines

Explanatory Statement and Invitation for Written Submissions

(under clause 6A.20(b) of the National Electricity Rules)

The Commission invites submissions on its proposed guidelines for compensation claims under clause 3.14.6 of the Rules. Set out below is background information on the guidelines for stakeholders.

Compensation due to the application of an administered price, VoLL or market floor price

The administered price period (APP) provisions of the National Electricity Rules form an important component of the market safety net which operates to protect and sustain electricity trading during periods of high sustained prices in the spot market. If market prices in a region rise to levels which are likely to cause substantial financial stress, then those prices are capped until they return to lower levels. These are known as administered price periods.

An APP is triggered when the sum of the spot prices in a single region for the previous 336 half hourly trading intervals (i.e. seven days) reaches the cumulative price threshold (CPT), currently set at $150 000. This is equivalent to an average spot price of $446.43/MWh over the previous seven days. An APP is also triggered if the sum of the prices of any market ancillary service for 2016 dispatch intervals (equivalent to seven days) exceeds six times the CPT.[1]

Administered price conditions are independently assessed and triggered for each region of the NEM by NEMMCO.

When an APP is triggered, NEMMCO publishes a market notice advising of the commencement of an APP from the start of the trading interval immediately after that in which the CPT was exceeded. Market prices and dispatch of generation continue to be calculated normally, based on bids and offers. However, the administered price cap (APC) and administered price floor are invoked to apply upper and lower limits on the published dispatch prices for energy and market ancillary services.

[1] Market ancillary services are dispatched every five minutes and would accumulate six times faster than the half hourly trading intervals.

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The value of the APC is currently set at $300/MWh for all regions in the NEM, for all time periods. The administered floor price is the negative of the APC.

In determining the current level for the APC, the Commission decided that it was "sufficiently low to mitigate the risk of systemic financial collapse and sufficiently high not to distort the incentive for supplying electricity during an extreme market event when the APC is triggered"[2]. The Commission also decided that the current APC level was set "sufficiently high so that the expected frequency and magnitude of compensation claims are kept to the minimum"[3].

Following an application of the APC, or market suspension, in a region, there is an opportunity for market participants to claim compensation from NEMMCO in accordance with clause 3.14.6 of the Rules. A market participant has five business days from NEMMCO's notification of the end of an APP in a region, or market suspension, to notify the Commission and NEMMCO of its intent to claim for compensation.

In addition, following the application of the Value of Lost Load (VoLL, currently set at $10 000/MWh) or the market floor price (currently set at -$1000/MWh) in adjoining regions, there is also an opportunity for scheduled network service providers to claim compensation from NEMMCO in accordance with clause 3.14.6 of the Rules.

Procedure for developing the compensation guidelines

Clause 3.14.6(c) of the Rules requires the Commission to develop and publish compensation guidelines, in accordance with the transmission consultation procedures contained in rule 6A.20 of the Rules.

The Rules require that the compensation guidelines:

- identify the objectives for the payment of compensation;
- require that the amount of compensation be based on costs directly incurred by the claimant and the value of any opportunities foregone;
- outline the methodology to be used to calculate the amount of any compensation payable; and
- set out the information requirements NEMMCO and the claimant must provide.

Purpose of the compensation guidelines

The guidelines play an important role in the decision-making process. A three member panel applies the guidelines when providing advice to the Commission on whether compensation should be paid and the amount of compensation. The Commission also applies the guidelines when determining those questions unless it is satisfied there are compelling reasons not to do so.

With the guidelines in place, potential claimants will have greater certainty as to what costs will be considered for compensation, and can then make an informed decision on

[2] AEMC, Determination of Schedule for the Administered Price Cap, final report, 20 May 2008, p.vii.

[3] Ibid.

whether they should apply for compensation and what information needs to be provided.

In addition, application of the guidelines will provide transparency and consistency in the consideration of any compensation claims and the determination of any amount payable. This should also improve the Commission's consultation process when considering a compensation claim through better informed stakeholders providing submissions on the three member panel draft report and Commission draft decision on the claim. This will support robust decision-making by the Commission on any compensation claims.

Invitation for submissions

Interested parties are invited to make written submissions to the Commission on the proposed compensation guidelines.

Submissions may be lodged with the Commission electronically to: submissions@aemc.gov.au or in hard copy to:

Australian Energy Market Commission
AEMC Submissions
PO Box A2449
Sydney South NSW 1235

Submissions must be received by **21 April 2009**. Submissions sent via e-mail/mail are to reference the following: Company/Organisation name, Compensation guidelines, March 2009 - Reference EMO 0007.