



**January 25 2013**

Ms Christiaan Zuur  
Project Leader  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235  
Reference number: EPR0026

Lodged electronically

Dear Mr Zuur

**AEMC Draft Report: Review of Compensation Arrangements following an Administered Price, Market Price Cap or Market Floor Price**

AGL thanks the Australian Energy Market Commission (AEMC) for the opportunity to comment on its Draft Report on the Review of Compensation Arrangements following an Administered Price, Market Price Cap or Market Floor Price.

AGL operates across the energy supply chain and has investments in energy retailing, energy services, coal-fired electricity generation, gas-fired electricity generation, renewables and upstream gas extraction.

In its submission to the AEMC Issues Paper on this matter, AGL noted *inter-alia* that it considers that it is not the intention of the National Electricity Rules (NER) for the payment of compensation to provide an incentive for Scheduled Generators, Scheduled Network Service Providers and other Market Participants to invest in plant that provides services during peak periods. AGL's submission noted further that the objective of paying compensation under the NER is only to maintain the incentive for Market Participants to supply energy and other services during an Administered Price Period (NER s 3.14.6(c)(2)).

Accordingly, AGL does not support the AEMC's proposal to include a 'secondary purpose' in the compensation arrangements to support compensation aimed at providing an investment signal. AGL considers that this approach does not resolve the lack of clarity that currently surrounds the scope of compensation payments, will increase the costs of providing compensation overall and presents an unhedgeable exposure for retailers who may not be able to fully recover such compensation costs from their customers.

Further, AGL notes that it is actually the function of the Cumulative Price Threshold (CPT) to provide the marginal generator the opportunity to recover a reasonable portion of its return on investment when it operates in the market (infrequently and at extreme demand times) – as well as acting as a risk management tool for the market. In fact, the investment return element of the CPT is clearly recognised by the AEMC Reliability Panel – as follows:

*The Panel considers that the CPT is designed to limit participants' financial exposure to the wholesale spot market during prolonged periods of high prices, while not hindering investment. This means that the CPT should ideally be set at a level that is unlikely to be triggered except in extreme circumstances.<sup>1</sup>*

Accordingly, allowing a generator to recover direct and opportunity costs – as well as investment related costs, may actually lead to the compensated party effectively 'double dipping' and, subsequently, the costs of providing compensation will actually be higher than necessary for all other relevant parties.

AGL contends that the AEMC should reconsider its conclusion with regards to the payment of compensation for investment related purposes and, in its Final Report, conclude that such a payment is unnecessary given the clearly stated function of the CPT.

AGL also noted in its submission to the issues paper that eligibility settings, particularly dispatch offers, also need to be resolved. Specifically, AGL argued that:

- allowing a rebidding plant access to compensation disadvantages reliable peaking plant, compared to plant that may be less reliable;
- reduces the incentives for maintaining the load following performance of peaking plant; and
- increases the scope of the eligibility criteria to include a wider range of plant.

Given this, AGL does not support the AEMC's proposal to allow a participant – including those who have rebid – to claim compensation costs in the event that their total costs exceed total revenue derived from the spot market. AGL considers that its initial claims against this approach remain valid.

Should you have any questions in relation to this submission, please contact me on (03) 8633 6026 or at [acruicks@agl.com.au](mailto:acruicks@agl.com.au).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Alex Cruickshank'.

**Alex Cruickshank**  
Manager Wholesale markets Regulation

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<sup>1</sup> Reliability Panel AEMC, *Reliability Standard and Reliability Settings Review 20 April 2010*. Available at: <http://www.aemc.gov.au/Media/docs/Final%20Report%20-%20Reliability%20Standard%20and%20Settings%20Review-c3994458-70b3-4d66-badd-dc7e8b809f68-1.PDF>