

22 February 2008

Dr John Tamblyn  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
SOUTH SYDNEY NSW 1235

By email: [submissions@aemc.gov.au](mailto:submissions@aemc.gov.au)

Dear Dr Tamblyn,

**EnergyAustralia's Rule Change Request – Compensation Provisions Due to the Application of an Administered Price, VoLL or Market Floor Price**

The Energy Retailers Association of Australia (**the Association**) welcomes the opportunity to comment on EnergyAustralia's above Rule change request. The Association is supportive of EnergyAustralia's proposed amendments to National Electricity Rules (**Rules**).

The Association believes EnergyAustralia's proposed rule change will remove much of the uncertainty in the determination of compensation to generators during an administered price period (**APP**). This will be achieved by ensuring that compensation to Scheduled Generators during an APP is based on their direct generating costs, rather than on their offer prices. In addition, by clarifying the roles of the Australian Energy Market Commission (**AEMC**) and the expert, and the factors that must be taken into account, in relation to both the threshold question of whether compensation is to be awarded and the determination of a fair and reasonable amount will provide further transparency on the compensation provisions.

The Association believes EnergyAustralia's Rule change request will substantially reduce the risk of very large, unhedgeable compensation payments being born by Retailers following an APP. This will ultimately minimise the consequential adverse impact on the retail market and customers.

Given there is a material probability of an APP being triggered in the near future the Association believes EnergyAustralia's Rule change request is timely in addressing the

significant risk the compensation arrangements pose on the wholesale market, including its potential to undermine the role of the APP/cumulative price threshold arrangements as a risk management mechanism.

The Association believes it may be also appropriate for the AEMC to consider extending EnergyAustralia's Rule change request to include;

- Market Network Service Providers, dispatch bids, Ancillary Service Generating Units, and Ancillary Service Load. This will ensure consistency in the National Electricity Market (**NEM**) for possible claims from these categories of participants; and
- The opportunity costs of generation during an APP for Hydro generators.

In summary the Association believes EnergyAustralia's Rule change request will deliver substantial economic benefits to the NEM and will address a number of industry concerns regarding how the current compensation provisions will operate following an APP.

Should you require any further information in relation to this matter please feel free to contact me on (02) 9437 6180.

Yours sincerely

*[Transmitted Electronically]*

Cameron O'Reilly  
Executive Director  
**Energy Retailers Association of Australia**