



Review of compensation guidelines to incorporate wholesale demand response

Final decision on amended compensation guidelines

The Australian Energy Market Commission (AEMC) has amended the compensation guidelines which describe how compensation may be determined following the application of an administered price period. The changes have been made to incorporate the wholesale demand response mechanism rule and fast frequency response market ancillary service rule.

The compensation mechanism and compensation guidelines

Administered price caps and administered floor prices help to reduce volatility and manage risks for market participants, but in some cases they can cause market participants to incur a loss. The National Electricity Rules (NER) provide for compensation in some circumstances where these losses occur. Historically, administered pricing events have occurred rarely.

The purpose of the compensation guidelines is to:

- set out how the AEMC may consider whether compensation should be paid and the amount of compensation payable under the NER; and
- provide guidance for potential claimants and the Australian Energy Market Operator on the information required to be provided in support of a claim for compensation.

Why the compensation guidelines have been amended

On 11 June 2020, the Commission made a final rule to implement a wholesale demand response mechanism (WDRM) in the NEM. This required that the AEMC review and where necessary amend the compensation guidelines to account for the WDRM rule.

On 15 July 2021, the Commission made a final rule to introduce two new market ancillary services - the very fast raise service and very fast lower service. The AEMC has assessed whether these new ancillary services should be eligible for compensation.

Final amendments to the compensation guidelines

The following amendments have been made to the compensation guidelines:

- added the demand response service provider (DRSP) as a new type of participant that is eligible to make a claim for compensation;
- clarified the types of direct and opportunity costs that can be claimed;
- provided guidance around the need for a DRSP to demonstrate how it has incurred direct or opportunity costs and the factors the AEMC may take into account in assessing a compensation claim from a DRSP;
- clarified that total opportunity costs cannot be larger than dispatch bids or dispatch offers, minus the administered price cap or administered floor price; and
- clarified that compensation may be payable relating to the provision of the two new types of fast frequency response market ancillary services.

These changes provide clarity for eligible participants when considering whether and how to make a claim for compensation.

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