

Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Submitted online.

13 October 2023

AEMC – Draft Opportunity Cost Methodologies – Consultation Paper

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the AEMC Draft Opportunity Cost Methodologies (Consultation paper) which have been triggered by compensation claims from Snowy and Delta Electricity.

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

The AEC is not commenting on the specifics of either compensation claim and is making this submission to emphasise the underlying principles for compensation arrangements that are necessary to ensuring functioning markets and satisfy the National Electricity Objective (NEO).

As noted by the AEMC in its Consultation paper,

*" These arrangements are designed to protect market participants from losses during a price limit event to maintain the incentive for them to continue to supply or consume energy or services. In this way, administered pricing compensation supports a reliable supply of electricity to customers during price limit events."*¹

The objective and basis of compensation is set out in the NER clause 3.14.6 (c and d):

(c) The objective of the payment of compensation under this clause 3.14.6 is to maintain the incentive for:

- (1) Scheduled Generators, Non-Scheduled Generators and Scheduled Network Service Providers to supply energy;*
- (2) Ancillary Service Providers to supply ancillary services;*
- (3) Market Participants with scheduled load to consume energy; and*
- (4) Demand Response Service Providers to supply wholesale demand response,*

during price limit events.

(d) The amount of compensation payable in respect of a claim under this clause 3.14.6 must be based on direct costs and opportunity costs.

¹ <https://www.aemc.gov.au/sites/default/files/2023-09/AEMC%20APC%20Draft%20opportunity%20cost%20methodologies%2020230914-wcover%20%282%29.pdf>

The objective here “is to maintain the incentive”. Failure to do so through unsatisfactory application of the rules is only likely to result in adverse outcomes.

In the AEC’s view, it is critical that participants have confidence in the integrity of how the compensation arrangements will be applied when required. In the absence of this, the incentive for participants to provide services during price limited events is reduced. If this reduction is to such an extent as to create a disincentive in that participants have no confidence in being fully compensated for their genuine opportunity costs, the functioning of the market may be unnecessarily impaired during price limited events. If this lack of confidence results from the approach to opportunity cost claims, the NEO is not satisfied.:

- It is critical that the ex-ante expectations of market participants around compensation are consistent with the ex-post reality of how compensation claims are processed.
- Any change in approach will adversely affect the incentives for market participants when the next event occurs in the future.
- The information asymmetry between the AEMC and market participants on how compensation claims will be processed, and in particular, how opportunity costs will be calculated across diverse generation types, could also give rise to incentive problems for generators. There could be a role for clearer guidelines, with worked examples of acceptable compensation claims to be published to help address this risk.
- Going forward, market participants need to have an expectation they will be made whole.

Questions about this submission should be addressed to either David Feeney or Peter Brook, by email david.feeney@energycouncil.com.au or peter.brook@energycouncil.com.au.

Yours sincerely,

David Feeney
GM, Wholesale and Environment
Australian Energy Council

Peter Brook
Wholesale Policy Manager
Australian Energy Council