AEMC

INFORMATION

Compensation arrangements following administered pricing

Final rule on COAG Energy Council rule change request

The AEMC has today made a final rule determination to change the compensation arrangements following the application of an administered price cap or administered floor price. The final rule improves the way eligibility for compensation is determined and the overall compensation process.

The rule change request

On 17 October 2013, the COAG Energy Council made a request to the AEMC to amend provisions in the National Electricity Rules (NER) relating to compensation arrangements following the application of administered price cap or an administered floor price.

The rule change proposed a number of amendments to address issues with the current compensation arrangements during an administered price period. It proposed to amend the purpose of compensation, introduce a new process for determining which parties are eligible to claim compensation, change the way in which the AEMC assesses compensation claims and change the way in which AEMO recovers the cost of compensation from market customers.

The amendments in the rule change request originate from AEMC recommendations to the COAG Energy Council in the AEMC's 2013 Review of Compensation Arrangements following an Administered Price, Market Price Cap or Market Floor Price.

Final rule

The key features of the final rule are:

- to introduce new eligibility criteria such that participants can claim compensation over the eligibility period, instead of individual trading intervals. This should reduce the incentive for generators to cycle units on and off in a specific trading interval and improve the reliability and security of the electricity system during an administered price period;
- to amend the purpose of compensation such that the only objective relates to reliability and security of supply during an administered price period, as opposed to also having a purpose of compensation relating to encouraging investment;
- to include eligibility for ancillary service providers to make a claim for compensation following the application of an administered price period;
- to improve the flexibility, efficiency and transparency of the compensation claim assessment process. This includes providing the AEMC with flexibility as to when it uses expert assistance. This specific change is additional to what the rule change proposed; and
- to amend the process by which compensation costs are recovered from consumers to improve certainty.

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The final rule is expected to improve the reliability and security of the electricity system during administered price periods and improve the flexibility, efficiency and transparency of the compensation claim assessment process.

Compensation guidelines to be amended before commencement of new rule

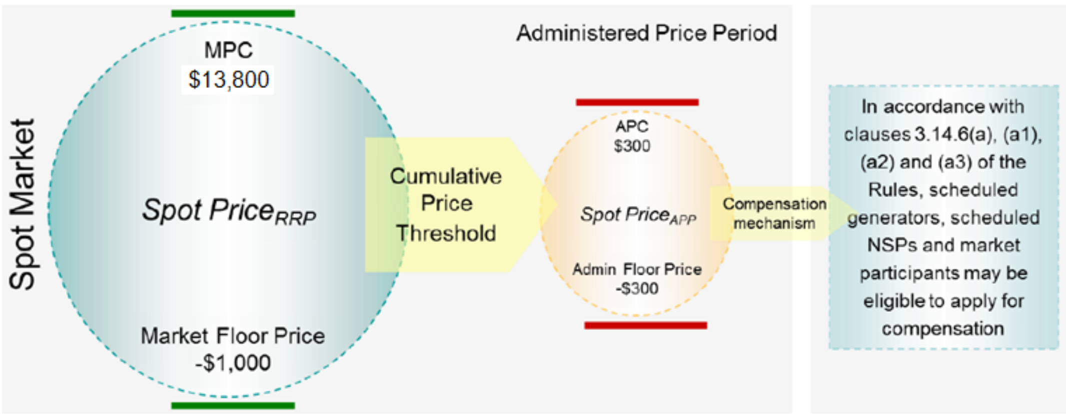
The Compensation Guidelines are made and amended by the AEMC, and are separate to the NER. The purpose of the Compensation Guidelines is to support the operation of the NER by describing how compensation is to be determined by the AEMC if a claim is made by an eligible party following an administered price cap or administered floor price.

As a result of making the final rule, certain aspects of the Compensation Guidelines as currently drafted will no longer be appropriate and additional matters will need to be covered. The Compensation Guidelines will therefore need to be amended before the final rule commences. In amending the Compensation Guidelines, the AEMC must follow a set process, which includes stakeholder consultation, as set out in the NER.

The final rule includes transitional rules to provide for eight months for the Compensation Guidelines to be amended prior to the commencement of the final rule. The final rule will therefore commence on 29 September 2016.

Background

Wholesale spot prices in the National Electricity Market are able to vary within a range of minus $1,000 to $13,800 per MWh. This allows market participants the potential to earn a return on assets, and provides a framework within which investment signals can be provided. Persistent high or low prices can create risk for participants which could impact the stability of the market. To limit this variation, at times of extreme prices an administered price cap and/or administered price floor can be applied. This occurs if the rolling sum of energy or ancillary services prices over a period of 7 days breaches the cumulative price threshold, as shown in the figure below.



The potential for market participants such as generators – particularly those with high costs – to incur a loss during these administered price periods may create a disincentive for them to supply energy or ancillary services. This could in turn have a negative impact on the reliability and/or security of the electricity system. To minimise these disincentives, the NER allows participants to claim compensation where they incur a loss during administered price periods. The AEMC manages this compensation process.

Administered price periods occur rarely. Until September 2015, there had only been five administered price periods in the history of the NEM, which were all triggered in the market for energy and therefore applied in both the market for energy and markets for ancillary services. In October 2015, the first ever application of an administered price limit event in a market for ancillary services occurred. Over October and November 2015, there were a total of 16 administered price periods in the NEM, which all applied only in markets for ancillary services and not the market for energy. There has only ever been one claim for compensation arising from such a period.

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