



Thursday, 26 September 2024

Australian Energy Market Commission  
Level 15, 60 Castlereagh Street  
Sydney, 2000, NSW

### **EPR0095 Review into electricity compensation frameworks**

Dear Mr Meares,

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia, representing nearly 1,000 of the leading businesses operating in renewable energy, energy storage, and renewable hydrogen. The CEC is committed to accelerating the decarbonisation of Australia's energy system as rapidly as possible while maintaining a secure and reliable supply of electricity for customers.

We welcome the opportunity to comment on the Draft Review Report into electricity compensation frameworks.

We are generally supportive of the AEMC's work in this review. The inclusion of opportunity costs applied across all three compensation frameworks, together with one point of contact for market proponents will improve the administrative element of compensation payments. This will also bring clarity to industry and simplify the requirements of the claiming process.

The CEC supports the inclusion of direct costs across all three compensation frameworks and amending the NER to include a single list of claimable direct costs. We also favour the expansion of direct costs to include:

- **energy input costs** incurred during the relevant eligibility periods
- **operating and maintenance costs directly attributed to the operation** of the generator to provide services during the relevant eligibility periods
- **wear and tear directly attributed to the operation** of the generator during the relevant trading intervals
- **other costs incurred** operating during the intervention

The inclusion of opportunity costs is a significant improvement from the previous form of the compensation frameworks. Consideration of each technologies' opportunity costs will incentivise participation and claimants will be accurately assessed and compensated. We consider that the recommendations will improve market participants confidence.

While most of what is being proposed represents a marked improvement, the CEC considers the review should give further consideration as to how generators can be effectively compensated and incentivised to respond to market signals in all situations.

We encourage AEMC to consider the implications for generators and energy storage assets that are constrained-on by AEMO and how these assets are compensated. This remains a credible risk for many of our members and will increase costs of investment in assets such as energy storage, which are particularly critical at this point in the energy transition.

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## Constrained-on generators

The AEMC has advised there will be no changes in automatic compensation for constrained-on generators<sup>1</sup>. The CEC understands that this decision is based on the assumption the Improving security frameworks (ISF) rule change is already set to deal with issues regarding the frequency of directions.

The CEC recommends the AEMC reconsider this position. The inappropriate use of constraints for managing FCAS and minimum system load requirements is likely to disproportionately impact energy storage operators. This issue mains a credible risk for many storage investors and developers, who are seeking reassurance that there will be fewer instances of artificially over-riding market signals.

AEMO is required to ensure the power system is stable, reliable and secure. It has a range of tools at its disposal, one of which is to direct market participant to comply with certain dispatch instructions. We agree that the ISF rule change restores the use of directions as a last resort mechanism. However, we are concerned that energy storage may be constrained on in certain circumstances. We have seen the potential for this to occur through the current discussions regarding management of minimum system load requirements.

There are general concerns within industry that AEMO may use constraints instead of directions, when intervening in market dispatch. Most recently, this arose as a potential tool that AEMO was considering using to ensure BESS assets were first discharged, held at minimum state of charge and then charged, to manage minimum system load.<sup>2</sup>

Storage operators consider closely their opportunity cost. Losing the ability to make decisions around charging and discharging cycles could have serious consequence on the investment signals for these assets.

CEC members have also advised there have been previous instances when AEMO has used generic constraints to reduce generator output or non-scheduled and scheduled load

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<sup>1</sup> *The Commission's draft position is that no changes are made to the NER regarding constrained-on generators. The Commission considers that issues regarding the frequency of directions are likely to be addressed through the ISF rule change.<sup>48</sup> Furthermore, the Commission's intention is that these new frameworks are the primary mechanism for the management of system security moving forward – page 23 Draft report Review into electricity compensation frameworks*

<sup>2</sup> While AEMO appear to have moved away from their original stated intent to constrain on BESS to manage minimum system load, the potential for this kind of intervention creates marked risk of highly distortionary impacts on the market.

consumption to manage FCAS procurement levels. Constraints were not meant to be used this way, and this is likely to lead to unintended consequences.

A generator is compensated when directions are issued but not when a network constraint is imposed during NEMDE dispatch. We consider that addressing this issue would result in better outcomes for consumers by reducing risk premiums attached to new investment and more generally ensuring the continued investment in energy storage assets, which are critical to maintaining reliability and security of the transitioning power system.

Given this market review has set out to correct potential perverse market outcomes that result from inadequate compensation for generators, we consider this issue should be addressed within this review.

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## Other considerations

The CEC is in favour of upfront payments for directions to be calculated based on the volume-weighted average price (VWAP) by technology type. This is an appropriate and trusted calculation. VWAP calculation should exclude any periods when a generator is under directions or honouring an essential system service contract.

The AEMC could also further investigate the most accurate way of capturing energy storage by different technologies, including whether the most accurate method is to consider batteries as a separate technology type to hydro power. This granularity may or may not yield difference, but we suggest this question be put to industry.

For claiming opportunity costs, similar consideration should be given as the upfront costs, particularly how different energy storage technologies assess opportunity costs. For conventional hydro power intervention is more problematic as it relates to how contracts are honoured.

We consider that some of the recommendations are low effort and can be implemented quickly, while others will require extensive industry consultation, i.e. the opportunity cost methodology. However, implementation should be fast-tracked where possible.

AEMC should also understand the separation requirement needs between AEMO and the independent experts to ensure there is a high degree of confidence in how claims are assessed.

The CEC welcomes further engagement with the AEMC as this review continues around the opportunity cost guidelines and VWAP calculation consultation progresses. Further queries can be directed to Ana Spataru at the CEC on [aspataru@cleanenergycouncil.org.au](mailto:aspataru@cleanenergycouncil.org.au).

Kind regards

Christiaan Zuur  
Director, Market, Investment and Grid