



**Additional compensation claims arising
from AEMO directions during billing weeks
1 to 4, 2022
DRAFT DETERMINATION**

An independent expert report for AEMO

13 May 2022

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1 Introduction

Synergies Economic Consulting (Synergies) was appointed by the Australian Energy Market Operator (AEMO) as an independent expert to determine additional compensation claims for a *directed participant* under clause 3.15.7B of the National Electricity Rules (NER) in relation to billing weeks 1 to 4 in 2022.

AEMO is required by the NER to use reasonable endeavours to complete all obligations, including final settlement, no later than 30 weeks after the end of the Direction(s). For the *directions* relating to billing weeks 1 to 4, the intervention timetable requires that a draft independent expert determination be delivered no later than 13 May 2022 and a final determination by 11 July 2022. This will allow AEMO to complete the intervention settlement process by the required deadline of 28 July 2022, 4 August 2022, 11 August 2022, and 18 August 2022 for *directions* occurring during billing weeks 1 to 4.

In accordance with the Intervention Settlement Timetable, Synergies is issuing this draft determination on 13 May 2022.

1.1 Structure of the report

In the remainder of this report, we set out the basis for our draft determination regarding additional compensation claims resulting from these directions under the NER, as follows:

- Section 2 summarises the circumstances of the *directions* and the additional compensation claim provisions of clause 3.15.7B relevant to the Claim;
- Section 3 provides details of the *directions* made and initial compensation amount determined;
- Section 4 provides an overview of the additional compensation amount claimed by the directed participant as a result of the *directions*;
- Sections 5 and 6 provides our analysis of the reasonableness of the additional compensation amount under the Claim; and
- Section 7 provides our draft determination.

2 Claims under clause 3.15.7B

This section summarises the circumstances of the *directions* and sets out the additional compensation claim provisions of clause 3.15.7B relevant to the Claims.

2.1 Basis of the *directions*

Section 116 of the NEL and clause 4.8.9 of the NER establish that AEMO may direct a *Registered Participant* to take relevant actions to maintain or restore the security or reliability of the power system.

During billing weeks 1 to 4 in 2022, AEMO issued several *directions* (refer to Table 1 below) to a South Australian *market participant* to maintain the system in a secure operating state. In response, this *market participant* modified the operations of their generating units.

Table 1 Summary of directions

Directed unit	Issue time	Effective date/time	End date/time	Reason
Unit 3	01/01/2022 15:30	02/01/2022 07:00	02/01/2022 15:00	System strength
Unit 1	01/01/2022 21:45	02/01/2022 07:00	03/01/2022 05:00	System strength
Unit 2	02/01/2022 17:00	03/01/2022 06:30	03/01/2022 23:00	System strength
Unit 1	21/01/2022 15:00	22/01/2022 02:00	23/01/2022 15:30	System strength
Unit 2	21/01/2022 13:00	22/01/2022 03:00	22/01/2022 15:30	System strength
Unit 2	22/01/2022 14:00	22/01/2022 23:30	23/01/2022 14:30	System strength
Unit 1	28/01/2022 16:00	29/01/2022 01:30	29/01/2022 17:45	System strength
Unit 2	28/01/2022 16:00	29/01/2022 08:30	29/01/2022 16:00	System strength

Source: AEMO.

As a result of the operational responses to the *directions*, the *directed participant* incurred costs and is entitled to compensation under clause 3.15.7 of the NER, which sets out compensation based upon:

- the amount of the relevant market service which the *directed participant* has been enabled to provide in response to the *direction*; and
- the 90th percentile price of the relevant market service over the preceding 12 months.

In line with the Intervention Settlement Timetable, AEMO calculated *directed participant* compensation and notified the *directed participant* of the compensation payable under clause 3.15.7.

In addition to the additional compensation claims set out in the tables below, other claims were also made due to the *directions*. However, they were not assessed as part of

this determination as any claims under \$20,000 are not required to be assessed by an independent expert under clause 3.12.2(1)(2) of the NER.

2.1.1 Managing system strength

Following changes to the NER in 2017¹, the South Australian region faces system strength issues (i.e., adequate fault currents) that are being and/or will be principally managed by:

- AEMO identifying fault level shortfalls at critical nodes in the network;
- Transmission Network Service Providers (TNSPs) performing the role of system strength service provider, with responsibility to procure system strength services, including from scheduled generators, to address fault level shortfalls as determined by AEMO; and
- AEMO directing specific scheduled generators to synchronise or remain online where necessary to ensure adequate system strength is maintained.

While these arrangements may in time prove sufficient to ensure system strength requirements are met in the future, the process of TNSPs procuring system strength services remains ongoing². In the meantime, AEMO has been ensuring adequate fault levels are maintained by applying operational procedures regarding permissible combinations of generators. Where the optimal supply solution determined by the NEM dispatch engine (NEMDE) is inconsistent with these permissible combinations, AEMO overrides the solution and directs specific generators to take actions to ensure the permissible combination of generators is operating.

2.2 Clause 3.15.7

AEMO must compensate each *directed participant* for the provision of energy or market ancillary services pursuant to a *direction* to be determined in accordance with the following formula:

$$DCP = AMP * DQ$$

Where:

¹ AEMC (2017) *National Electricity Amendment (Managing power system fault levels) Rule 2017*, 19 September.

² For instance, in South Australia, ElectraNet installed two synchronous condensers at Davenport substation and two at Robertstown substation, all operational from October 2021. See <https://www.electranet.com.au/strength-reliability-boost-to-south-australias-electricity-network/>

- DCP is the amount of compensation the *directed participant* is entitled to receive.³
- AMP is the price below which are 90% of the spot prices or ancillary service prices (as the case may be) for the relevant service provided by Scheduled Generators, Semi-Scheduled Generators, Scheduled Network Service Providers or Market Customers in the region to which the direction relates, for the 12 months immediately preceding the trading day in which the *direction* was issued.

DQ is either:

- (a) the difference between the total adjusted gross energy delivered or consumed by the *directed participant* and the total adjusted gross energy that would have been delivered or consumed by the *directed participant* had the *direction* not been issued; or
- (b) the amount of the relevant market ancillary service which the *directed participant* has been enabled to provide in response to the *direction*.

2.3 Clause 3.15.7B(a)

A *directed participant* that is entitled to compensation under clause 3.15.7 and 3.15.7A of the NER may make a claim for additional compensation under clause 3.15.7B, which confines compensation (under clause 3.15.7B (a)) to:

1. the aggregate of the loss of revenue and additional net direct costs incurred by the *directed participant* in respect of a scheduled generating unit, semi-scheduled generating unit or scheduled network services, as the case may be, as a result of the provision of the service under direction; less
2. the amount notified to that *directed participant* pursuant to clause 3.15.7(c) or clause 3.15.7A(f); less
3. the aggregate amount the *directed participant* is entitled to receive in accordance with clause 3.15.6(c) for the provision of a service rendered as a result of the direction.

In broad terms, clause 3.15.7B (a) entitles a *directed participant* to claim additional compensation to cover loss of revenue and net direct costs minus *trading amounts* for energy and *market ancillary services* and minus any compensation for directed services that has already been determined by AEMO.

³ DCP is calculated in accordance with NER Clause 3.15.7(c).

The *directed participant* in this case has made a claim for compensation for additional net direct costs pursuant to clause 3.15.7B (a)(1) arising from its response to *directions* issued during billing weeks 1 to 4 in 2022.

3 The directions and initial compensation

3.1 The Claim *directions*

AEMO issued the following *directions* commencing 1 January and ending 28 January 2022.

Table 2 AEMO's *directions* to the Claimant

Directed unit	Event Number	Issued date/time	Effective date/time	End date/time	Reason
Unit 3	60-1	01/01/2022 15:30	02/01/2022 07:00	02/01/2022 15:00	System strength
Unit 1	60-3	01/01/2022 21:45	02/01/2022 07:00	03/01/2022 05:00	System strength
Unit 2	60-4	02/01/2022 17:00	03/01/2022 06:30	03/01/2022 23:00	System strength
Unit 1	67-1	21/01/2022 15:00	22/01/2022 02:00	23/01/2022 15:30	System strength
Unit 2	67-2	21/01/2022 13:00	22/01/2022 03:00	22/01/2022 15:30	System strength
Unit 2	67-3	22/01/2022 14:00	22/01/2022 23:30	23/01/2022 14:30	System strength
Unit 1	68-1	28/01/2022 16:00	29/01/2022 01:30	29/01/2022 17:45	System strength
Unit 2	68-2	28/01/2022 16:00	29/01/2022 08:30	29/01/2022 16:00	System strength

Source: AEMO

3.1.1 Initial compensation

In accordance with the above NER provisions, AEMO calculated settlement compensation for the above *directions* as summarised in Table 3.

Table 3 AEMO's settlement compensation amounts

Directed unit	Event number	Issued date/time	Compensation entitlement (DCP)	Retained trading amounts (RTA)	Initial settlement compensation (DCP – RTA)
Unit 3	60-1	01/01/2022 15:30	\$32,317	\$6,238	\$26,079
Unit 1	60-3	01/01/2022 21:45	\$84,525	\$27,503	\$57,022
Unit 2	60-4	02/01/2022 17:00	\$64,376	-\$9,832	\$74,208
Unit 1	67-1	21/01/2022 15:00	\$149,717	\$53,203	\$96,514
Unit 2	67-2	21/01/2022 13:00	\$48,369	\$6,821	\$41,548
Unit 2	67-3	22/01/2022 14:00	\$59,141	\$21,982	\$37,159
Unit 1	68-1	28/01/2022 16:00	\$74,987	\$13,238	\$61,749
Unit 2	68-2	28/01/2022 16:00	\$29,973	-\$6,322	\$36,295

Source: AEMO

The amount of compensation a *directed participant* is entitled to receive (DCP) is calculated in accordance with Clause 3.15.7(c) of the NER. The Retained Trading Amount (RTA) is calculated in accordance with Clause 3.15.6(b) for the additional energy produced, which would have been included in the settlement amount indicated in the Preliminary Billing statement. Since invoices are issued weekly and the

intervention period spanned four billing weeks, the compensation calculations for all units are presented for each relevant billing week.

Initial settlement compensation is determined as DCP minus RTA and included in the Final Billing statement.

4 Claims for additional compensation

This section analyses the reasonableness of the Claim and sets out Synergies' draft position on each component of claimed costs.

4.1 Additional compensation in respect of the Claim

The Claimant has submitted the following claims for additional compensation for the *directions* received during billing weeks 1 to 4 in 2022.

Table 4 Summary of additional compensation claim estimates for the Claim

Directed unit	Event number	Direction date/time	Gas fuel cost (1)	FCAS (2)	Start cost (3)	Variable operating & maintenance (4)	Cost of Direction (COD) (1+2+3+4)	Compensation entitlement (DCP)	Add. comp amount (COD – DCP)
Unit 3	60-1	01/01/2022 15:30	\$54,764	-\$100	\$0	\$5,823	\$60,487	\$32,317	\$28,170
Unit 1	60-3	01/01/2022 21:45	\$141,625	-\$100	\$0	\$16,013	\$157,538	\$84,525	\$73,012
Unit 2	60-4	02/01/2022 17:00	\$109,238	-\$100	\$0	\$12,010	\$121,147	\$64,376	\$56,772
Unit 1	67-1	21/01/2022 15:00	\$241,447	-\$100	\$0	\$27,295	\$268,642	\$149,717	\$118,925
Unit 2	67-2	21/01/2022 13:00	\$80,945	-\$100	\$14,123	\$9,098	\$104,066	\$48,369	\$55,697
Unit 2	67-3	22/01/2022 14:00	\$99,545	-\$100	\$17,725	\$10,918	\$128,088	\$59,141	\$68,947
Unit 1	68-1	28/01/2022 16:00	\$118,140	-\$100	\$0	\$11,828	\$129,868	\$74,987	\$54,880
Unit 2	68-2	28/01/2022 16:00	\$48,587	-\$100	\$18,812	\$5,459	\$72,758	\$29,973	\$42,785
Total additional compensation claimed			\$894,292	-\$800	\$50,660	\$98,442	\$1,042,594	\$543,405	\$499,189

Source: The Claimant.

5 Synergies' assessment regarding the Claim

This section analyses the reasonableness of the Claim and sets out Synergies' draft position on each component of claimed costs.

5.1 Gas cost

The following method was applied by the Claimant to calculate the additional gas fuel costs for each of the *directions*:

- The volume of gas used by the directed unit during the *direction* was calculated by taking the directed megawatts of electrical production by that unit (supported by dispatch data) and applying the relevant heat rate⁴ to convert to gigajoules per hour;
 - this provides the gas consumed by the directed unit per hour (divided by twelve to derive per trading interval consumption).
- The gas used was sourced from one gas supply contract with the corresponding price applied to gas transported through two different pipelines (Moomba to Adelaide Pipeline System and SEA Gas Pipeline).⁵
 - Explanation for the approach taken to sourcing gas to meet these *directions* was provided by the Claimant and as such, has been accepted.
 - The gas supply contract price was supported by a copy of the confidential invoice from the relevant gas producer.

Converting the directed megawatts to gas gigajoules using an appropriate relevant heat rate for the direct unit provides an accurate calculation of gas consumed. However, there was a minor calculation error in the application of the heat rate formula, whereby the brackets and the unit-conversion factor in the Excel formula were slightly misplaced. These were amended by Synergies and have caused a very minor difference in the allowed gas fuel costs.

Based on the evidence provided and the method applied, Synergies accepts the gas fuel cost claimed due to the *directions* in this draft determination, with a slight modification due to the minor Excel formula issue.

⁴ Heat rate is one measure of the efficiency of electrical generators/powers that convert a fuel into heat and into electricity. The heat rate is the amount of energy used by an electrical generator/power plant to generate one kilowatt hour (kWh) of electricity.

⁵ The Claimant is not claiming additional gas transportation costs in relation to these *directions*.

5.2 Variable operating and maintenance (VOM) costs

The Claimant's method to calculate the VOM costs was as follows:

- A per 30-minute trading interval VOM cost was calculated based on a historical VOM cost estimate, which was then adjusted for inflation by using an annual inflation rate of 2.5%.
- The VOM rate was applied to every trading interval that each generating unit was operating under AEMO's *direction*.
- However, the Excel model provided by the Claimant had not been updated since the NEM switched from 30-minute to five-minute settlement periods, and as such applied a VOM cost that was calculated on a per-30-minute basis to every five-minute trading interval
 - This overstated the VOM costs by a factor of six
 - As such, Synergies has adjusted the VOM costs significantly downwards from what was claimed to reflect the move to five-minute settlement periods.

The VOM unit values were otherwise supported by a confidential report provided by the Claimant.

The VOM costs identified by the Claimant relate to the operating and maintenance costs driven by the hours of operation of the plant. VOM costs can only be considered avoidable costs (i.e., costs incurred due to the *directions*) if there is clear evidence that the generating units would have been off-line but for the *directions*. The need for the *directions* arose from AEMO's consideration of forecasts of plant dispatch based on forecast demand and the prices that generation was being bid in future periods. As per previous similar determinations, Synergies is satisfied that the directed generating units would not have been in operation during the directed periods but for the *directions*.

We have adjusted the VOM costs for all *directions* due to the trading interval issue noted above but have otherwise accepted the premise of the calculations. These have been reasonably substantiated for this draft determination, including with supporting documentation.

5.3 Start Costs

Start costs were claimed for Unit 2 for directions received on 21st, 22nd and 28th of January 2022.

The Claimant's method for calculating the start costs is as follows:

- The Claimant identified the start as following a period off-line of 36 hours duration.
- The Claimant then took a historical estimate of the cost of a 'cold' start and adjusted the estimate for inflation by using an approximate annual inflation rate of 2.5%.
- To derive the final start cost, the cost of electricity for internal loads (priced at the average market price over the start-up period) was added to the cost of gas fuel to heat the generator (using the same \$/GJ price as that which was claimed for the gas fuel costs).

The costs were supported by confidential data provided by the Claimant.

Synergies accepts the start cost estimates in this claim for additional compensation.

5.4 Frequency Control Ancillary Services (FCAS)

The Claimant had originally claimed a hard-coded -\$100 cost per *direction* attributable to FCAS costs. This was identified and confirmed as an error, and Synergies has adjusted the formulas in the Claimant's Excel model to reflect the following method, which has previously been followed by the Claimant.⁶

- The Claimant first determines the total liability of the power station in respect of contingency FCAS Raise services for the relevant time during the gas day of the *direction*.
- The Claimant then determines the contribution of the directed units to the total power station output during the relevant period.
- Next, the generating unit's proportional share of power station output was multiplied by the power station's total FCAS Raise liability for each relevant interval on the gas day.
- Finally, this value was summed for the period.

The Claimant's supporting evidence shows workings and detailed FCAS cost assumptions for the power station provided by AEMO.

Synergies has verified this data by reviewing the calculations and FCAS Raise unit costs provided by AEMO. As such, after updating the Excel model regarding the hardcoding error, Synergies accepts the FCAS costs claimed for this draft determination.

⁶ The costs recovered from the Claimant in respect of contingency raise costs, allocated in accordance with the FCAS causer pays formulation.

5.5 Claim results

The Claimant's additional costs to comply with the *directions* are as claimed in the additional compensation claim and, on this basis, the Claimant is entitled to additional compensation of **\$417,021** as set out in the following tables.

Table 5 Unit 3 (Event 60-1, 1 January 2022) additional compensation allowed

Item	Costs claimed	Synergies' determination	Difference
Gas fuel cost	\$54,764	\$54,629	-\$135
FCAS	-\$100	\$117	\$217
Start cost	\$0	\$0	\$0
VOM	\$5,823	\$970	-\$4,852
Cost of Direction (COD)	\$60,487	\$55,717	-\$4,770
Compensation entitlement (DCP)	\$32,317	\$32,317	\$0
Additional compensation amount (COD-DCP)	\$28,170	\$23,400	-\$4,770

Source: Claimant, Synergies.

Table 6 Unit 1 (Event 60-3, 01/01/2022) additional compensation allowed

Item	Costs claimed	Synergies' determination	Difference
Gas fuel cost	\$141,625	\$141,433	-\$192
FCAS	-\$100	\$772	\$872
Start cost	\$0	\$0	\$0
VOM	\$16,013	\$2,669	-\$13,344
Cost of Direction (COD)	\$157,538	\$144,873	-\$12,665
Compensation entitlement (DCP)	\$84,525	\$84,525	\$0
Additional compensation amount (COD-DCP)	\$73,012	\$60,348	-\$12,665

Source: Claimant, Synergies.

Table 7 Unit 2 (Event 60-4, 02/01/2022) additional compensation allowed

Item	Costs claimed	Synergies' determination	Difference
Gas fuel cost	\$109,238	\$108,731	-\$507
FCAS	-\$100	\$240	\$340
Start cost	\$0	\$0	\$0
VOM	\$12,010	\$2,002	-\$10,008
Cost of Direction (COD)	\$121,147	\$110,973	-\$10,174
Compensation entitlement (DCP)	\$64,376	\$64,376	\$0
Additional compensation amount (COD-DCP)	\$56,772	\$46,597	-\$10,174

Source: Claimant, Synergies.

Table 8 Unit 1 (Event 67-1, 21/01/2022) additional compensation allowed

Item	Costs claimed	Synergies' determination	Difference
Gas fuel cost	\$241,447	\$241,120	-\$328
FCAS	-\$100	\$212	\$312
Start cost	\$0	\$0	\$0
VOM	\$27,295	\$4,549	-\$22,745
Cost of Direction (COD)	\$268,642	\$245,881	-\$22,761
Compensation entitlement (DCP)	\$149,717	\$149,717	\$0
Additional compensation amount (COD-DCP)	\$118,925	\$96,164	-\$22,761

Source: Claimant, Synergies.

Table 9 Unit 2 (Event 67-2, 21/01/2022) additional compensation allowed

Item	Costs claimed	Synergies' determination	Difference
Gas fuel cost	\$80,945	\$80,571	-\$373
FCAS	-\$100	\$70	\$170
Start cost	\$14,123	\$14,123	\$0
VOM	\$9,098	\$1,516	-\$7,582
Cost of Direction (COD)	\$104,066	\$96,281	-\$7,785
Compensation entitlement (DCP)	\$48,369	\$48,369	\$0
Additional compensation amount (COD-DCP)	\$55,697	\$47,912	-\$7,785

Source: Claimant, Synergies.

Table 10 Unit 2 (Event 67-3, 22/01/2022) additional compensation allowed

Item	Costs claimed	Synergies' determination	Difference
Gas fuel cost	\$99,545	\$99,077	-\$468
FCAS	-\$100	\$68	\$168
Start cost	\$17,725	\$17,725	\$0
VOM	\$10,918	\$1,820	-\$9,098
Cost of Direction (COD)	\$128,088	\$118,690	-\$9,398
Compensation entitlement (DCP)	\$59,141	\$59,141	\$0
Additional compensation amount (COD-DCP)	\$68,947	\$59,549	-\$9,398

Source: Claimant, Synergies.

Table 11 Unit 1 (Event 68-1, 28/01/2022) additional compensation allowed

Item	Costs claimed	Synergies' determination	Difference
Gas fuel cost	\$118,140	\$117,896	-\$244
FCAS	-\$100	\$39	\$139
Start cost	\$0	\$0	\$0
VOM	\$11,828	\$1,971	-\$9,856
Cost of Direction (COD)	\$129,868	\$119,906	-\$9,961

Item	Costs claimed	Synergies' determination	Difference
Compensation entitlement (DCP)	\$74,987	\$74,987	\$0
Additional compensation amount (COD-DCP)	\$54,880	\$44,919	-\$9,961

Source: Claimant, Synergies.

Table 12 Unit 2 (Event 68-2, 28/01/2022) additional compensation allowed

Item	Costs claimed	Synergies' determination	Difference
Gas fuel cost	\$48,587	\$48,366	-\$221
FCAS	-\$100	\$18	\$118
Start cost	\$18,812	\$18,812	\$0
VOM	\$5,459	\$910	-\$4,549
Cost of Direction (COD)	\$72,758	\$68,105	-\$4,653
Compensation entitlement (DCP)	\$29,973	\$29,973	\$0
Additional compensation amount (COD-DCP)	\$42,785	\$38,132	-\$4,653

Source: Claimant, Synergies.

5.5.1 Summary of claim determination

A summary of our determination regarding each category of claimed costs is presented in Table 13 below.

Table 13 Summary of additional compensation claim estimates for the Claim

Item	Costs claimed	Synergies' draft determination	Difference
Gas fuel	\$894,292	\$891,823	-\$2,468
FCAS	-\$800	\$1,536	\$2,336
Start costs	\$50,660	\$50,660	\$0
VOM	\$98,442	\$16,407	-\$82,035
Cost of Direction (COD)	\$1,042,594	\$960,426	-\$82,168
Compensation entitlement (DCP)	\$543,405	\$543,405	\$0
Additional compensation amount (COD-DCP)	\$499,189	\$417,021	-\$82,168

Source: Claimant, Synergies.

6 Conclusion

In this draft determination, Synergies concludes:

- The Claimant's costs to comply with the *directions* have been accepted subject to adjustments we have made to the claimed gas fuel, FCAS and VOM costs and, on this basis, it is entitled to additional compensation of **\$417,021**.

The *directed participant* has been informed of the draft determination outcome, our reasons, and the amount of additional compensation accepted.