

1 September 2022

Ms Anna Collyer  
Chair  
Australian Energy Market Commission

By electronic lodgement at: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Ms Collyer

**Amending the Administered Price Cap Rule Change (ERC0347)**

Aurora Energy welcomes the opportunity to provide feedback on the Australian Energy Market Commission's (AEMC) Consultation Paper on the proposed National Electricity Amendment (Amending the Administered Price Cap) Rule (the Rule Change Request).

Aurora Energy's comments on the Rule Change Request are provided at Annexure 1 using the stakeholder feedback template provided by the AEMC.

Should you have any questions regarding this submission, please contact Corinna Woolford, Strategic Policy Lead at [corinna.woolford@auroraenergy.com.au](mailto:corinna.woolford@auroraenergy.com.au).

Yours sincerely

A handwritten signature in black ink, appearing to read "Oliver Cousland".

Oliver Cousland  
Company Secretary/General Counsel

# Amending the administered price cap rule change

## STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in the consultation paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

### SUBMITTER DETAILS

**ORGANISATION:** Aurora Energy

**CONTACT NAME:** Corinna Woolford

**EMAIL:** corinna.woolford@auroraenergy.com.au

**PHONE:** 0447 859 301

**DATE** 1 September 2022

### PROJECT DETAILS

**NAME OF RULE CHANGE:** Amending the administered price cap

**PROJECT CODE:** ERC0347

**PROPONENT:** Alinta Energy

**SUBMISSION DUE DATE:** 1 September 2022

### CHAPTER 4 – ASSESSMENT CRITERIA

a. Is the proposed assessment framework appropriate for considering the proponent's rule change request?	No comment
b. Are there any other relevant considerations that should be included in the assessment framework?	No comment

### CHAPTER 6 – ISSUES FOR CONSULTATION: PROBLEM STATEMENT

1. Has the problem been appropriately identified? For example, is the current level	No comment
---	------------

of the APC, owing to the recently increased cost of generation, the principal problem or a key contributing factor?	
2. Is there a risk that a failure to address the problem identified would have a significant negative economic impact and be inconsistent with the long-term interests of consumers?	No comment
3. Does the rule change address the problem?	No comment
4. Is the rule change the best solution to the problem? Are there other solutions that would better solve the problem over the timeframe considered?	No comment

## CHAPTER 6 – ISSUES FOR CONSULTATION: PROPOSED SOLUTION

5. Is Alinta's proposed amendment to the APC rule appropriate to address the problem?	No comment
6. Given current commodity prices, what level of APC is appropriate to enable the normal market operation and settlement under an APP?	No comment

<p>7. What is the impact of such a change likely to be on generator and retailer risks borne in participating in the market?</p>	<ul style="list-style-type: none"> <li>• Aurora Energy is unaware of any generators that became insolvent as a result of the events leading up to and during the market suspension in June 2022. Conversely, a number of smaller retailers became insolvent or financially constrained as a result of those events, highlighting the hedging risk to these non-generation backed retailers.</li> <li>• Aurora Energy considers that the proposed change to the APC may have the unintended consequence of increasing returns to generators at an even higher cost to smaller retailers. In effect this will reduce market risks for generators and increase risks for retailers who are likely to be significantly constrained in their ability to pass higher hedging costs to customers. Reasons for this include: <ul style="list-style-type: none"> <li>○ During periods of market stress (during which the incidence of the APC being triggered is higher), it is likely that many retailers will have insufficient hedge contract cover. A higher price cap would increase the costs to smaller, non-generation backed retailers that do not have the benefit of higher generation revenue to offset these losses.</li> <li>○ Generators that may be subject to higher financial exposure from a change to the ACP may utilise “change of law” terms to terminate existing cap contracts or seek re-opening prices to increase the cap price or strike. This increase in cap contract prices would likely also be reflected in swap contracts.</li> <li>○ Retailers may have to hedge more at a higher price given the greater price risk associated with a \$600/MWh APC, thus increasing costs to retailers and customers.</li> <li>○ As the change is being put in place to ensure generators can recover increased marginal costs, given the downstream impacts to retailers from higher hedging costs or exposure to spot prices, the AEMC may want to consider similar measures for retailers that allow for the pass through of these higher costs to customers.</li> </ul> </li> </ul>
<p>8. How might the APC change to accommodate different commodity price assumptions?</p>	<p>No comment</p>
<p>9. What are alternative options for amending the level of APC. Options could include, for example, different levels of APC for different technologies, different values in each region, values that change by time of day, linkages between the electricity APC and the gas APC?</p>	<p>No comment</p>

10. Is there any consequential need for a change to the CPT resulting from a temporary change to the level of APC?	<p>Aurora Energy considers that no change should be made to the CPT.</p> <ul style="list-style-type: none"> <li>• An increase to the CPT would place further cost pressures on smaller retailers who rely on financial instruments to manage risks.</li> <li>• Spot prices would likely be higher for longer if the CPT is increased.</li> <li>• As forward contracts are a market view of expected spot price outcomes, it could be argued that forward contract prices would be higher than they otherwise would be, adding further costs to retailer and customers.</li> </ul>
11. Should the calculation of the CPT be different during the APP?	No comment
12. Is there a more appropriate method of triggering the APC?	No comment
13. Should a temporary change to the level of the APC consider the interaction between the gas APC and electricity APC?	No comment

## CHAPTER 6 – ISSUES FOR CONSULTATION: TIMEFRAME OF APPLICATION OF PROPOSED RULE

14. What is an appropriate temporary timeframe for application? Considering the factors that require the rule change to be made including commodity price changes?	Aurora Energy supports a temporary timeframe such as that proposed in the Rule Change Request. A lengthy or indefinite timeframe would have significant “change of law” implications for derivative contracts and therefore prices.
15. What consideration should be made of changes and the timing of changes to be introduced by the Reliability Panel?	No comment
16. How should a temporary change in the level of APC accommodate changes to commodity prices during its application?	No comment
17. What are the consequences for the retail and contract markets from one-off or sequential changes to APC?	No comment
18. Should there be a mechanism to ensure that the APC is dynamic and indexed with an appropriate commodity price?	No comment

## CHAPTER 6 – ISSUES FOR CONSULTATION: BENEFITS AND IMPACTS

### Security and reliability

19. What is the likely impact of a temporary change in APC on security and reliability through	No comment
--	------------

APP periods and through the avoidance of market suspension? What would be the likely impact of a temporary change in the CPT?	
---	--

#### Cost of Energy

20. Would a temporary change to the level of APC likely reduce costs to market participants over the timeframe applied? Should temporary changes to the level of CTP be considered?	Refer responses to Question 7 & Question 10.
21. Would a change to APC increase or reduce the wholesale cost of energy during APP periods? Should a change to the CPT be considered?	No comment

#### Contract market and financial requirements

22. What is the likely impact of a temporary change in the level of APC on ASX exchange traded contracts, OTC contracts and any other electricity contract products. In relation to existing contract clauses, the effectiveness of these products in addressing retailer risk, and the value of fixed price contract instruments? What would be the impact of a change to the CPT?	Refer response to Question 7.
23. What is the likely impact of a temporary change in APC on retailer credit support requirements? What would be the likely impact of a temporary change in the CPT?	No comment
24. What is the likely impact of a temporary change in APC on NEM bank guarantees and security deposits to support trading? What would be the likely impact of a temporary change in the CPT?	No comment
25. What costs are imposed by the imposition of a temporary change, on a market setting that is normally unchanging?	No comment