



1 September 2022

Ms Anna Collyer
Chair
AEMC

Lodged via the AEMC website

Dear Ms Collyer,

Submission for National Electricity Amendment (amending the administered price cap) Rule consultation paper

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent over 1,000 of the leading businesses operating in renewable energy, energy storage and renewable hydrogen. We are committed to accelerating Australia's clean energy transformation. In particular, we are focussed on developing regulatory frameworks to support efficient investment in the large number of new renewable generation and storage projects that are needed to deliver secure, reliable and zero emissions energy for consumers.

The CEC welcomes the opportunity to comment the National Electricity Amendment (Amending the administered price cap) Rule consultation paper (the paper).

As outlined in the paper, the Administered Price Cap (APC) is intended to 'balance the consequence of high spot prices during extreme market events', while incentivising generators to supply electricity during administered price periods (APPs).¹ The June market suspension highlighted that the APC cannot fulfill this task, and from this we agree that a specific review of this market setting is pertinent to avoid a repeat market failure.

As Alinta Energy stated in their rule change request, changes to the settings need to occur promptly, to ensure normal market operations can be maintained while long-term consumer interests are met.² However, we must be wary in taking short term action without maintaining a focus on the long term reforms needed to avoid repeated energy crises.

The CEC therefore considers there is a need to reform the reliability standard and settings, in order to support efficient investment in the correct mix of resources to maintain a reliable energy supply. In our response to the AEMC Reliability Panel's Reliability Standards and Settings Review (RSSR) paper earlier this year, we therefore supported the Panel's assessment of the changing physical reliability risk profile of the National Electricity Market (NEM). We also supported the Panel's indicative position

¹ AEMC, *National Electricity Amendment (Amending the administered price cap) rule consultation paper*, p. 13

² AEMC, *National Electricity Amendment (Amending the administered price cap) rule consultation paper*, p. i

that the MPC and CPT would need to be increased, and that the form of the Reliability Standard should be properly reassessed to take account of changing reliability risk drivers.

Changes to the APC in the short and medium term

The CEC considers that an increase to the level of the APC is necessary to ensure ongoing efficient operational outcomes in the NEM. This is necessary in both the short timescales considered in the rule change request, but also over the medium to longer term.

The current APC level has not been readjusted since market commencement and as the recent energy crisis demonstrated, may now be well below the short-run marginal costs (SRMC) of many generating and storage systems during energy shortfall periods. This means there is no ability for pricing to be used to ration energy. An increased APC, if set carefully, will go some way to alleviating this issue, and will allow the market to allocate resources more efficiently during crisis periods.³

It's acknowledged that a rapid and substantial increase in the APC could exacerbate financial risks for some participants. However, there is no reason to expect that existing risk hedging mechanisms cannot be adopted by retailers to manage this risk.

However, the AEMC must ensure there is sufficient consideration to the impact this urgent change would have on supply side participants who have entered into cap contracts. To this effect AEMC should think about ways to implement or otherwise adjust the increased APC, to limit consequences for these parties.

The CEC considers the APC value proposed by Alinta may form a sensible stop gap, however we also support the AEMC testing this further through whatever analysis can be undertaken in the short timeframes of an urgent rule change. More importantly, the AEMC or Reliability Panel must undertake the more detailed analysis to reassess what the APC value should be in the medium to long term.

A key concern we see with the proposed rule change is the inclusion of the sunset clause after 12 months of implementation. While it's sensible to place time limits on emergency measures as proposed by Alinta, these measures must be complemented by long term reform to provide certainty and stability.

Specifically, the Reliability Panel has stated that the level of the APC at \$300/MWh likely remains appropriate for the period 1 July 2025 to 30 June 2028. It follows that if the 12 month sunset period proposed in the rule change occurs, then we will see a return to a potentially inappropriate APC until the conclusion of this period.

We therefore encourage the AEMC and the Reliability Panel to give adequate consideration to permanent changes to the level of the APC, and how this can be efficiently coordinated with the short term action proposed in the rule change request. These permanent changes should occur either through the Reliability Panel's current review of the reliability standards and settings, or through a Panel self-initiated review to be commenced as soon as is practicable after the current review

³ The CEC notes that this issue might also be addressed through changes to the overarching compensation / emergency operational frameworks that come into play during a period of administered pricing. However, we note that the urgency of the issue at hand suggests the simpler approach of raising the APC may represent a more practical solution in the short term.

concludes. This should occur in tandem with the deeper work we call for below, looking into the form of the reliability standard and the level of the MPC and CPT.

Reliability risk profile

While changes to the level of the APC may go some way to addressing urgent problems in the NEM, it remains critical that the AEMC and Reliability Panel properly consider deeper reliability challenges.

As the CEC has pointed out in multiple submissions to the AEMC, the Reliability Panel and the ESB, the underlying nature of reliability at risk periods is changing in the NEM. This in turn necessitates deeper changes to the fundamental settings of the NEM, particularly the form of the reliability standard and the 'price envelope' defined by the MPC and CPT.

In particular, reconsideration of the form of the reliability standard is crucial. As the Panel has identified, allowing for consideration of 'tail risk' through the form of the standard would in turn allow for better consideration of sustained energy shortfall periods and associated reliability risks. A changed standard would likely flow through into a reconsideration of the market price settings, particularly the level of the CPT. This is the key setting that must be adjusted, to drive the investment in energy storage needed to address future energy crises.

These deeper considerations must be prioritised by the AEMC, Reliability Panel and the ESB. The APC is an emergency measure, and while changes to its level are necessary, this alone cannot address the deeper challenges that we saw play out in June 2022. The Reliability Panel must therefore either complete the excellent work it commenced in its recent draft report for the reliability standard and settings review, or it must be tasked (or self-initiate) a more fulsome review into the form of the reliability standard and CPT as soon as is practicable.

We appreciate the Commissions consideration of the above, and if you would like to discuss any of the issues raised in this submission further, please contact Morgan Rossiter on mrossiter@cleanenergycouncil.org.au.

Yours sincerely,

Christiaan Zuur
Director Energy Transformation