

26 August 2022

Australian Energy Market Commission

Submitted online: <https://www.aemc.gov.au/contact-us/lodge-submission>

Submission to consultation paper for ERC0347 – Amending the Administered Price Cap

Dear Mr Oakeshott

Delta Electricity (Delta) welcomes the opportunity to respond to the AEMC's consultation paper on Amending the Administered Price Cap (APC). Delta is generally supportive of the rule change request and supports increasing the APC.

Delta notes that this rule change was prompted after the events of June 2022 that saw the NEM enter administered pricing and then market suspension. During this period market prices were below the marginal cost of some generators and AEMO intervened in the market to manage power system reliability.

Delta agrees that adjusting the APC setting at a time of high primary fuel costs is likely to result in less disruption to the market during future market stress events. However, it should be noted that an increase in the APC will also increase market risk and the setting of the APC needs to strike the right balance between market efficiency and market risk. Delta supports temporarily increasing the APC given prevailing market conditions, whilst a separate process considers a suitable long-term solution.

Assessment framework

The proposed assessment framework is comprehensive. Delta notes that the scope of this rule change is for a temporary solution:

- to reduce the chance of the events of June 2022 happening again in the short term; and
- for other processes, such as the Reliability Standards and Settings Review (RSSR), to establish a permanent solution to the issues raised.

Delta suggests that the assessment framework could be streamlined to focus on the primary objectives of the rule change request, which are to:

- promote the safety, security and reliability of the power system;
- minimise regulatory and administrative burden for administered price periods and reduce the risk of market suspension events; and
- minimise costs and impacts on participants and customers.

What is the problem the rule change is trying to solve?

Alinta Energy appropriately identifies the problem to be that the current APC may not reflect the short run marginal cost for some generators in the NEM. Delta agrees that failing to address this issue may result in a repeat of the events that occurred in June 2022.



In addition, providing greater transparency and certainty around the APC compensation process would also improve market confidence and reduce the risk of repeating the June 2022 market events. However, the AEMC is still processing claims from this event and the outcomes from these claims may not be known for some time. Therefore, noting these limitations, Delta considers a temporary increase in the APC is appropriate at this time.

What is an appropriate level of APC?

The consultation paper and discussion at the public forum highlighted that considering changing the APC is complex and has the potential to not only impact on generator bids and availability but it may also impact on the contract market and the risk profile for retailers.

Delta notes the purpose of an APC is to protect market participants (retailers and generators) from sustained periods of high prices. However, the existing APC was insufficient and resulted in the market being suspended. Delta considers that Alinta's proposal of doubling the APC to \$600/MWh appears entirely reasonable given recent increased fuel costs and had this been the setting in June market suspension would likely have been avoided. The AEMC should continue its analysis with a starting point of the APC, at a minimum, covering the short-run marginal cost of the next lowest cost unit of generation at peak demand.

Delta does support the consideration of a dynamic APC that could be indexed off the highest fuel cost, or a link established between the electricity and gas APCs, but notes this may be better considered as a permanent solution under the RSSR.

Delta does not support an approach that would have different APCs for different technologies or fuel sources, by region, or by time of day. These approaches appear too complex to consider under the expedited timeframe and may also contradict the National Electricity Objective (NEO).

What is an appropriate temporary level of CPT?

The Reliability Panel has performed extensive analysis on the cumulative price threshold (CPT) and its interactions with the Market Price Cap (MPC). The 2022 RSSR Draft Report included analysis by the Intelligent Energy Systems (IES) that showed a materially significant misalignment between the existing MPC and CPT. The Reliability Panel indicated in the draft report that it is likely to make a final recommendation on the CPT in the range of between 7.5 hours of MPC (the existing setting) and 12 hours of MPC.

Delta suggests the AEMC use the Reliability Panel's work to inform what level an efficient CPT should be set at. Given the relationship between the CPT and MPC, the CPT can be set relatively independent from a temporary change to the APC.

Should the calculation of the CPT be different during the APP?

The calculation of the CPT should be amended.

Currently AEMO uses dispatch prices and the Regional Original Price (ROP) to calculate the cumulative price. The ROP and Regional Reference Price (RRP) are typically the same when the market is not under administered prices so dispatch and settled prices are not discrepant under normal conditions. However, when a region that is not under an APC but is



exporting electricity to a region that is under an APC, the ROP is still used for dispatch but the RRP is scaled down as per NER clause 3.14.2(e)(2). That is, a region's CPT can be breached even though those higher prices causing the breach have not been realised in settlement.

Delta understands the reason for clause 3.14.2(e)(2) is to manage negative settlement residues on interconnectors and does not consider at this stage the rule needs to change. However, it is critical that during these periods generators are compensated for these forgone revenues because:

- the efficient operation of the energy-only market is dependent on generators being able to receive higher prices, up to the CPT, as incentive for being available during high demand periods; and
- new and existing generation have and continue to use the market price settings as a signal to invest. If this signal is dampened, investors will likely be more hesitant to invest and more conservative in their business case assessments.

In addition, if generators are not compensated for this outcome this may drive inefficient behavior by generators to increase their prices creating a 'race to the CPT' among regions, to ensure their region receives the maximum allowable revenues in settlement before an adjoining region's CPT is triggered.

This rule change provides an opportunity to amend the rules to ensure a more efficient and equitable market design for calculating how the CPT is reached, regardless if other regions have already reached their CPT.

Delta considers the efficiency of the market and dispatch signals would be significantly improved if the RRP is used to calculate the cumulative price prior to a region reaching the CPT, then once under an APC, the cumulative price could be calculated using the ROP. This approach would ensure:

- prior to reaching the CPT generators would be able to achieve prices up to the intended threshold, allowing investors to have full confidence and certainty that prices allowed for by the reliability settings will be achieved; and
- after the CPT is reached the underlying dispatch bids are used to calculate when the cumulative price drops below the threshold. This would continue to give AEMO confidence that the underlying drivers of high prices that caused the breach of the CPT have subsided when it removes the APC.

For what period should a new APC and CPT apply?

For simplicity and least disruption to the market any temporary changes to the APC and CPT should apply up until the implementation of the recommendations from the 2022 review of the RSSR, which is currently indicated as 1 July 2025.

This would minimise the number of times the reliability settings change over a relatively short period of time and provide more consistent and clear signals to the market.



What are the likely benefits and costs from the proposed rule?

Delta agrees with Alinta Energy's assessment that a temporary increase in the APC would provide a net benefit to the market. Delta considers an APC that better reflects the direct costs of a marginal generator would:

- reduce the amount of intervention and directions needed to maintain a secure and reliable power system during administered pricing periods, which would also likely avoid the need for AEMO to suspend the electricity spot market again; and
- reduce the costs, and administration and regulatory burden on participants and market bodies associated with the various compensation processes.

Delta acknowledges increasing the APC may have some impact on the contract market. However, given the rarity of the market being administered, the availability and pricing of swaps and caps should not be significantly impacted. These lower order impacts are not expected to outweigh the significant costs and impacts on the market if the status quo is maintained.

To discuss the content of this submission please contact Joel Aulbury, Regulation and Strategy Manager, at joel.aulbury@de.com.au.

Yours sincerely

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