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Ms Anna Collyer
Mr Charles Popple
Ms Michelle Shepherd

Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

EnergyAustralia Pty Ltd
ABN 99 086 014 968

Level 19
Two Melbourne Quarter
697 Collins Street
Docklands Victoria 3008

Phone +61 3 8628 1000
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au
energyaustralia.com.au

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Dear Commissioners

**Amending the Administered Price Cap — Consultation paper — 4 August 2022**

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 4,500MW of generation capacity.

The recent market suspension has damaged the credibility of the sector and action must be taken to ensure it is not repeated. While some supply-side issues have eased in recent weeks, the underlying high fuel prices that contributed to the recent crisis still persist.

We support reconsidering the appropriate level of the administered price cap (APC) in light of prevailing fuel prices, and note the current $300/MWh was set in such a manner in 2008 but has not changed since.

Raising the APC, however, may be a partial and potentially inadequate response to the type of risks that materialised and ultimately contributed to the recent market suspension. While the APC can be increased under an expedited process and be in place for the upcoming summer supply period, other changes may be required around the monitoring and management of fuel limits. Some such changes are contemplated in the 12 August communique from energy ministers, including winter readiness assessments and other functions for AEMO. The Commission therefore has an important role in communicating the reasons for and effect of this rule change, which could be taken as narrowly focusing on accommodating generators' costs and bidding behaviour. Media reporting at the time of market suspension inappropriately attributed blame to generators, who were in fact acting in close concert with AEMO to maintain supply on behalf of customers, and in the face of various uncontrollable factors.

As highlighted in section 5.1.1 of AEMO's recent suspension report[1], several power stations were operating within tight and unpredictable energy limits in the lead up to the cumulative price threshold (CPT) being breached. Supply-side limits are reached frequently in energy markets, leading to short periods of scarcity pricing above short-run

[1] nem-market-suspension-and-operational-challenges-in-june-2022.pdf (aemo.com.au)

marginal cost (SRMC), providing a signal for new or alternative supply sources as well as inter-temporal rationing. Re-basing the APC on the basis of prevailing SRMCs may not address a situation where a significant number of generators face fuel scarcity and price on the basis of opportunity cost i.e. the prospect of even tighter conditions or load shedding in the foreseeable future. The Commission's intent appears to be that raising the APC would discourage generator withdrawals during administered price events thus reducing energy scarcity and scarcity pricing, and it should clarify whether and how the risk of pricing in relation to fuel limits should be addressed.

As the Commission notes, its objective is not to set the APC high enough that it captures all generator costs but rather that compensation claims are minimised. The Commission should explore the extent to which administration of the compensation process contributed to generators choosing to bid unavailable during the recent crisis, particularly their ability to claim opportunity costs and not just direct costs. We note that compensation claims are still being assessed and once completed, participants may also have more confidence in this process if it is to be repeated.

With respect to underlying fuel costs, Alinta's proposed $600/MWh value seems to be generally substantiated by the Commission's analysis. It may wish to update its modelling to reflect recent gas pricing for 2023 of around $60 or $70/GJ in line with the ACCC's netback benchmark.[2] It is questionable, however, whether there would be any or enough transactions at this price to affect generator pricing, given it exceeds administered price caps in the STTM/DWGM of $40/GJ, and there are limited prospects of recovering the cost of gas generation on the back of these input costs. These considerations would be relevant if the Commission were considering a dynamic APC that is pegged to gas commodity prices.

Observations of bidding behaviour and price outcomes immediately after market suspension was lifted may inform appropriate adjustments to the APC. There is some evidence that the market was able to resume orderly functions on the back of tight supply conditions with price outcomes between $300/MWh and $600/MWh. However, high prices in Queensland between the 5th and 7th July saw the market come close to hitting the CPT again, which may have had effects in other regions and a repeat of market dysfunction.

We do not consider there is necessarily a case for adjusting the CPT if the APC is raised. We accept that higher underlying SRMCs due to coal and gas fuel costs will erode the headroom under the CPT, making triggers for administered pricing more likely. This should not be an issue, however, given the primary objective here is to set the APC high enough to ensure orderly bidding during any administered price period. If the proposed APC of $600/MWh is deemed sufficient, this would be materially below the current CPT trigger of $694/MWh when averaged over seven days. We accept that the CPT may need adjustment if the Commission considered that an APC of over $700/MWh were necessary to capture bids and ensure generator availability.

In a similar vein, any moves to raise the price caps in the STTM/DWGM above $40/GJ would have flow-on effects into pricing of gas generation and the necessary APC in the electricity market. Raising the APC in the electricity market may inadvertently encourage

[2] https://www.accc.gov.au/regulated-infrastructure/energy/gas-inquiry-2017-2025/lng-netback-price-series

gas producers to push for higher negotiated gas contract prices if they see gas generators are more able to pass on higher costs.

Finally, in terms of contract market impacts, the Commission should ideally provide as much forewarning of changes to price settings as possible. This should be balanced against the risk of recent events recurring sooner, for example, if supply is constrained heading into the current summer period, or risks are more likely to arise in the following winter period. We also urge the Commission to not make a temporary change to the APC as per the rule change proposal. Any raising of the APC as part of this rule change should be enduring and also apply for the 2025-28 period, thereafter being subject to review by the Reliability Panel under normal processes. Any temporary change to price settings may have unintended consequences in contract markets, with participants pricing in higher risk, with flow-on impacts for customers.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

**Lawrence Irlam**
Regulatory Affairs Lead