The Hon Tom Koutsantonis MP

Government
of South Australia

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22MEM2598

Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
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Dear Ms Collyer

Thank you for the opportunity to make a submission to the *Amending the administered price cap* rule change proposal consultation paper.

The Energy and Technical Regulation Division (the Division) within the Department for Energy and Mining (DEM) supports the rule change proposed by Alinta Energy to temporarily amend the administered price cap (APC) to mitigate against ongoing risks to the reliability and security of the National Electricity Market (NEM).

The Division acknowledges that the APC and corresponding cumulative price threshold (CPT) have led to broadly efficient market outcomes since their original setting in 2008. However, recent extreme and unforeseen generation input cost rises have led to short run marginal costs (SRMCs) being pushed above the envelope where these settings provide effective market signals.

The Division regards that global commodity market volatility, domestic fuel shortages, and ongoing risks of high prices in the short to medium term mean that the APC is now below a level that allow generators to recover their costs without requiring compensation. While the Division is aware that a modestly higher APC may lead to greater financial risks for generators and risks of additional costs for consumers, this concern is outweighed by the potential for a persistent need for generator compensation. The costs of such compensation fall on retailers, is unhedgeable and therefore is passed onto consumers.

Additionally, the Division considers that other benefits from raising the APC include:

- a reduced likelihood of the need for Australian Energy Market Operator (AEMO) directions for generators to deliver energy
- incentivising capacity to remain available and bid according to SRMC
- reducing the likelihood of further disruptive market suspensions.

The Division also notes that short term increases in retail prices because of the implementation of this rule change are unlikely, reflecting the extensive use of contracts by NEM retailers as a way of hedging against high spot prices. This contrasts with a heightened risk of retailers passing through higher prices to consumers as a result of compensation payments during administered pricing periods.

While the Division is aware that input costs make up only a portion of SRMCs, a temporary increase of the APC from a level of $300/MWh to $600/MWh is broadly supported by the Division based on the rate of input fuel cost inflation since 2008. The Australian Bureau of Statistics' Producer Price Index indicates compound annual average growth in electricity input costs of around 5 per cent since 2008 leading to the current APC of $300/MWh being equivalent to $592/MWh in today's dollars.[1] The Division considers that the urgent need to preserve short term energy market security and reliability, supported by the results of the scenario analysis already undertaken by the AEMC in the consultation paper indicate that an APC of $600/MWh is reasonable.

While acknowledging that this is beyond the scope of this rule change, the Division encourages a broader and deeper structural assessment of the interaction between market settings. As part of the submission to the AEMC Reliability Panel's *2022 Reliability Standard and Settings Review draft report* in July 2022, the Division noted the need for "...a more flexible framework that allows for...adjustments in the APC in the event of unforeseen extreme market disruptions that would otherwise result in the market ceasing to operate as intended.".

Thank you again for the opportunity to make a submission. If you have any further queries, please contact Mr Mark Pedler on (08) 8429 3361

Yours sincerely

Tom Koutsantonis

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[1] Australian Bureau of Statistics, Cat. No. 6427.0 Producer Price Indexes, Australia, June 2022, Table 13, accessed 17 August 2022