Mr Craig Oakeshott
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000

Lodged through online portal

13 October 2022

Dear Ms Oakeshott,

Amending the Administered Price Cap

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission's Directions Paper on Amending the Administered Price Cap.

The ENGIE Group is a global operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to over 740,000 customers.

If the AEMC is so minded to make an out of sequence change to the APC, this should occur in a way which minimises impacts on contract holders and allows market participants time to adjust their positions.

Market participants require reasonable certainty to enter into contractual positions in future years. The reliability settings have been one area of the energy landscape which have, until now, not been subject to short term changes with variable impacts. ENGIE has concerns a rapid change, without appropriate time to manage implementation, would set a particularly bad precedent.

With this in mind, it is preferable that should a change occur now, that change remains in place until the end of the next reliability settings period and not be changed again in 2025.

Should you have any queries in relation to this submission please do not hesitate to contact me.

Yours sincerely,

Jamie Lowe
Head of Regulation,
Compliance and Sustainability

AEMC

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:	ENGIE Australia and New Zealand
CONTACT NAME:	Jamie Lowe
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DATE	13 October 2022

PROJECT DETAILS

NAME OF RULE CHANGE:	**Amending the administered price cap**
PROJECT CODE:	**ERC0347**
PROPONENT:	**Alinta Energy**
SUBMISSION DUE DATE:	**13 October 2022**

CHAPTER 3 – TEMPORARY LEVEL OF APC

1. Do you agree that the proposed temporary level of $600/MWh would facilitate improved market operation and greater security and reliability during an APP?	ENGIE understands the rationale outlined in the directions paper; however, this needs to be balanced against the impacts of such a rapid change.
2. Would a level greater than or less than $600/MWh facilitate improved market operation security and reliability during an APP? Where different, please provide reasons for your answer?	It is unclear how this reconciles with the Commission's implicit endorsement of the Reliability Panel's recommendation to apply a $500/MWh APC from 1 July 2025. If a change is to be implemented now then it should be consistent with the Reliability Panel recommendation to minimise disruption to the market.

CHAPTER 3 – LEVEL OF THE CPT

3. Do you agree that the level and escalation methodology of the CPT should remain unchanged in this rule change?	ENGIE has made numerous submissions over the years about methods for better setting the CPT. While change is warranted, hasty change is not desirable.
4. Do you agree that any changes to the method of calculation of the cumulative price, is a matter best left to the Reliability Panel?	See answer to question 3 above.

CHAPTER 3 – TIMEFRAME OF APC

5. Do you agree that the proposed temporary level of \$600/MWh should apply until 1 July 2025?	No. ENGIE has significant concerns with the proposed timeframes of changes to the APC. The implementation date needs to allow enough time for market participants to adjust their contract position to meet their risk management requirements without distorting the contract market. For dispatchable generators this may require them to seek \$600 caps or other new and emerging financial instruments to avoid adverse financial exposure under an APP where they may be energy-constrained (a likely scenario if the market is in an APP environment). A very short window between the final decision and the implementation of a new APC would not allow sufficient time for multiple generators to adjust their contract position, given they are likely to have very similar needs in terms of new contracts. Dispatchable generators are essential to the reliability and security of the NEM, yet their financial position has been repeatedly undermined by government policy interventions over recent years. It's critical that the Commission takes a more careful approach than governments have done to date to fostering a sustainable market environment for generators, specifically including avoiding imposing shocks on them such as a rushed implementation of a new APC. Retailers are also likely to need some time to work through their hedging position. Competition means that they operate in a very dynamic environment and hedging is not as simple as covering a predictable, fixed load shape. Meanwhile, retailers (franchise retailers at least) are constrained on the revenue side by price caps and regulatory preference for a generous approach to customer debt management. Further systemic pressure on retailers is also important to avoid, especially as retailer failure requires another retailer to take on their customers' load at short notice. Retail market dysfunction in the UK has resulted not only in millions of customers being switched to a new retailer as their old retailer failed, but also one large retailer (Bulb Energy) having to be taken onto government's books and underwritten by taxpayers. With the critical importance of these matters in mind, **ENGIE considers that a period of 18 months is the minimum adequate time period for market participants to adjust to a doubling of the APC.** For simplicity, it may then be preferable to set the start date for the new APC to 1 July

	2024. The secondary issue is the Commission's apparent preference that its chosen level of APC be superseded by the Reliability Panel's recommended level of $500/MWh. ENGIE does not consider this is an internally consistent position. Either $600/MWh is the right choice (when assessed against the NEO) to apply as soon as practicable, in which case there is nothing that is expected to fundamentally change by 1 July 2025 to make a lower figure better. Or, if the Reliability Panel's analysis is superior, then their preferred level of $500 should also be applied as soon as practicable. In any case, it is not conducive to market confidence and stability to have the APC apply at one level for a short period before being changed again.
6. Is there any other period of application of a temporary level of APC that would be more appropriate? If so, please provide reasons for your answer.	The temporary APC should apply from 1 July 2024 (as discussed above) to 30 June 2028. The start date is the earliest that allows adequate time for market participants to adjust their hedging positions to accommodate the new APC. The end date is consistent with the Reliability Panel's recommendation for the time frame of a new APC.

CHAPTER 3 – IMPACTS

7. Do you agree that the impact of a change on the level of the APC for a temporary time period will have a relatively minor impact on the contract market based on observed price levels during June 2022's events?	The Commission argues that the impact on contract prices from a higher APC is expected to be limited. This includes that the additional cap payout would increase by less than $1/MWh on average across the NEM. Some important points need to be made in response to the AEMC's position. First, the impact will not be spread across the NEM evenly but instead will disproportionately impact the same participants whose products are crucial to ensuring market liquidity. How this impacts fuel-constrained generators does not seem to have been deeply considered by the AEMC in its haste to reach a conclusion which supports an increase to the APC. Second, by what measure is the $1/MWh reference point considered acceptable? Is this the new standard by which changes to other market settings should be assessed for temporary or rapid change? Finally, ENGIE is considered there is an over reliance on compensation arrangements managing shortfalls or impacts in the future at a time when existing compensation processes have not been concluded. If the AEMC believes these costs that will be placed on specific market participants are outweighed by the purported benefits, then it should state so plainly.
8. Is this a fair reflection of the likely impact on the contract market of any change? Should any other factors be considered?	See answer to question 7 above. If the implementation date allows adequate time for market participants to adjust their hedging positions, as recommended in our answer to question 5, then the longer-term impact on the contract market is likely to be minor.
9. Do you agree that the impact of a change on retailer and end user costs is likely to be positive, provided retailers and end users are adequately	Providing that the implementation date allows adequate time for market participants to adjust their hedging positions, then ENGIE agrees that the impact on retailers and end users is likely to be positive because of the reduction in expected unhedgeable compensation.

hedged? If not, please state reasons for your answer?	However, if the implementation date does not allow adequate time for retailers (and end users) to adjust their hedges then it could expose them to additional risks unnecessarily. This may in turn have implications for costs to end users who rely on retailers to manage their energy market risk on their behalf.

OTHER COMMENTS

10. Information on additional issues	N/a