Anna Collyer
Chair, Australian Energy Market Commission
Level 15, 60 Castlereagh St
Sydney NSW 2000

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26 October 2023

Dear Ms Collyer,

**Amendment of the Market Price Cap, cumulative Price Threshold and Administered Price Cap, Draft rule determination**

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission ("the Commission") in response to the Draft rule determination on the Amendment of the Market Price Cap, Cumulative Price Threshold and Administered Price Cap "the Draft determination".

The ENGIE Group is a global energy 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 retail customer accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

**Market developments require an increase in the value of these key reliability settings**

ENGIE has long been of the view that the Market Price Cap (MPC) and Cumulative Price Threshold (CPT) have been set a level lower than is required to ensure the market functions effectively. The MPC, for example, is considerably lower than the value customers place on reliability. A further indication that the MPC is on the low side is the increasing use of reliability reserves, typically at a cost per MWh higher than the MPC, and the growing use of subsidies and intervention to facilitate generation investments.

Accordingly, we welcome the Draft determination to materially increase the MPC and also extend the CPT to the equivalent of 8.5 hours at the MPC (noting that ENGIE has long argued for a formal decoupling of the MPC and CPT and the use of clearly articulated risk-based metrics for the CPT).

While ENGIE considers there is a strong case for these higher values, we recognise that the Commission is basing its decision on the outcomes of the Reliability Panel's extensive review of reliability settings. With this in mind we are supportive of the Draft determination on these parameters.

Similarly, we have previously argued the case for an increase (i.e., a less negative) floor price, but recognise that the Draft determination does not to change this parameter, which is also in line with the Reliability Panel's recommendations.

The only parameter where the Commission has taken a different perspective to the Reliability Panel is to maintain the value of the APC at $600/MWh rather than the Panel's proposal of $500/MWh. This is logical given the Commission has only recently made the new rule to increase it from $300, and this rule change process overlapped with the Reliability Panel's review.

ENGIE considers that this outcome is preferable to the Panel's recommendation, although we note that the Commission's analysis indicates that a nominal $600 could well fall to $500 in real terms within five years, and we would support indexation of this parameter using the same methodology as for the MPC.

**Other considerations**

ENGIE welcomes the advice from Houston Kemp that the Draft determination is compatible with jurisdictional schemes to support generation and storage investment. The advice clarifies that these schemes in general implicitly rely on appropriate market settings rather than supersede them, which is useful given stakeholder concerns expressed earlier in this process.

Nevertheless, ENGIE also considers that the Commission needs to take care that the existence of jurisdictional policy does not unduly influence its decisions and that it continues to prioritise achieving the best possible market settings regardless of which jurisdictional policies are in place. Market settings should inform policy interventions not the other way round.

Regrettably such policies rarely reciprocate by taking explicit account of how they interact with existing market design, nor is there any attempt to harmonise across the NEM. Policies can also change abruptly and do not always achieve their stated goals. For example, the former Commonwealth Government policy Underwriting New Generation Investment (UNGI) did not result in any new projects being built but loomed large over the industry for many years with expectations it could lead to potentially large asset developments.

The one policy that is consistent across jurisdictions is the interim reliability measure (IRM) which requires AEMO to target a higher level of reliability than the reliability settings set out in the Draft Determination are designed to achieve. So, if the Commission considered it had to give further weight to jurisdictional policy it would also be appropriate to include this policy, which would drive even higher values for the MPC and CPT.

ENGIE agrees with the approach taken by the Commission to evaluating how the Draft determination supports the achievement of the new emissions leg of the electricity objective. In the case of changes to rules affecting the operation of the wholesale market, the energy transition - and thus emissions reduction - is best supported by selecting the most effective wholesale market settings. If the Commission continues to target the appropriate level of reliability and security at the most efficient cost, this will assist in maintaining stakeholder support for the transition.

Such an approach should take priority over concerns whether alternative market settings might temporarily produce different generation mixes and attempting to determine which is the lowest emissions intensity. Such analysis is unlikely to be robust over the longer term and has a tendency to lead to policy makers trying to choose preferred outcomes at points in time instead of ensuring the market is able to self-replicate based on effective operational and investment settings.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0477 299 827.

Yours sincerely,

**Jamie Lowe**
Head of Regulation,
Compliance, and Sustainability