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Dr John Tamblyn
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Dear John

ADMINISTRATIVE PRICE CAP SCHEDULE

Thank you for the opportunity to comment on the AEMC's review of the Schedule for the Administered Price Cap.

Macquarie Generation recognises that the setting of the value of lost load and the cumulative price threshold are the key mechanisms for managing extreme market events that can arise infrequently in the NEM. To this end, Macquarie Generation supports the Reliability Panel's recommendation in the Comprehensive Reliability Review to the value of VoLL in 2010 to $12,500 MWh and to maintain the cumulative price threshold at fifteen times the level of VoLL. Taken together, these mechanisms provide the drivers for new investment and financial hedging while limiting the potential for deep and widespread financial losses.

The administered price cap is part of the safety valve that contains the financial impact for market participants following implementation of the cumulative price threshold. While scheduled generators can seek compensation from retailers and other market customers for losses incurred during an administered price period, the quantum of any compensation is subject to review by an independent panel.[1]

Macquarie Generation considers that the current schedule of administered price caps is unnecessarily low and does not adequately reflect the likely costs incurred by marginal peaking plant operating during periods of sustained high demand and/or limited supply. Macquarie Generation proposes the following schedule for the administered price caps:

- $500/MWh between 7.00 am and 10.00 pm on business days; and
- $100/MWh at other times.

[1] Macquarie Generation intends to prepare a separate response to the recent Energy Australia Rule Change Proposal, *Compensation provisions due to the application of an administered price, VoLL or market floor price.*

The proposed value for the peaking periods is based on the avoidable costs of running gas turbines using liquid fuels. The off-peak value is based on the avoidable costs of running an open cycle gas plant.

The current administered price caps were set at a time when the market was dominated by an oversupply of coal plant that was able to meet demand during a majority of dispatch intervals. Today the market is much more reliant on gas and liquid fuel plant to meet demand particularly during periods of system stress. The marginal costs of operating this plant are significantly higher.

Macquarie Generation considers that its proposed administered price caps would deliver two main benefits:

- It would reduce the likelihood of numerous independent reviews to determine the compensation amounts payable to individual generators whenever the cumulative price threshold is triggered. This would reduce administrative costs and complexity. More importantly, for a peaking plant operator it would reduce the risks that they would not be adequately compensated during these periods thereby increasing the incentive for such operators to make themselves available. These periods are likely to coincide with times of system stress and possible load shedding.

- Retailers would have an incentive to ensure they are adequately hedged up to the value of the proposed administered price cap. Retailers would only be exposed to pay compensation for the difference between the higher administered price cap and any compensation amount awarded in excess of the cap. For a prudently hedged retailer, this should reduce their overall compensation liability and the financial risks of funding such payments.

Macquarie Generation endorses the arguments in the National Generators Forum submission to this review that support the case for a substantial increase in the administered price cap.

Yours faithfully

RUSSELL SKELTON
MANAGER, MARKETING & TRADING

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