

Australian Energy Market Commission
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Lodged online: <http://www.aemc.gov.au/Rule-Changes/Pricing-during-market-suspension>

12 September 2017

Pricing during Market Suspension Rule Change **Reference: ERC0224**

The Australian Energy Council (the Energy Council) welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) on the *Pricing during Market Suspension Consultation Paper*.

The Energy Council is an industry body representing 21 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, and sell gas and electricity to over 10 million homes and businesses.

Discussion

In its consultation the AEMC has sought feedback on a rule change request from the Australian Energy Market Operator (AEMO) to simplify the process of pricing during market suspension. The Energy Council recognises the need for an urgent rule change due to market suspension most likely occurring in extreme conditions where the balance between supply and demand is tight. Considering the possibility of constrained supply in the upcoming summer 2017/18, rule changes which enhance the ability of AEMO to ensure the efficient operation and use of electricity services as set out in the National Electricity Objective are favourable. The Energy Council supports the proposed changes in AEMO's rule change request and believes it works to simplify AEMO's processes in the event of a market suspension.

The removal of two of the four pricing regimes simplifies the procedure for AEMO to price in the event of a market suspension. The current requirements result in a significant level of monitoring and input from AEMO. As the conditions necessitating a market suspension most likely mean the physical system is under stress, AEMO's system operation resources should not be additionally constrained. Additionally, the requirement to move sequentially through these regimes adds complexity to the system and has the possibility of diverting system operating resources away from ensuring the stability of the market.

Furthermore, the Energy Council supports the removal of the neighbouring region pricing and pre-dispatch pricing regimes. In the case of the NEM, there are multiple connections between states. This means the use of a neighbouring region's pricing is an unworkable solution for states such as Victoria or NSW which have multiple neighbouring NEM regions. In the case of using pre-dispatch prices, the market conditions would only result in pre-dispatch pricing levels being relevant for short periods immediately after market suspension. The more protracted the market suspension, the further the accuracy of pre-dispatch prices will be diminished. Considering this, the requirement for AEMO to work through these pricing regimes adds unnecessary complexity with limited benefit.

The Energy Council supports the change that AEMO be allowed to revert to dispatch pricing if practicable to do so. Regular dispatch pricing is necessarily the preferred market outcome. If AEMO

is able to use normal dispatch pricing this will enable the best market outcomes and provide appropriate signals to market participants. Considering that following South Australia's system blackout the market was suspended due to Ministerial Direction from 16:30 on 28 September 2016 to 22:30 on 11 October 2017, there is a precedent for long periods of market suspension, during which regular dispatch pricing could be reinstated by AEMO if allowed.

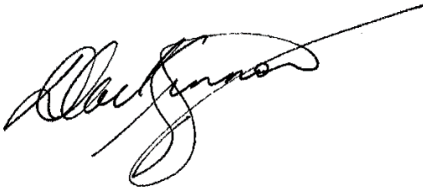
The alignment of price scaling between market suspension periods and other administered prices removes the inconsistency created between regions under market suspension and regions operating normally.

Conclusion

Given that the rule request will simplify the process of pricing during market suspension for AEMO at a time when its resources will inevitably be strained, while providing clearer and more transparent signals to market participants, it has the full support of the Energy Council in its current form.

Should you have any questions in relation to this rule change request please contact Isobel Graham (Policy Adviser), telephone 03 9205 3107 or isobel.graham@energycouncil.com.au.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Duncan MacKinnon', with a long horizontal flourish extending to the right.

Duncan MacKinnon
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