meridian

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Claire Rozyn
Australian Energy Market Commission
PO Box A2449
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Project number: ERC0224

Dear Claire

## Pricing during market suspension

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (MEA Group) are pleased to provide comments to the AEMC in relation to its consultation on AEMO's pricing during market suspension rule change request.

As you are aware, MEA Group is the owner and operator of the Mt Mercer and Mt Millar Wind Farms as well as Powershop Australia, an innovative retailer committed to providing lower prices for customers, which recognizes the benefits for customers of a transition to a more renewable based and distributed energy system.

MEA Group recognises that improvements in the manner in which the market suspension pricing operates are desirable and consistent with the National Electricity Objective (NEO). We have formed this view on the basis that such improvements would:

- remove uncertainty for participants during market suspensions;
- improve AEMO's ability to operate the market;
- send appropriate signals to participants to ensure supply and demand can be balanced efficiently; and
- increase the transparency of the operation of the market.

In response to the particular rule change proposed by AEMO, we have set out answers below to the questions posed by the AEMC in its discussion paper.

| Question | Comment |
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| 1. Is the assessment framework appropriate? | We consider that the assessment framework addresses the appropriate considerations. However, we suggest the relationship between costs and prices is affected by more than savings resulting from greater automation. In particular, as an example, the inability to return to dispatched based pricing limited the capacity of the market to respond efficiently to pricing signals. |
| 2. Is it necessary and/or appropriate to remove the neighbouring-region pricing | We are unsure as to whether the removal of this regime is in the best interests of the market or customers long term interests as |

| Question | | Comment |
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| | regime from the market suspension pricing hierarchy, or are there ways to improve the workability of this pricing regime? | measured against the NEO. The current rule exists so as to best simulate what would happen in the region in the absence of a suspension. A region's price in such a circumstance will be at a minimum capped to the price in the neighbouring region (adjusted for loss factors) as, with an unconstrained interconnector, the adjoining region would be able to set the price to that level. We note AEMO's comment that they currently utilise the interconnector with most headroom where there are multiple adjoining regions but in fact, the appropriate answer would be to identify the region which would set the lowest price. We understand AEMO's concerns about the costs imposed by complexity but we are not in a position, with the limited time available under an urgent rule change request, to assess the balance of those costs against potentially higher prices for customers. |
| 3. | Is it necessary and/or appropriate to remove the pre-dispatch pricing regime from the market suspension hierarchy, or is there merit in this regime being retained in some form, to apply in certain circumstances (for example, in the event of a short suspension)? | We believe there would be value in utilising pre-dispatch pricing for short periods (e.g. in the first hour of any suspension or during particularly short suspensions). This would have the advantage that in the period after entering a market suspension, participants would be aware of likely outcomes and have time to adjust to any new market suspension pricing regime that may apply thereafter. |
| 4. | More broadly, are the benefits associated with removing the neighbouring-region and pre-dispatch pricing regimes likely to outweigh the potential costs associated with reducing the suspension pricing options available to AEMO from four to two, particularly where those options may still provide the best estimate of prices given the most recent market conditions? | As discussed above, we are not in a position to make this judgement. However, given the importance that any rule change must support the NEO, we submit that there is a very high burden of proof on those who suggest that administrative simplicity for participants and AEMO outweighs potentially higher costs for customers. |
| 5. | What might be the reasons for, and/or benefits (if any) of, continuing to declare the market suspended under clause 3.14.3 of the NER in instances where central dispatch and dispatch pricing are operating as normal? On the basis of the above, is it necessary and/or appropriate for dispatch pricing to be included within the market suspension pricing hierarchy? If so, why? If not, why not? | The NER specifically provides that the market will be suspended where any participating jurisdiction has directed AEMO to operate all or part of the power system in a manner contrary to the provisions of the NER after the declaration of a state of emergency. This is a much wider test than merely a direction to suspend the market. For example, a State could direct that certain generators or classes of generators cease operating but otherwise not direct a market suspension. The consequence requiring market suspension for such events is a critical protection under the NER to prevent States from intervening in the market in a manner inconsistent with the NER and the NEO. |
| 6. | Why might the price scaling arrangements for market suspension differ from the price-scaling arrangements applicable to other administered prices? Are the differences justified? If so, why? If not, why not? | MEA Group has not had the time to conduct a detailed analysis of the financial or other consequences of the differing price scaling arrangements. Therefore, we are unable to comment on whether the differences are justified. |
| 7. | What are the implications (if any) of amending the provisions for price scaling during market suspension to refer to | As discussed above, MEA Group has not been able to analyse these issues. |

| Question | Comment |
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| dispatch prices rather than to spot prices? What (if any) financial impact could this have for participants operating in an adjoining region subject to price scaling? | |
| 8. What are the implications (if any) of removing non-regulated interconnectors from the market suspension price scaling arrangements (noting that participants, including MNSPs, are currently not entitled to receive compensation following periods of market suspension[30])? | Although not fully analysed as discussed above, we understand the logic of the position proposed by AEMO. |
| 9. Should the administered pricing provisions apply during periods of market suspension in instances where spot prices before and/or following the declaration of market suspension exceed the CPT? | The administered pricing provisions exist for the protection of customers and the market generally in accordance with the overriding objectives of the NEO. Accordingly, we can see no reason why they would not continue to apply during periods of market suspension. |

In addition to the above comments, we note that the actual form of words used in a rule change can have a significant impact on outcomes for the market and participants. For example, to a large extent, the outcome of the recent dispute in relation to FCAS settlements depended on the interpretation and interaction of various provisions of the NER. We would be concerned if any changes introduced in this rule change could lead to similar confusion in terms of their interaction with themselves or other rules contained in the NER. Again, due to the expedited nature of this rule change request, we have not been able to conduct a thorough review of all such potential interactions. We trust that the AEMC will do so before proceeding to a final determination.

If you have any further questions please feel free to contact me.

Yours sincerely

Ed McManus
Chief Executive Officer
Meridian Energy Australia Pty Ltd