



**EnergyAustralia**

7 December 2015

Mr John Pierce  
Mr Neville Henderson  
Dr Brian Spalding  
Australian Energy Market Commission

EnergyAustralia Pty Ltd  
ABN 99 086 014 968

Level 33  
385 Bourke Street  
Melbourne Victoria 3000

Phone +61 3 8628 1000  
Facsimile +61 3 8628 1050

enq@energyaustralia.com.au  
energyaustralia.com.au

Dear Commissioners

Lodged electronically: [www.aemc.gov.au](http://www.aemc.gov.au) (ERC0176)

### **Compensation arrangements following application of an administered price cap and administered floor price, Additional Consultation Paper, 26 November 2015**

We are one of Australia's largest energy companies with over 2.5 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar portfolio of energy generation and storage facilities across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market.

The original draft rule excluded market participants from seeking compensation due to an administered price cap (APC) on market ancillary services. APC is applied on a regional basis and there is generally no shortage of frequency control (FCAS) during global recovery. Issues should only arise where there are local FCAS requirements that cause a local FCAS APC where the energy market remains uncapped. We foresee two possible situations where a generator may be incentivised to reduce the amount of ancillary services offered during administered ancillary service prices.

- High energy price, combined FCAS Raise and energy ramp rate constraint
- High energy price, co-optimisation where a generator forgoes energy to provide FCAS Raise

Not all local raise services would be foregoing revenue in the energy market. As such, if any ambiguity exists, the rules should make it clear that a situation similar to those above must apply. However, a potentially simpler option to address the highlighted issues may be to cap FCAS prices at the maximum of the APC and energy market.

The proposed changes will essentially override the price cap in certain cases and allow revenues for FCAS above \$300/MWh during administered prices. However, we agree with the AEMC that inefficient outcomes could result, or limited services be offered, should Ancillary Service Market Generators not be able to recover their opportunity costs in these scenarios.

If you have further questions please contact me on (03) 8628 4518.

Regards



**Ben Hayward**

Wholesale Regulation