

Amending the administered price cap rule change

STAKEHOLDER FEEDBACK TEMPLATE

The template below has been developed to enable stakeholders to provide their feedback on the questions posed in the consultation paper and any other issues that they would like to provide feedback on. The AEMC encourages stakeholders to use this template to assist it to consider the views expressed by stakeholders on each issue. Stakeholders should not feel obliged to answer each question, but rather address those issues of particular interest or concern. Further context for the questions can be found in the consultation paper.

SUBMITTER DETAILS

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DATE 1 September 2022

PROJECT DETAILS

NAME OF RULE CHANGE: Amending the administered price cap

PROJECT CODE: ERC0347

PROPONENT: Alinta Energy

SUBMISSION DUE DATE: 1 September 2022

CHAPTER 4 – ASSESSMENT CRITERIA

a. Is the proposed assessment framework appropriate for considering the proponent's rule change request?	Broadly, yes.
b. Are there any other relevant considerations that should be included in the assessment framework?	The rule change should ensure that the market settings encourage efficient investment in generation capacity.

CHAPTER 6 – ISSUES FOR CONSULTATION: PROBLEM STATEMENT

<p>1. Has the problem been appropriately identified? For example, is the current level of the APC, owing to the recently increased cost of generation, the principal problem or a key contributing factor?</p>	<p>Yes, however it's not just the recent increases in the cost of generation, but all increases since the APC was set at \$300 in 2008. Inflation, fuel cost increases, and any other factors increasing the cost of generation may cause the APC to become too low.</p> <p>The rule change doesn't address the issue that AEMO may still need to suspend the market to ensure that the administered price period can be closed.</p>
<p>2. Is there a risk that a failure to address the problem identified would have a significant negative economic impact and be inconsistent with the long-term interests of consumers?</p>	<p>Yes, because the risk of further market suspension events remains high, especially as gas prices are expected to remain high.</p>
<p>3. Does the rule change address the problem?</p>	<p>Yes. It is an appropriate and necessary short-term solution. Over the longer-term it may be appropriate to set the APC annually with reference to inflation and fuel price increases.</p> <p>The rule change will not address the potential issue that regional override prices may still be greater than the APC, thereby keeping the market under administered pricing for an extended period of time. We suggest the AEMC should consider whether it may be appropriate to cap the Regional Offer Price during administered pricing to ensure that the APP is not protracted.</p>
<p>4. Is the rule change the best solution to the problem? Are there other solutions that would better solve the problem over the timeframe considered?</p>	<p>Yes, it is the best solution in the short-term, though we should consider whether, during this interim period, capped pricing is used to calculate the cumulative price (NER 3.14.2(c)(1) & (1A)).</p> <p>Whilst the rule change seems to be the best interim solution to the problem, we note that \$600 may not cover the opportunity costs of some energy constrained thermal units.</p>

CHAPTER 6 – ISSUES FOR CONSULTATION: PROPOSED SOLUTION

<p>5. Is Alinta's proposed amendment to the APC rule appropriate to address the problem?</p>	<p>Yes.</p>
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<p>6. Given current commodity prices, what level of APC is appropriate to enable the normal market operation and settlement under an APP?</p>	<p>The June market suspension provided a clear indication that a \$300 APC is too low. Determining the best dollar figure for the APC is difficult, however we consider Alinta's suggestion of \$600 is appropriate.</p> <p>As the AEMC has noted at a gas price of \$40/GJ a \$600 APC will see only 3,000MW of thermal capacity in the NEM requiring compensation in order to recover costs during the application of APC, rather than 7,000MW at \$300. We consider that this supports an APC of at least \$600.</p> <p>Long term, we suggest that it may be appropriate that the APC is linked to both inflation and fuel prices.</p>
<p>7. What is the impact of such a change likely to be on generator and retailer risks borne in participating in the market?</p>	<p>The rule will reduce generator risk by providing appropriate incentives to supply during APPs and by reducing the burden and uncertainty created when compensation claims are required.</p> <p>The rule will reduce retailer exposure to unpredictable compensation costs. The rule may also shift some risk to retailers, by exposing them to higher prices during APPs, however this is appropriate since the change is occurring to ensure prices are more reflective of costs, and regardless retailers should be able to hedge this risk.</p>
<p>8. How might the APC change to accommodate different commodity price assumptions?</p>	<p>In future it may be appropriate to index the APC to inflation and fuel prices and set it annually.</p>
<p>9. What are alternative options for amending the level of APC. Options could include, for example, different levels of APC for different technologies, different values in each region, values that change by time of day, linkages between the electricity APC and the gas APC?</p>	<p>In the short-term, for this rule change, we support a non-differentiated higher \$600 APC. In future, differentiation based on a generator's capability (without differentiating on the basis of technology) may be appropriate, e.g. a different APC for flexible capacity may be appropriate since flexible generators are most impacted by the MPC and APC market interventions. Regional, temporal, and technological differentiation however may be more likely to undermine market efficiency since they may be driven by more arbitrary interventions.</p>

CHAPTER 6 – ISSUES FOR CONSULTATION: TEMPORARY LEVEL OF THE CPT

<p>10. Is there any consequential need for a change to the CPT resulting from a temporary change to the level of APC?</p>	<p>Yes, the inflationary and other drivers of higher generation costs (and the need for a higher APC) also warrant consideration of a higher CPT, since the CPT is only adjusted based on CPI which is merely a measure of household inflation, and therefore will often not fully account for fuel price changes.</p>
<p>11. Should the calculation of the CPT be different during the APP?</p>	<p>Yes, since the lower price cap during APP means that some generators will be unavailable that would otherwise be available if the MPC applied, and this will prolong the APP.</p>
<p>12. Is there a more appropriate method of triggering the APC?</p>	<p>It's possible that a period other than seven days may be more appropriate for the CPT.</p>
<p>13. Should a temporary change to the level of the APC consider</p>	<p>The interaction between the gas APC and the electricity APC is relevant and should be considered. The gas APC however</p>

the interaction between the gas APC and electricity APC?	should not be a direct driver or trigger for the electricity APC, since gas is only an input to gas fired generators.
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CHAPTER 6 – ISSUES FOR CONSULTATION: TIMEFRAME OF APPLICATION OF PROPOSED RULE

14. What is an appropriate temporary timeframe for application? Considering the factors that require the rule change to be made including commodity price changes?	The temporary APC increase should continue until a new APC which is linked to inflation and fuel prices commences. A temporary change of the APC, followed by a temporary period where the APC reverts to the current APC, followed by new Reliability Panel settings for example would be too disruptive.
15. What consideration should be made of changes and the timing of changes to be introduced by the Reliability Panel?	See above.
16. How should a temporary change in the level of APC accommodate changes to commodity prices during its application?	A temporary change in the level of the APC should be fixed. For a longer-term solution, periodically adjusting the level of the APC, for example annually based on inflation, should be considered. The frequency of adjustment would need to be balanced with the benefits of having a fixed and predictable APC, which may cause less issues for cap contracts.
17. What are the consequences for the retail and contract markets from one-off or sequential changes to APC?	Given the low frequency and likelihood of APPs it is not clear that the impact on retail and contract markets will be significant. Retailers will be able to hedge any increased risk and will face decreased risk of compensation payments. The risk and price of some cap contracts may vary.
18. Should there be a mechanism to ensure that the APC is dynamic and indexed with an appropriate commodity price?	No, for this short-term rule change. Long-term, a dynamic and indexed APC may be appropriate, although linking it to a single commodity price may not be appropriate given the variety of fuels and inputs used by generators in the NEM.

CHAPTER 6 – ISSUES FOR CONSULTATION: BENEFITS AND IMPACTS

Security and reliability

19. What is the likely impact of a temporary change in APC on security and reliability through APP periods and through the avoidance of market suspension? What would be the likely impact of a temporary change in the CPT?	<p>A higher APC will improve security and reliability by improving signals for plant that have a SRMC cost greater \$300 i.e. for the flexible plant which is best able to meet peaks in demand and more likely to be able to provide system services. While few generators will have a SRMC greater than \$300 when there is an adequate supply of fuel, when demand for fuel is high the opportunity cost of fuel can often raise a generator's SRMC above \$300.</p> <p>A higher CPT will improve security and reliability since it will result in less APP periods in which market signals for generation are undermined by the APC. This is particularly important since the CPT is only breached in periods of high demand when the system is more likely to be under strain.</p>
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Cost of Energy

<p>20. Would a temporary change to the level of APC likely reduce costs to market participants over the timeframe applied? Should temporary changes to the level of CTP be considered?</p>	<p>Yes. If an APP occurs during the timeframe applied, then it will likely reduce costs to market participants. For generators it will ensure they are more appropriately compensated within market rather through compensation pricing, which does not include an allocation for scarcity pricing and has a high administrative burden. For some generators it will mean that they will be dispatched more than they would have been. For retailers it means they would be sourcing energy from a more efficient market, and they would be less exposed to compensation costs. While wholesale prices will be higher during APP, a well hedged retailer is unlikely to be exposed to these prices.</p> <p>We support the consideration of a temporary change to the level of the CTP.</p>
<p>21. Would a temporary change to the level of APC likely reduce costs to market participants over the timeframe applied? Should temporary changes to the level of CTP be considered?</p>	<p>Yes. Compensation costs for retailers would be reduced. The administrative burden of compensation payments for generators would be reduced, along with the administrative costs to AEMO of processing additional compensation claims.</p>
<p>22. Would a change to APC increase or reduce the wholesale cost of energy during APP periods? Should a change to the CPT be considered?</p>	<p>It would lead to more efficient pricing and behaviour by generators which should lead to the best outcome for consumers. Whether it reduces the wholesale cost of energy during a specific APP period will depend on the demand and supply conditions in that period.</p>

Contract market and financial requirements

<p>23. What is the likely impact of a temporary change in the level of APC on ASX exchange traded contracts, OTC contracts and any other electricity contract products. In relation to existing contract clauses, the effectiveness of these products in addressing retailer risk, and the value of fixed price contract instruments? What would be the impact of a change to the CPT?</p>	<p>Given the frequency and likelihood of APPs it is not clear that the impact on retail and contract markets will be significant. The risk and price of some cap contracts may vary.</p>
<p>24. What is the likely impact of a temporary change in APC on retailer credit support requirements? What would be the likely impact of a temporary change in the CPT?</p>	<p>Regional reference prices (RRP) form part of the maximum credit limit calculation, which determines a market participant's credit support requirements.</p> <p>A higher APC price would translate to a higher RRP for the APP period, which means that a participant's MCL calculation and credit support requirements could end up being higher as a result. As noted in our response to Q7, above, this rule change may see a transfer of risk to retailers.</p>

25. What is the likely impact of a temporary change in APC on NEM bank guarantees and security deposits to support trading? What would be the likely impact of a temporary change in the CPT?	
26. What costs are imposed by the imposition of a temporary change, on a market setting that is normally unchanging?	