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Dear Commissioners

Amendment of the Market Price Cap, Cumulative Price Threshold and Administered Price Cap) — Draft rule determination — 14 September 2023

EnergyAustralia is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

We support the Commission's draft determination. It gives effect to the recommendations of the independent Reliability Panel, except for the administered price cap, where we agree with the Commission's reasoning to maintain a value of $600/MWh.

We appreciate the Commission publishing further analysis on the expected bill impact of recalibrated price cap settings, noting that customers are currently facing considerable cost of living pressure and ongoing high energy prices. It may wish to further elaborate on the method employed by IES and its detailed results, for example, why the effect on wholesale energy prices might be the highest in Queensland (an increase of up to $13/MWh) yet negligible in Tasmania.[1] The analysis involves scaling up historic price duration curves whose shape will change along with the NEM's technology mix, which will have separate effects on volatility and associated contract premia. These and other effects should be further explored in the Commission's projections of residential electricity price trends.[2] These projections will provide the Commission an important opportunity to thoroughly explain and then quantify how wholesale costs reflect the complex interaction of market price settings, contract markets, and incentive schemes now being pursued by jurisdictional governments.

IES also modelled the effect of adding carbon prices of $20 and $50 per tonne. It is not clear how this relates to the Commission's assessment of emissions impacts, if at all. The Commission states that its decision in the short term may support the development of new gas generation however this should have minimal emissions impact given peaking

[1] IES, Analysis supporting the amendment of the MPC, CPT AND APC Rule Change (ERC353) - Final Draft Report, 11 September 2023, pp. 40-1.

[2] Update on residential electricity prices report | AEMC

gas plant operate for less than five per cent of the time.[3] It further states that revised price cap settings may provide some additional incentive to delay the retirement of thermal generation. The Commission's final determination should provide a quantitative assessment of these outcomes in accordance with its new obligations under the amended National Electricity Objective. Such quantitative analysis would be beneficial in discussions around the role of gas generation (which appears to have limited policy support) as well as coal exit agreements. At present these issues still tend to be approached on the basis of ideology rather than via robust assessments of emissions, price and reliability outcomes for customers.

We also appreciate the Commission engaging Houston Kemp to consider the relationship between market price settings and jurisdictional investment schemes. Houston Kemp's analysis reinforces points made in our previous submission regarding the need to appropriately design jurisdictional investment schemes, rather than rely on them in lieu of adjusting market price caps. Several further points are worth making:

- the higher price settings reflect the minimum required to encourage peaking gas generation with price responsive demand as the cheapest new entrant. Gas generation and demand response appear to have been excluded from the Commonwealth Government's Capacity Investment Scheme (CIS) hence the additional "top up" from the CIS will only apply to higher cost storage technologies. So far there has been no quantification of the reliability or emissions reduction benefit flowing from the CIS's technology eligibility requirements, including the 600MW target for the first round of CIS tenders.

- the progressive increase in price settings is below the current modelled cost of the marginal new entrant. The analysis by IES shows that the MPC required to deliver the Reliability Standard now (at the equivalent 7.5 hour cumulative price threshold) is approximately $8,000 below where it needs to be[4], however the Commission's draft decision would not see realignment until July 2027.

- once fully implemented, the recommended price settings still leave a material gap in Victoria and other jurisdictions where technology costs are higher. NSW was chosen for the Panel's modelling as it was the jurisdiction most likely to face reliability concerns. However, all jurisdictions but for Tasmania are now subject to formal breaches of the Interim Reliability Measure, while Victoria is still expected to breach the Reliability Standard once anticipated developments are factored in.[5]

- higher market price cap settings will influence decisions by coal generation owners for any necessary reinvestment to maintain reliable operation prior to scheduled exits. Like the CIS, this may offset any taxpayer or customer burden arising from government coal closure agreements[6] and potentially a broader closure mechanism currently being considered by energy ministers.

[3] AEMC, *Amendment of the Market Price Cap, Cumulative Price Threshold and Administered Price Cap - Draft rule determination*, 14 September 2023, p. 16.

[4] ibid., p. 20.

[5] aemo.com.au/-/media/files/electricity/nem/planning_and_forecasting/nem_esoo/2023/2023-electricity-statement-of-opportunities.pdf?la=en

[6] Agreement Secures Transition For Loy Yang A | Premier of Victoria

Houston Kemp also states that the revenue sharing elements of the CIS and Long Term Energy Service Agreements for storage and firming technologies preserve market price signals for asset operators, and in turn should not affect behaviour that is borne out in market prices.[7] This general finding does not reflect a detailed consideration of the contract designs. For example, the draft CIS agreements contain additional administrative restrictions designed to ensure "pro market" behaviour including oversight of bidding and trading strategies, maintenance schedules and performance obligations attached to 'Lack of Reserve' declarations. The adequacy of incentives in these contracts for asset operators to respond to price signals appears to rest on the success of administrative provisions. These issues are important from the perspective of maintaining reliability but also the extent to which operators of firming technologies under these incentives are willing to sell hedge contracts that provide market liquidity for retailers and customers. The Commission should monitor and report on these issues for the benefit of policy-makers, particularly as revenue sharing 'cap and floor' incentives now appear to be preferred by jurisdictional governments.

If you would like to discuss this submission, please contact me on 03 9060 0612 or Lawrence.irlam@energyaustralia.com.au.

Regards

Lawrence Irlam
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[7] Houston Kemp, *Do jurisdictional schemes change the need for the Reliability Panel's proposed market price settings?*, 24 August 2023, p. 10.