



1 September 2022

Ms. Anna Collyer
Chair
Australian Energy Market Commission

Energy Consumers Australia response to Amending the Administered Price Cap (ERC0347)

Dear Anna

We appreciate the opportunity to provide comments on the proposed rule change to temporarily amend the Administered Price Cap (APC).

As you know, Energy Consumers Australia is the national voice of Australia's residential and small business consumers. Our research consistently demonstrates that consumers foremost priority in the energy sector is affordability.

Despite its name, function, and intent, our understanding is that during the market disfunction in June 2022, the Administered Price Cap did not actually cap or reduce prices. As a result, this letter, which represents our submission on this rule change, makes three primary points.

- We support the proposed rule change to temporarily increase the APC because doing so reduces the likelihood of another suspension of the energy market, which would increase costs on consumers. It is a temporary, low-risk option.
- The current process for reviewing the APC has failed to achieve the right outcome for the market and consumers. The Australian Energy Market Commission (AEMC) should determine a better approach to review and more dynamically update the APC and other market mechanisms intended to protect consumers and the system. In this context we note that the Reliability Panel itself has reflected on the June events, in its advice to the AEMC in the *2022 Review of Reliability Standard and Settings* (the Report) which only became publicly available on 1 September 2022 (the deadline for submissions on the proposed rule change).¹
- The AEMC and AEMO need more information to appropriately regulate and operate the market and should be supporting the Commonwealth's consultation on increasing the Australian Energy Regulator's (AER) market monitoring authority.

Increasing the Administered Price Cap

Rather than protecting consumers, the APC triggered the withdrawal of generation from the market, because the APC was set below the short-run-marginal-cost of much of the generation needed to operate the market in June. This withdrawal led to the Australian Energy Market Operator (AEMO) suspending the market, which in turn, increased costs.

Because AEMO has incomplete information on fuel costs and availability of all generators, a suspended market does not dispatch generation as efficiently as the market would. During times of market suspension, generators are still compensated for their full costs, which are determined through a time-intensive process litigated between AEMO and generators.

¹ Available at <https://www.aemc.gov.au/market-reviews-advice/2022-reliability-standard-and-settings-review>. Note that the next steps are that the Reliability Panel would submit rule change proposals to action their advice.

As a result, the market suspension increased cost on consumers in two clear ways. First, the inefficient market operation likely led to inefficient dispatch, which increased the total cost of generating electricity for large portions of June. Second, the process of determining the true costs of generation leads to higher transaction costs, due to delayed payments and decreased market certainty. A higher APC, as proposed by the rule change, would reduce the likelihood of another market suspension, and therefore reduce the likelihood of consumers being exposed to another event driving costs higher.

While a temporary increase of the APC is necessary, it is not sufficient to appropriately protect consumers and mitigate the likelihood of another market suspension or collapse.

A better review process is needed

The market suspension triggered by an insufficiently high APC demonstrates that the existing process for reviewing and updating the APC – the reliability standard and settings review (RSSR) – is not fit for purpose. The APC has not increased since 2008. The consultation notes that “While the value of the APC has been reviewed regularly since then, fuel costs and plant efficiency have not changed sufficiently, until very recently, to overtake the \$300/MWh set in 2008.”

The RSSR clearly failed the market by not appropriately setting the correct APC for the circumstances that eventuated in June 2022 or by providing a mechanism for adjusting the APC should the need arise. Fuel costs have increased – at times significantly – in the last 15 years. Fortunately, prior to June, those increases in fuel costs did not coincide with the other issues that led to this market suspension or could have led to another market suspension.

Our understanding is that the APC and the way in which the RSSR reviews the APC were conceived for very different circumstances and which could reasonably be assumed to be short term. This is clearly not the case for the circumstances in which we found ourselves in June. There is a reasonable risk that events similar to those of June 2022 re-occur given the factors that combined to put the secure operation of the system at risk. Indeed, as the system increasingly depends upon wind and solar for providing energy needs, the risks from a renewable drought may further test the existing approach to setting and reviewing the APC.

This rule change proposes to increase the APC to \$600/MWh for twelve months until October 2023 but is silent on what will happen in the 21 months from October 2023 through July 2025 – when a new APC will be applied. Given the logic of the consultation and the proposed rule change, arbitrarily reverting to the APC that helped trigger a market suspension seems foolhardy.

In the past 24 hours we have the benefit of the Reliability Panel’s Report, who appears to have similar views, that recent events warrant an increase in the level of the APC. Their advice to the AEMC is that an increase from \$500/MWh should apply for the period of 1 July 2025 to 30 June 2028.

It is worth repeating the Reliability Panel’s reasons in support of the increase in the level of the APC.

- It provides for robust outcomes to possible future high fuel price periods. While the high fuel costs in the recent APP are not typical, the Panel considers that they may be less rare in the future and increasing the APC to \$500/MWh should sufficiently cover the SRMC of most generators in a range of credible scenarios, noting that the APC will likely be rarely imposed and generally in times of unpredictable and extreme circumstances.
- Prevents undue reliance on compensation processes.
- Improves incentives for storage to participate during an administered price period (APP). Enables better management of APP-related consumer costs.

- Raising the APC reduces compensation costs that are passed through to consumers but may increase hedging costs. Reducing the reliance on compensation reduces cost uncertainty for both generators and consumers.

To sum up, the Reliability Panel's justification is that an increase in the level of the APC would “*reduce undue reliance on the compensation scheme and reduce additional pass-through costs to consumers.*”

The AEMC should immediately begin work with AEMO and stakeholders to determine a better process for setting the APC and review the rules governing generator compensation, to help create and implement additional reforms that can be in place when the proposed temporary increase in the APC would end.

AEMC and AEMO need better information

The market suspension has highlighted that both the AEMC and AEMO lack the information required to regulate and operate the market effectively and efficiently. As a result, we understand that the AEMC and AEMO are actively supporting the Department of Department of Climate Change, Energy, the Environment and Water's (DCEEW) consultation on increasing the AER's market monitoring and data gathering authority. Assuming the AER would provide data to the other market bodies, the increased authority would help better inform the AEMC and AEMO so they have the critical information they need to better regulate and operate market, including in periods of sustained rising and high prices. Indeed, the likely impacts of this rule change would be materially clearer if AEMC had access to the contract market data the DCEEW Consultation proposes to provide to the AER.

Again, thank you for taking the time to consider our submission. Should you have any questions or require clarification, please contact Brian Spak at brian.spak@energyconsumersaustralia.com.au.

Yours sincerely,



Lynne Gallagher
Chief Executive Officer