1 September 2022

Craig Oakeshott
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

By email: craig.oakeshott@aemc.gov.au

Dear Mr Oakeshott

RE: ERC0347 National Electricity Amendment (Amending the Administered Price Cap Rule) – Consultation Paper

Arrow Energy Pty Ltd (Arrow) welcomes the opportunity to provide comments on, and responses to the questions in the Australian Energy Market Commission (AEMC) National Electricity Amendment (Amending the Administered Price Cap Rule) – Consultation Paper.

About Arrow Energy

Arrow explore and develop gas fields, produce and sell coal seam gas (CSG) and generate electricity. We have been safely and sustainably developing CSG in Queensland since 2000, supplying it commercially from the Bowen Basin since 2004 and the Surat Basin since 2006. Our Surat gas supplies Braemar, Braemar 2 and other power-generating customers; while our Bowen gas supplies Townsville Power Station and other industrial customers in North Queensland.

Arrow is the 100% owner and operator of the Braemar 2 Power Station (519MW) and has interests in the electricity sales from Townsville (234MW) power station. Each of these assets represents gas-fired generation, located in Queensland and dispatched into the National Electricity Market (NEM).

Overview

Arrow acknowledges the current unprecedented challenges recently experienced throughout the National Electricity Market (NEM), and outlined in the AEMC's consultation paper, and is broadly supportive of the proposal to amend the Administered Price Cap (APC).

We note that global commodity prices have changed significantly, such that an APC at its current level of $300/MWh is no longer reflective of the typical Short Run Marginal Cost (SRMC) of black coal and gas generators, disincentivising generators to bid during Administrative Price Periods. Furthermore, at its current level the APC is materially misaligned with reciprocal wholesale domestic gas market price caps.

A consistent approach across wholesale energy markets is key to maintaining supply in times of market stress. Failure to address such issues is likely to have key economic impacts on consumers and create inconsistencies with the National Energy Objective (NEO), with the issuance of directions to generate and intervention in the market lessening transparency, prohibiting the efficient operation and use of electricity services, and transferring the dysfunctional outcome to market participants and customers alike.

We are also of the view that should the underlying market settings continue unchanged, and with the expectation of fuel prices remaining high for the foreseeable future, that the threat to the effective operation of the NEM remains, and the risk of the dysfunction and suspension of market recurring is likely.

While supportive of the proposed rule change, we encourage assessment of alternate solutions that may link or index the APC to financial markets, the STTM or GSH prices with an applied and defined heat rate or conversion assumption. We also support the application of a periodic indexation or price review mechanism, similar to the Market Price Cap (MPC) or Cumulative Price Threshold (CPT), to ensure fuel costs and related input changes are appropriately reflected.

Arrow sees the most material challenge/risk being to ensure the proposed change supports long-term system stability, a transparent and liquid contract market (allowing participants to hedge financial exposures and to provide pricing signals) and promotes ongoing investor confidence. Changing the value of the APC changes the risk exposure of NEM participants and a one-off change will likely increase uncertainty within the OTC market. Generators may be less incentivised to offer hedges, applying upward pressure on traded and related contracts. Bridging the short and long term impacts of the proposed change will be key to minimising uncertainty and the associated impacts to the contract market.

We note that related long-term effects should be assessed carefully, to ensure any temporary change to the APC offers a parallel and practical framework to support the potential interactions with the Reliability Panel's assessment of the APC post 2025. It is key that in this respect, the proposed change considers its actual and targeted outcomes and aligns any temporary timeframes with the Reliability Panel's assessment, and how a practical transition will be defined and achieved by market participants.

Arrow looks forward to continued consultation with the AEMC as the current structure of the NEM and its mechanisms are planned appropriately to safeguard energy transition to deliver continued reliability and affordability to customers.

Please do not hesitate to contact Anne McTernan on 07 3012 4592 or via email anne.mcternan@arrowenergy.com.au should you wish to discuss any aspect of this submission further.

Yours sincerely,

Andrew Burge
General Manager - Energy Markets

AEMC

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

ORGANISATION:	Arrow Energy
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DATE	01 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?	Arrow is supportive of the proposed assessment framework but notes that long term benefits related to the proposed rule change should also be assessed by each of the criteria.
b. Are there any other relevant considerations that should be included in the assessment framework?	Arrow notes that while the proponent's proposed rule change may likely be the least costly and complex approach to implement, incpororating an assessment of, or alongside, alternatives approaches, as part the framework, may be effective.

CHAPTER 6 – ISSUES FOR CONSULTATION: PROBLEM STATEMENT

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?	Yes, global commodity prices have changed such that an APC of $300Mw/h is not reflective of the typical SRMC of black coal and gas generators, disincentivising generators to bid during Administrative Price Periods. At its current level, the APC is materially misaligned with reciprocal wholesale domestic gas market price caps. A consistent approach across wholesale energy markets is key to maintaining supply in times of market stress. We note that Newcastle coal price was high at the time of the NEM being suspended also (+$300/MWh netback equivalent).
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?	Failure to address the problem is likely to have significant negative economic impact on consumers and create inconsistencies with the National Energy Objective "to promote efficient operation and use of electricity services for the longer-term interests of consumers". Global commodity prices have changed significantly, such that an APC at its current level of $300/MWh is no longer reflective of the typical SRMC of black coal and gas generators. As such, generating participants, acting rationally, will likely reduce capacity from the market during Administrative Price Periods. Left unaddressed, the reoccurrence of the market operator being required to direct particpants to maintain NEM stability will be likely. The issuance of directions and interference in the market lessens transparency and transfers the cost associated with a dysfunctional market outcome to market particpants and customers alike.
3. Does the rule change address the problem?	The proposed rule change provides a short-term response to the problem but also provides a more practical framework and transition to a longer term solution.
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?	Alternate solutions should be assessed together with the proposed rule change. We are supportive of an assessment of alternatives that may link or index the APC to financial markets, for example, the STTM/GSH prices with an applied, defined heat rate or similar. Application of a periodic indexation or price review mechanism is also encouraged, similar to the MPC or CPT, to ensure fuel cost and related input changes are reflected.

CHAPTER 6 – ISSUES FOR CONSULTATION: PROPOSED SOLUTION

5. Is Alinta's proposed amendment to the APC rule appropriate to address the problem?	The proposed rule change provides a short-term response but should also offer a more practical framework and transition to a longer term solution. It is key that long term considerations such as the effect, if any, on related commodity prices and inputs, and its impact of any change on the contract market, consider the potential interactaction with the Reliability Panel's final assessment of the APC post 2025, and how a practical transition will be achieved.

6. Given current commodity prices, what level of APC is appropriate to enable the normal market operation and settlement under an APP?	Arrow is supportive of the proposed APC, at $600/MWh.
7. What is the impact of such a change likely to be on generator and retailer risks borne in participating in the market?	The proposed change would likely minimise the likelihood of a generator operating under direction where it may otherwise be considered uneconomical. This provides greater visibility of market operation, transparency of price outcomesand more risk management information to participants.
8. How might the APC change to accommodate different commodity price assumptions?	Arrow is supportive of exploring the ability to link the APC to a key dynamic indices, for example, to the STTM/GSH price and the application of a periodic price review mechanism to reflect changing commodity price assumptions. (Refer also Chapter 6, Item 4).
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?	

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

10. Is there any consequential need for a change to the CPT resulting from a temporary change to the level of APC?	
11. Should the calculation of the CPT be different during the APP?	
12. Is there a more appropriate method of triggering the APC?	
13. Should a temporary change to the level of the APC consider the interaction between the gas APC and electricity APC?	At its current level, the electricity APC is materially misaligned with its reciprocal gas APC under the NGR. A consistent approach across wholesale energy markets is key to maintaining supply in times of market stress.

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?	It is key that the proposed or related change consider actual and targeted outcomes and their related timeframes. The proposed temporary timeframe, its interaction with the Reliability Panel's final assessment of the APC post 2025, and how a practical transition will be achieved should be considered and defined. (Refer Chapter 6, Item 5).

15. What consideration should be made of changes and the timing of changes to be introduced by the Reliability Panel?	
16. How should a temporary change in the level of APC accommodate changes to commodity prices during its application?	Arrow is supportive of exploring the ability to link the APC to a key dynamic index, for example, to the STTM/GSH price and the application of a periodic price review mechanism to reflect changing commodity price assumptions. (Refer also Chapter 6, Item 4 & 8).
17. What are the consequences for the retail and contract markets from one-off or sequential changes to APC?	Changing the value of the APC changes the risk exposure of its participants and a one-off change will likely increase uncertainty within the OTC market. Generators may be less incentivised to offer hedges, applying upward pressure on traded and related contracts. Bridging the short and long term impacts of the proposed change will be key to minimising uncertainty and the associated impacts to the contract market.
18. Should there be a mechanism to ensure that the APC is dynamic and indexed with an appropriate commodity price?	Arrow is supportive of exploring the ability to link the APC to a key dynamic index, for example, to the STTM/GSH price and the application of a periodic price review mechanism to reflect changing commodity price assumptions. (Refer also Chapter 6, Item 4 & 8).

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?	The proposed change is likely to increase transparency by providing generators with appropriate incentive to bid capacity and maintain security and reliability through AP periods or similar periods of market stress.

Cost of Energy

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?	
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?	

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?	

Contract market and financial requirements

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?	Changing the value of the APC changes the risk exposure of its participants and will likely increase uncertainty within the OTC market. Generators may be less incentivised to offer energy related derivatives, creating implications for traded and related contract products and commercial arrangements will also likely need to reflect emerging risk profiles and an appropriate response to market disruptions.
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?	
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?	