

13 October 2022

Australian Energy Market Commission

Submitted online: <https://www.aemc.gov.au/contact-us/lodge-submission>

Submission to directions paper for ERC0347 – Amending the Administered Price Cap

Dear Mr Oakeshott

Delta Electricity (Delta) welcomes the opportunity to respond to the AEMC's Directions paper on Amending the Administered Price Cap (APC). Delta is supportive of an increase in the APC, however, encourages the Commission to reconsider its position on the method for calculating the cumulative price threshold (CPT). The existing method for calculating CPT in the NER is inconsistent as it treats regions differently if an adjacent region is already under or impacted by an APC. This is a material, non-controversial issue, and we have presented a simple solution below which clarifies and provides consistency in the NER.

Temporary level of the APC

Delta supports the proposed temporary level of \$600 MWh for the APC and considers this will help address the primary concern of fuel costs being higher than the APC that led to the withdrawal of generation capacity from the market in June 2022.

Level and method of calculating the CPT

Delta does not oppose the AEMC's preliminary position to leave the CPT level and escalation method unchanged for the period of the temporary APC.

However, as raised in our submission to the Consultation paper, the current method of calculating the CPT is inconsistent between regions when more than one region reaches the CPT. This is because the CPT is calculated on dispatch prices, which are not received by participants when exporting to a region that is already under an APC. When the CPT was reached for NSW on 13 June 2022, the cumulative prices received by NSW was \$355,300 below the CPT. That is, more than 26% of the CPT was not received by NSW generators before the APC was imposed in NSW. It seems clear this inconsistency is unintended and is evidently not providing the correct market signal when multiple regions are under an APC.

Additionally, it is possible that if the CPT was calculated on received prices - NSW, Victoria and South Australia may not have reached their CPT during the June 2022 event. This could have prevented the capacity withdrawals, directions and market suspension in all or some of these regions. This highlights how critical this clarification is in managing the likelihood of future potential administered price periods.

This issue puts the energy market at risk during times of critical reliability concerns as it creates:

- dampened investment signals as generators are not guaranteed to receive prices up to the CPT; and



- revenue uncertainty through;
 - inequitable revenue opportunities between regions; and
 - reduced revenue opportunities for existing generators who rely on high priced events to cover the cost of operating, often at a net loss, throughout the year during lower priced periods.

In particular, this is at a time when increasingly more investment is needed in the energy sector for new generation and to maintain existing generation until like-for-like replacement is brought into the system.

In addition, Delta understands that the Reliability Panel's Reliability Standards and Settings Review (RSSR), when recommending the CPT, does not consider how the CPT may be effectively reduced through the combination of scaling down prices but continuing to use dispatch prices for the CPT calculation. Specifically, the revenue adequacy modelling underpinning the proposed adjustments in the 2022 RSSR to market price settings (including the CPT) does not consider the revenue impact of the 2022 market suspension, or the possibility of similar suspensions taking place in the future.

Delta's strong view is that this issue needs to be clarified and addressed as a matter of urgency and preferably in this rule change process. Delta considers the issue is non-controversial and not a change as such but more a clarification, and can be resolved simply through the insertion of a new clause in the NER at 3.14.2.(e)(3).

(3) Where the *spot price* at a *region* is subject to the application of Clause 3.14.2(e)(2) in a region where an *administered pricing period* has not been declared, the price used for the calculation of the *cumulative price threshold* shall be the *regional reference price* and not the price calculated as if clause 3.14.2(c)(1) did not apply.

Addressing this issue meets the National Electricity Objective (NEO) by:

- improving outcomes for customers;
- delivering a more safe, secure and reliable power system; and
- improve market outcomes through more efficient market signals to new and existing generators that ensures they will receive prices up to the CPT.

This will improve reliability and supply of energy outcomes through ensuring generators receive the right and efficient signals as intended by the market price settings.

If the AEMC decides not to make this amendment Delta will consider submitting a separate urgent rule change and requests the AEMC advise if this, or an alternative, is the best course of action to provide this clarification in the NER.

Timeframe of the temporary APC

Delta agrees that the amended APC should apply as soon as practical and up until the new RSSR recommendations are implemented on 1 July 2025.



Impacts

Putting aside our concerns if the method for calculating the CPT is not addressed, Delta agrees with the AEMC analysis of the impacts and considers that a temporary increase in the APC would provide a net benefit to the market.

Delta acknowledges increasing the APC may have some impact on the contract market but considers this impact does not outweigh the significant costs and impacts on the market if the status quo is maintained.

To discuss the content of this submission please contact Joel Aulbury, Regulation and Strategy Manager, at joel.aulbury@de.com.au.

Yours sincerely

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