2 February 2023

Anna Collyer - Chair

Australian Energy Market Commission

GPO Box 2603

Sydney NSW 2000

Lodged online: https://www.aemc.gov.au/contact-us/propose-rule-change

Rule Change Request – Amending the Cumulative Price Threshold Methodology

Dear Ms Collyer

Delta Electricity (Delta) submits the attached rule change request under section 91 of the National Electricity Law, with a request that the AEMC consider it as part of the rule change process for the Reliability Panel's Reliability Standard and Settings Review (RSSR) recommendations.

In June 2022 the National Electricity Market (NEM) saw a cascading of regions enter administered pricing and the suspension of the market for one week commencing 15 June 2022.

This demonstrated the importance of having the right market settings in place, and if they are not, the uncertainty and damaging impacts this can have on the market. This was primarily identified through an inadequate administered price cap (APC) which once in place did not allow some generators to recover the cost of fuel as well as operations.

Shortly after the June 2022 event the AEMC received a rule change request to temporarily increase the administered price cap (APC) from $300 MWh to $600 MWh. The AEMC made this change as it will secure electricity supply during times of tight supply and demand.

Delta supported the AEMC decision to increase the APC, but also proposed an equally important change to amend the methodology for calculating the cumulative price threshold (CPT) when one or more regions have reached the CPT. As, the current methodology for calculating the CPT:

- is inconsistent with the fundamental pricing principles of the NEM that the price received by a generator will not be less than its bid price. Under the NEM pricing arrangement, the highest dispatch price is received by all generators whose bids were accepted by AEMO. This pricing system was introduced to incentivise investment in new capacity;
- produces inequitable outcomes between regions when multiple regions enter administered pricing; and

- dampens investment signals for new and existing generation and, thus, does not promote efficient investment. As such, the current methodology is inconsistent with the National Electricity Objective (NEO).

The AEMC decided not to consider Delta's proposed change due to not having engaged more broadly with stakeholders on the issue. In its final determination on temporarily increasing the APC price, the AEMC noted the method for calculating the cumulative price would be best considered as part of the AEMC's rule change process to consider and implement the Reliability Panel's Reliability Standard and Settings Review (RSSR) recommendations.

Delta therefore submits the attached rule change request which proposes to amend the CPT methodology so that received prices, instead of dispatch prices, are used to calculate when the CPT is reached in a region. This is regardless of whether or not one or more other regions are under administered pricing.

This proposed change would improve supply of energy outcomes, delivering a more safe, secure and reliable power system, and improve outcomes for customers.

To discuss further please contact Joel Aulbury, Regulation and Strategy Manager, at joel.aulbury@de.com.au.

Yours sincerely,

Anthony Callan

Executive Manager Marketing

Name and address of person making the request

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Description of the proposed rule

This rule change request proposes to amend the methodology for calculating the cumulative price threshold (CPT). The proposal is that:

- received prices, instead of dispatch prices, are to be used to calculate when the CPT is reached in a region; and
- once the CPT is reached in a region, the dispatch price should be used to monitor the cumulative price, as is currently the case, as this provides transparency of the issues affecting price bids in the market and is used to track when underlying prices fall below the CPT.

This will ensure that, regardless of if there is one or multiple regions that overlap in reaching their CPT and enter into an administered price period (APP):

- each region is treated the same in how the CPT is calculated; and
- the full CPT is available to be received by generation in each region.

The proposed change would provide generators with confidence that they would be able to achieve prices up to the intended threshold, allowing investors to have full confidence and certainty that prices allowed for by the market setting will be achieved. It will also ensure stronger and more certain investment signals are provided to the market to deliver the energy services to customers at the optimal level, the reliability standard, as recommended by the Reliability Panel through the Reliability Standard and Settings Review (RSSR).

This proposed rule change, in practise, would not change or affect how the CPT is currently calculated for a region reaching its CPT when there are no other regions under administered pricing. It would only take effect and apply a consistent approach for subsequent regions that reach their CPT once there is already a region that has reached its CPT and is under administered pricing.

There is not a direct trade-off from this proposed rule change as the change represents, in Delta's view, the intention of the RSSR and how many stakeholders believe the National Electricity Rules (NER) currently operate; ie, that any region that is subjected to administered pricing and an administered price cap (APC) is assumed to have received the full value of the CPT.

The nature and scope of the issue with the existing rules

The existing NER require AEMO to effectively use dispatch prices to calculate the cumulative price of a region, with the highest dispatch price being received by all generators whose bids had been accepted by AEMO. The dispatch and settled prices are typically the same when the market is not under administered prices so these are not discrepant under normal conditions.

However, when a region is not under administered prices but is exporting electricity to a region that is under administered prices, the dispatch price is still used for dispatch but the settled price is lower as a result of capping the dispatch price at the administered price cap (APC) and it is then scaled down as per NER clause 3.14.2(e)(2). This creates the outcome where a region's CPT is reached based on higher dispatch prices but much lower prices have been received in settlement.

Delta understands the reason for clause 3.14.2(e)(2) is to manage negative settlement residues on regulated interconnectors and does not consider at this stage that this provision needs to be changed. However, using dispatch prices to calculate the CPT when potentially much lower prices are received:

- is inconsistent with the fundamental pricing principles of the NEM that the price received by a generator will not be less than its bid price. Under the NEM pricing arrangement, the highest dispatch price is received by all generators whose bids were accepted by AEMO. This pricing system was introduced to incentivise investment in new capacity;
- dampens investment signals for new and existing generation as generators are not guaranteed to receive prices up to the CPT and, thus, does not promote efficient investment – and, as such, is inconsistent with the National Electricity Objective (NEO); and
- creates 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.

As an example, in June 2022 the New South Wales CPT of $1,359,100 was reached at 1830 on 13 June based on dispatch prices, but if calculated on settled prices was more than $300,000 under the CPT value. This meant that NSW generators missed out on the equivalent of approximately 20 dispatch intervals at market price cap of $15,100, while Queensland generators received the full CPT value based on settled prices as it was the first region to reach the CPT.

The effect of this, if not amended in NER, is that it will create uncertainty for existing generators in how best to manage scarce fuel resources and their bids into the market. This would dampen investment signals for new generation at a time when more investment is needed in 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 RSSR does not consider how the CPT may be effectively reduced through the combination of capping and scaling down of received 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 events like the 2022 market suspension.

It seems clear this inconsistency in how the CPT is calculated is unintended and is evidently not providing the correct market signal when multiple regions are under an APC.

How the proposed rule change request would address the issue

The proposed rule change would remove the inconsistency in how the CPT is calculated for one region compared with events where multiple regions reach their CPT.

Delta considers the proposed rule change is non-controversial and likely represents how many stakeholders assumed the rules in relation to the CPT currently work. This was evident in numerous discussions Delta held with other stakeholders who were unaware of the issue. This proposal should not necessarily be seen as a change, but more a clarification in the NER to create a consistent approach to calculating the CPT among regions. Delta suggests it 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.

How the proposed rule change request will contribute to the National Electricity Objective

The proposed rule change meets the National Electricity Objective (NEO) by:

1. improving market outcomes through more efficient and certain market signals to new and existing generators that ensures they will be able to receive adequate price signals to encourage the right level of investment;
2. therefore delivering a more safe, secure and reliable power system; and
3. thus improving outcomes for customers.

That is, this proposed change would improve reliability and supply of energy outcomes through ensuring generators receive the right and efficient signals to maintain and invest in generation as intended by the Reliability Panel's RSSR recommendations.

The expected potential impacts of the proposed change to the rules on those likely to be affected including costs and benefits

There is not a direct trade-off from this proposed rule change as it represents the intention of the RSSR. Also, the proposed change is most probably how many stakeholders assumed the NER is currently implemented. That is, any region that is subjected to administered pricing and an administered price cap (APC) is assumed to have received the full value of the CPT.

The impact of the proposed change would only take effect when there is one region already under administered pricing. The proposed change would ensure other regions, that may be subject to capped and scaled settled prices as per NER clause 3.14.2(e)(2), can still receive the full value of the CPT. This would mean the full value of the prices that reach the CPT would be borne by retailers and passed onto customers. However, as determined by the Reliability Panel, the CPT is the efficient level of cumulative prices over a 7-day period to incentivise investment to deliver the reliability standard. Therefore, making the proposed change would deliver a more efficient and positive cost-benefit outcome for the market and would be in the long-term interest of consumers of electricity.

Delta considers that while this issue has only arisen once, in June 2022, there is an urgent need to address it because of the risk and likelihood of the factors that led to the June 2022 event occurring again. Similar to the need the AEMC saw in amending the APC, Delta considers it equally as important to address this issue so that the right market design is in place the next time the NEM experiences fuel constraints and reliability concerns.