

04 May 2023

Mr Charles Popple
Chair, AEMC Reliability Panel
GPO Box 2603
Sydney NSW 2000

RE: Review of the form of the reliability standard and APC

Dear Mr Popple

Squadron Energy welcomes the opportunity to make a submission. Squadron Energy is an Australian owned renewable energy investor. We are proud to have 1.1GW of renewable energy under operation, 450MW under construction, a further 400MW to commence construction, and a total Australian development pipeline of over 20GW. Our development pipeline has projects at differing stages of development and includes wind, solar and firming capacity such as batteries and gas peaking plants with dual fuel capability.

We are also constructing Australia's first LNG import terminal at our Port Kembla Energy Terminal (PKET). Once constructed, Squadron Energy's PKET will include a floating storage and regasification unit (FSRU) to enable third party LNG producers to increase supply to the domestic market. This provides certainty of supply, reliability, and will put downward pressure on prices, particularly during peak demand periods.

We welcome the consultation paper's focus on the form of the reliability standard and the Administered Price Cap (APC). We support the further development of options related to the form of the reliability standard that is required to properly reflect the changing risks to reliability as the power system transforms. In this short response, we would like to focus on the range of options the panel is exploring for the form of the APC.

The APC should balance incentives for generators with appropriate protections for consumers

While we are of the view that APC will be rarely imposed except in extreme circumstances, we appreciate there is a need to consider the form of the APC to ensure it is robust to a range of possible future scenarios. The APC should be set at a level to avoid the situation where a significant proportion of the generation fleet has a short-run marginal cost higher than the APC. This is necessary to balance the financial stress on the market during Administered Pricing Periods (APP) and provide sufficient incentives for generators to bid in during such periods. Further, the potential implications of the cost faced by customers as a result of increasing the APC or via the compensation process, whereby costs will be directly passed through to consumers, should be carefully considered.

Of the potential options presented to amend the current form of the fixed APC, and their impact on market certainty, we consider keeping the APC at a fixed-level remains the most appropriate approach subject to the level at which it is set. The Panel's previous recommendation to increase the APC to \$500/MWh between 2025 and 2028 should be carefully considered. Any further analysis by the Panel should consider the compensation cost outcomes of the June 2022 events, which were exceptional, and whether the initial recommendation remains appropriate.

Although we do not support indexing the APC to a dynamic fuel price on a permanent basis given the level of uncertainty it would introduce, we consider there may be merit in establishing a fixed price and only raising it temporarily as a means of managing unpredictability in underlying fuel costs. This would allow for the existing APC of \$300/MWh (or a different level if one is established) to be maintained and increased where market disruptions lead to circumstances where the market is no longer operating appropriately. For example, where

high fuel price periods lead to short-run marginal costs (SRMCs) below the APC. In such circumstances, the level of the APC could be linked to a market metric, reflecting the underlying fuel cost, to establish the APC at a level sufficient to incentivise generators to make themselves available.

We look forward to the opportunity to continue to engage with the Reliability Panel. If you would like to discuss this submission please contact Rupert Doney – Director, Regulation and Policy at rdoney@squadronenergy.com or on 0450398661.

Yours sincerely



Graham Denton

Head of Energy Markets, Commercial