

# CSR Limited

Level 5, Triniti 3  
39 Delhi Road  
North Ryde NSW 2113

  
csr.com.au

ABN 90 000 001 276

8 July 2022

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

By electronic lodgement: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Popple,

## **2022 Reliability standard and settings review draft report**

CSR Limited (CSR) appreciates the opportunity to respond to the Reliability Panel (Panel) in response to the 2022 Reliability standard and settings review draft report (Review).

CSR is among Australia's most trusted and recognised brand names in providing building products for residential and commercial construction, with a portfolio of leading brands. We operate low-cost manufacturing facilities and a strong distribution network to service our customers across Australia and New Zealand. CSR is a wholesale Market Participant in both gas and electricity markets and has retail energy contracts for smaller sites.

### **Market Price Cap (MPC)**

The price signals in the NEM should not be considered as the only signal for investment in generation. There is a significant disconnect between high prices that can occur in the current 5-minute interval and the investment decision of new generation capacity to occur in future years. There is no compelling evidence to suggest that the MPC should be increased, and it can be argued that many investment decisions have been influenced by other factors such as State and Federal policies including "Net Zero" targets. Other drivers of investment typically come from buyers seeking to ensure adequate coverage of their loads and it is not uncommon for these bilateral arrangements to have provisions for both an availability (capacity) and utilisation (energy) payment.

Increasingly the NEM should be considered a mechanism for settling the differences in participant contract positions, as most buyers and sellers will have hedged positions with varying degrees of exposure to spot prices. Typical arrangements are through bilateral contracts, financial markets, or portfolio positions and participants will manage their risk and exposures in different ways. To the extent a participant takes on a high level of exposure on the spot market is a risk that has the potential to result in extreme negative outcomes. Price signals need to be appropriate for the mechanism and should not be a barrier to participation.

As noted in the ACCC's May Report<sup>1</sup> recent extreme prices have been caused by planned and forced outages; colder than average temperatures; fuel supply issues; and high gas and coal prices. The levels of high prices and volatility being observed are not a result of a lack of generation capacity, but rather a lack of availability and a lack of lower-cost fuel sources. Setting the MPC at a higher level is not going to drive additional investment, as the immediate solution is in the availability of generation plant and low-cost fuel. The more likely outcome of a higher MPC would be demand destruction potentially leading to a lower level of capacity being required.

The Review modelling aims to solve the market price settings to provide sufficient financial incentives to support investment in the lowest cost marginal new entrant resource. This doesn't align with the operation of the NEM as this is not likely to reflect the actual generation-mix that is running at times of high prices, or the bidding strategies

---

<sup>1</sup> <https://www.accc.gov.au/system/files/May%202022%20report%20-%20Addendum.pdf>

being implemented across participant portfolios. The marginal new entrant may have other drivers influencing their trading strategies, such as contracted positions.

The ESB's advice<sup>2</sup> includes a recommendation to strengthen signals for investment in the right mix of capacity to keep the system reliable, affordable and secure. This advice from the ESB suggests that the MPC is not performing as intended, and that fundamental market design changes are required. As noted by the AEMC, in the capacity mechanism high-level design webinar held on 1 July 2022, there isn't any confidence that high prices will result in investment. While the design of a capacity mechanism is out of scope for the Review, the capacity mechanism is being considered due to the inadequacy of the current design and therefore making any changes to the level of the MPC are likely to be detrimental and at odds with the work being undertaken by the ESB.

If the MPC is set too high, this is likely to result in a decrease in liquidity to the extent generators take the view that they will be better off taking exposure in the spot market rather than in contract markets, resulting in buyers of electricity facing greater risks. Participants with portfolio positions would be largely protected, and this would introduce an additional barrier to entry for new entrants.

### Administered Price Cap (APC)

The Panel's initial consideration is that the level and form of the APC at \$300/MWh may remain appropriate for the period 1 July 2025 to 30 June 2028 but notes the recent increases in fuel costs. CSR acknowledges that further analysis is required in assessing whether the APC should be adjusted, or possibly linked to some form of index. CSR recommends that this analysis be conducted in-line with the broader design changes being assessed by the ESB, to avoid the high likelihood of a mismatch in signals.

The NEM and the east coast wholesale gas markets are increasingly interlinked, and the APCs of the various energy markets can lead to adverse outcomes at times of extreme pricing across those markets, as has been the case in recent times. To the extent that the APC is adjusted to allow for higher input fuel costs, this may increase the risk of participation in the NEM, but it may also reduce the unintended consequences that have been occurring. CSR views this as a broader market design issue across both gas and electricity markets that must be addressed together.

At times of APC, those generators that have sold caps can have a lower incentive to generate given their contracted position is protected by APC being in place, allowing for the conservation of fuel. This can lead to lower-cost generation not running and putting additional upward pressure on prices. Increasing the APC isn't going to resolve this issue, and a broader review of recent market events is required.

The APC is intended to reduce risk by lowering the price cap for periods of time, however it doesn't directly result in the price being low. As is the case currently, prices are staying at or above the APC and the market has very little ability to respond, increasing the risk to buyers. The price settings should provide protection from uncapped prices in any given trading interval and protection against sustained high prices over a defined period. The current market design results in protection from sustained extreme prices, but buyers are not protected from sustained high prices.

### Cumulative Price Threshold

As noted in the AER submission to the review, "the CPT is intended to act as a risk management mechanism to limit the exposure of market participants to high spot prices over a protracted period of time. However, it is unclear whether the operation of the CPT to date has achieved this intended aim." CSR supports the proposal that the design of the CPT be reviewed in detail, as it is not clear that the current design is fit for purpose. Both at times when the CPT threshold has been breached and at times when it hasn't been breached, the market can experience sustained high prices which can present an unacceptable level of price risk to buyers in the NEM, which will ultimately be passed on to consumers.

### Summary

CSR appreciates that the Panel has an obligation to complete the review but would caution against making any significant changes to MPC, CPT or APC given the broader market design issues that must be addressed. Setting the MPC too high will increase the risk in the NEM without any evidence of providing a benefit. Similarly, there are

---

<sup>2</sup> <https://www.energy.gov.au/government-priorities/energy-ministers/priorities/national-electricity-market-reforms/post-2025-market-design>

issues with the current level of APC and CPT, but these issues are broader than just the values they are set at. Linkages between gas and electricity markets should also be considered in any future design.

The changes proposed because of the Review

- decrease the ability to manage price risk, without providing any evidence of an efficient price signal
- appear to not have an impact on the level of reliability
- result in a level of unpredictability about what will happen within the regulatory framework.

The focus must be on the market design being fit for purpose for the evolving mechanisms that need to be put in place. CSR considers that there is no compelling case for changing the MPC and that further review of both the APC and CPT is required.

If you would like to discuss this submission, please contact me on [REDACTED] or [rflood@csr.com.au](mailto:rflood@csr.com.au).

Your Sincerely,

Robbie Flood  
Energy Manager

[REDACTED] | E: [rflood@csr.com.au](mailto:rflood@csr.com.au)