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EnergyAustralia

LIGHT THE WAY

Intervention Pricing Methodology Consultation
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Dear Mr Agranat

AEMO – Market Suspension Pricing Schedule – First Stage Consultation

We welcome the opportunity to comment on AEMO's consultation on changes to the Market Suspension Pricing Schedule (MSPS). EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

EnergyAustralia shares AEMO's concerns regarding the existing estimated price methodology outlined in the consultation paper. The current methodology to calculate the MSPS can produce atypical results if there are either extreme high or low prices present in the preceding 28-day calculation period. This can lead to disorderly bidding by generators as they either attempt to capture high prices and avoid low or potentially negative prices.

Any changes to the MSPS should attempt to minimise the need for AEMO to intervene in the market to maintain system security. We note that there is currently a rule change with the AEMC that aims to improve the operation of the market under suspension by providing an avenue for participants to claim compensation limiting the need for AEMO to intervene and direct in the market.¹ This combined with changes to the MSPS should improve the operation of the market under suspension.

The set of principles that AEMO have outlined for prices during market suspension are appropriate. These are:

- Minimise the incentives for disorderly bidding
- Minimise the need for intervention by AEMO
- Minimise unnecessary price volatility

¹ <https://www.aemc.gov.au/rule-changes/participant-compensation-following-market-suspensi>

- Minimise the impact on non-suspended regions

We agree that any methodology should be consistent for both 30-minute settlement and the future implementation of 5-minute settlement and that AEMO should continue with the current frequency of publication. The same approach to calculating the MSPS should be used across both the energy and Frequency Control Ancillary Services (FCAS) markets.

Averaging horizon

EnergyAustralia supports the extension of the averaging horizon from the current 28-day period. As AEMO highlights in their consultation paper a longer averaging horizon should smooth out any shorter-term price fluctuations (e.g. significant price events) but still preserve the medium-term price outcomes. While adjusting the averaging horizon may reduce disorderly bidding (e.g. smooth out any significant high and low prices), there will still exist potential for it to occur. We believe that a 13-week averaging horizon would be sufficient.

Averaging resolution

Changing the MSPS to consider peak and off-peak conventions in the NEM (peak 7am to 10pm AEST, off-peak 10pm to 7am AEST) is also a sensible approach. An average over the whole day would minimise price volatility completely (within the day), but it would also remove typical price shape elements from the MSPS. A peak and off-peak convention would preserve some price shape while also helping to minimise price volatility. As AEMO notes, there still exists possibility that the MSPS may encourage disorderly bidding if the peak/off-peak price is sufficiently low or high; however, the longer averaging horizon (e.g. 13 weeks) and extended averaging resolution should make extreme outcomes less likely.

Treatment of outliers

We believe that placing a cap (\$300/MWh) and floor (\$0/MWh) on the MSPS will ensure that significant periods of high and low prices in the averaging horizon are preserved. This preserves short to medium term pricing signals while also limiting extreme outcomes. The cap should be applied after taking the average prices across the given period.

Return to normal dispatch

Regardless of any changes made to the MSPS there will still exist times in which market suspension prices may incentivise disorderly bidding due to historical price outcomes. While the AEMC's current rule change consultation on participant compensation during market suspension also aims to limit times when AEMO is required to intervene, EnergyAustralia's view is that the best outcome for the market and consumers is the resumption of the spot market as soon as possible.

In conclusion, we support AEMO's approach to changing the averaging horizon, resolution and placing a cap and floor on MSPS. The potential for disorderly bidding remains regardless of changes to the MSPS methodology, therefore, any changes being

considered should not hinder normal spot market operations restarting as soon as possible. This outcome is in the best interests of the market and consumers.

If you would like to discuss this submission, please contact me on 03 8628 1630 or Andrew.Godfrey@energyaustralia.com.au.

Regards

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