Public Interest Advocacy Centre

1 September 2022

Craig Oakeshott
AEMC
Submitted online

Dear Craig

**PIAC submission on temporary increase to APC rule change**

PIAC appreciates the challenges facing the Australian Energy Market Operator (AEMO) – as well as those facing the Australian Energy Market Commission (AEMC) and the Australian Energy Regulator (AER), in the prevailing energy market conditions, and accepts there may be justification for a moderate, immediate increase to the APC. However, the AEMC has neither made a satisfactory case that increasing the APC is the course of action that best supports the NEO, nor that $600 is an appropriate setting for the APC. On this basis, PIAC does not support the proposed rule.

The AEMC should not increase the APC without:

- The results of a completed investigation into the role of generator behaviour in the challenges faced by AEMO during, and in the lead up to, the June 2022 APP events.

- A comprehensive and transparent analysis of the potential market contract and consumer bill impacts of different levels of APC.

- Genuinely assessing alternatives for preferable rules which the AEMC has the discretion to make. In particular, modifying the arrangements for compensation frameworks that apply to Administered Pricing, AEMO directions and market suspension should be considered. Any decision to increase the APC should be fully justified in comparison to these options.

Given there are compensation options available for generators whose running cost is above the APC, there is not an immediate need for the APC to be increased, particularly in light of the risk of higher costs to retailers and consumers, and the high likelihood of unintended consequences.

Market prices settings, including the APC, are determined by two rigorous processes (the Reliability Standards and Settings Review and subsequent Rule Change). These are undertaken at least two years before they take effect, with extensive stakeholder input, and are in effect for four years at a time, to provide the certainty future and current market participants require to make prudent investment and contract decisions. While the APC is an operational signal (as distinct from an investment signal) and should be able to be adjusted more readily, any adjustment outside of the RSSR should be a last resort and only undertaken when demonstrated to be necessary.

Public Interest Advocacy Centre
ABN 77 002 773 524
www.piac.asn.au

Gadigal Country
Level 5, 175 Liverpool St
Sydney NSW 2000

Phone +61 2 8898 6500
Fax +61 2 8898 6555

Implicit in the AEMC's assessment is an acceptance of the behaviour of some generators during the June 2022 APP events. These generators withdrew capacity under administered pricing because they preferred compensation under the more profitable and/or convenient compensation for directions, rather than the APP compensation (which still covers their costs). Those generators did this despite cautions and support from all three market institutions, and despite the lack of reserve and the system security risks this would obviously create. And they repeated this behaviour, to the point where AEMO could not safely and securely operate the market, leaving them no choice but to suspend it.

The proposal to change the APC could equally be viewed as an opportunistic response to recent events. The AEMC's willingness to proceed without genuinely considering and consulting on alternate options gives the appearance the AEMC is prepared to accept both the behaviour of these generators and the risk of unpredictable and increased costs to consumers.

The APC should not be increased without understanding the potential impacts on the cost and availability of contracts. Previous AEMC decisions on the APC (see for example AEMC's 2008 determination) have noted alignment between the APC and the widely available $300/MWh cap contract. The impact of raising the APC on the availability, level and price of these contracts needs to be fully considered, along with the impacts on retailers who need to recontract during any period of increased APC.

PIAC fully supports the EUAA's letter to the AEMC to on this matter.

PIAC would welcome further opportunities to discuss these matters, and explain our concerns in more detail.

Yours sincerely,

**Craig Memery**
**Senior Advisor - Energy**

+61 412 223 203
cmemery@piac.asn.au