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Mr Ori Agranat

Australian Energy Market Operator

GPO Box 2008

Melbourne VIC 3001

6 August 2018

Dear Ori,

Market suspension pricing schedule

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Operator (AEMO) Market Suspension Pricing Schedule Consultation Issues Paper (Issues Paper) on proposed amendments to the estimated price methodology (EPM).

AGL wholly supports AEMO's consideration of amendments to the EPM. The extended 2016 market suspension in South Australia (SA) demonstrated shortcomings with the existing EPM. AGL was one of many participants who contributed to restoring and maintaining the power system during the market suspension event and who incurred financial losses from doing so; the EPM was one cause of this result.

As the Issues Paper explains, during the 2016 SA market suspension the frequency control ancillary service (FCAS) pricing schedule was based on a four-week averaging horizon that included significant price volatility. AEMO was not permitting FCAS to be provided by generators located in SA during the market suspension event. As a result, participants with negative causer pays factors were unable to provide or source cover for their FCAS liability, and participants with existing sold derivative contracts in these markets were unable to defend against the high prices in the market suspension schedule.

AGL considers that the simplest solution to prevent anomalous market suspension pricing outcomes in future is to push the four-week averaging horizon out to one year (Issues Paper, q. 4). Consequently, if the averaging horizon is extended to one year, AGL agrees that schedule prices should be included as inputs to latter weeks' schedule prices during an extended market suspension event (Issues Paper, q. 5).

Should AEMO not be amenable to extending the averaging horizon, AGL suggests the next best alternative is to remove pricing outliers so as not to skew average prices over a shorter averaging period (Issues Paper, q. 9). With a one-year averaging horizon, AGL does not consider that removing outliers would be necessary, as any volatility would be smoothed over the year.

AEMO has presented four alternatives for averaging resolution to potentially replace the current method based on 30-minute trading intervals. AGL considers that the current method should be retained, but that there is merit in revisiting this issue once five-minute settlement commences in 2021, when potential changes in bidding behaviour may change the current shape of a trading day (Issues Paper, q. 6). Regarding the issue of determining "shoulder" or other periods that are not currently defined, AGL cautions against overcomplicating the methodology on such bases.

Finally, a key concern for market participants during times of market suspension is pricing certainty. AGL is of the view that publication of the pricing schedule each week provides sufficient certainty and does not warrant revision currently (Issues Paper, q. 10).

AGL appreciates the opportunity to provide a written submission on the Issues Paper, however we consider a stakeholder workshop or further Intervention Pricing Working Group meeting would be a useful forum in which to discuss these matters ahead of AEMO's final report.

If you have any queries about this submission, please contact Liz Gharghori on (03) 8633 6723 or lgharghori@agl.com.au.

Yours sincerely,

Chris Streets

Senior Manager Wholesale Markets Regulation