

Our ref: REL0082
16 November 2022
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001
By email: anna.collyer@aemc.gov.au

Dear Ms Collyer,

National Electricity Rules – Rule Change Request to amend the Market Price Cap, Cumulative Price Threshold and Administered Price Cap from 1 July 2025 to 30 June 2028.

I am writing to submit the Reliability Panel's (the Panel) rule change request to amend three of the existing reliability settings; the Market Price Cap (MPC), Cumulative Price Threshold (CPT) and Administered Price Cap (APC). The rule change request is in response to the Reliability Panel's recommendations from the 2022 Reliability Standard and Settings (RSS) Review, published on 1 September 2022.¹ The 2022 RSS Review considered the reliability standard and settings required for the period of 1 July 2025 to 30 June 2028.

The Panel requests that the Australian Energy Market Commission (AEMC) consider making the enclosed proposed Rule under section 91 of the National Electricity Law (NEL).

The rule change request proposes the following two key amendments:

1. Increase the value of the MPC and CPT over three progressive annual adjustments to achieve an MPC of \$21,500/MWh and a CPT of \$2,193,000 (corresponding to 8.5 hours of market prices at the recommended MPC) by the end of the three-year period.
2. Increase the level of the APC from \$300/MWh to \$500/MWh for the period of 1 July 2025 to 30 June 2028.

The enclosed rule change request includes:

- Recommendations from the 2022 RSS Review final report
- Proposal to progress the rule change request under a fast-track process
- A statement of the issues being addressed by the proposed rule
- A description of how the proposed rule to increase the MPC, CPT and APC addresses the issues identified
- A description of how the proposed rule will contribute to the achievement of the National Electricity Objective (NEO) and its expected costs and benefits, and
- A draft of the proposed rule.

Please do not hesitate to contact me should you have any questions.

Yours sincerely,



Charles Popple
Chair, Reliability Panel
Commissioner, AEMC

¹ This report is [available here](#) on the AEMC website.



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**RELIABILITY PANEL
RULE CHANGE REQUEST**

**AMENDING THE NATIONAL ELECTRICITY MARKET
RELIABILITY SETTINGS**

**MARKET PRICE CAP
CUMULATIVE PRICE THRESHOLD
ADMINISTERED PRICE CAP**

Contents

1. Background to rule change request	4
1.1 Overview of Panel’s RSS reviews and the reliability standard and settings	4
1.2 2022 RSS Review	4
2. Request to make a fast-tracked rule	6
2.1 Request for a fast-tracked rule.....	6
2.2 Summary of consultation conducted by the Panel	6
3. Statement of issues being addressed	7
3.1 Key issues: MPC and CPT	7
3.2 Key Issues: APC.....	7
4. Proposed rule to amend the MPC, CPT and APC.....	7
4.1 Recommendation to amend the MPC and CPT	7
4.2 Recommendation to amend the APC.....	9
5. Requirement to meet the National Electricity Objective.....	10
5.1 How the proposed rule will contribute to the NEO.....	10
5.2 Expected costs and benefits of proposed rule.....	11
Appendix	13
Appendix A: Background to the Reliability Panel	13
Appendix B: Proposed rule.....	14

The purpose of the 2022 RSS Review was to consider whether the existing form and level of the reliability standard and settings remain appropriate for the expected market conditions from 1 July 2025 to 30 June 2028 (FY2026 - FY 2028) for the existing energy-only market.¹¹

It is important to note that the Panel undertook the 2022 RSS Review in the context of a challenging and unprecedented rapid change occurring in the energy market, and hence more uncertainty in market conditions. The Panel’s analysis, final report and recommendations reflect that the review:

- was broader in scope than in the past, with the Panel considering both the form and level of the reliability standard and settings
- considered future reliability outcomes in the context of a NEM power system that is undergoing a fundamental transition from being a capacity-limited thermal power system to a more energy-limited power system with high variable renewable energy (VRE) generation, and
- was occurring at the same time there were increases in fuel costs and the occurrence of an administered price period between 12 to 14 June 2022 and market suspension period from 15 to 24 June 2022.

Given the ongoing challenging market conditions, the Panel had regard to, and balanced, a range of different trade-offs to determine the need for change in the review period. This included trade-offs between:

- Sufficient market revenue potential to support new entrant investment and minimise potential electricity bill cost impacts. The Panel had particular regard to consumer concerns about the impact of any change on consumer costs.
- Regulatory predictability and the flexibility to adjust. The Panel considered this trade-off in addressing the gap revealed by the modelling between the existing MPC and CPT, and what is required to incentivise sufficient investment to support reliability as the NEM transitions.
- Providing sufficient scope for efficient market pricing outcomes and minimising the potential for systemic financial risk.
- Providing increased incentives to support investment as well as providing a gradual transition to maximise scope for market participants to prepare and respond to any material changes.

The Panel’s final recommendations for the 2022 RSS Review are provided in Table 1 below.

Table 1: 2022 RSS Review final recommendations

Reliability standard and settings	Existing levels	Recommended levels
Reliability standard	0.002% expected unserved energy (USE) in a region over a financial year	Retain existing level and form of the reliability standard. The Panel noted that it would undertake a further review of the form of the reliability standard with a view that the form of the reliability standard should be changed by 1 July 2028 to accommodate a “tail risk metric” in combination with an “expected value of unserved energy metric”.
Market price cap (MPC)	\$15,100/MWh	Progressive annual adjustments to achieve a level of \$21,500/MWh by 1 July 2027.

¹¹ The work on a capacity mechanism design was out of scope for this review. The interim reliability measure (IRM) was also out of scope. Under the NER, the AEMC is responsible for the review of the IRM by July 2023.

Cumulative price threshold (CPT)	\$1,359,100 (7.5hrs at the MPC)	Progressive annual adjustments to achieve a level of \$2,193,000/MWh by 1 July 2027 (8.5hrs at the MPC).
Administered price cap (APC)	\$300/MWh	Increase to \$500/MWh.
Market floor price (MFP)	-\$1,000/MWh	Retain existing form and level of the MFP.

2. Request to make a fast-tracked rule

2.1 Request for a fast-tracked rule

The Panel requests that this rule be treated as a fast-tracked rule under section 96A of the NEL. The Panel considers that a fast-tracked rule will maximise resource efficiency in that the AEMC will not be required to divert its resources to a lengthy rule change process when two rounds of consultation have already been undertaken by the Panel.

Under section 96A of the NEL, the requirements for considering a fast-tracked rule are:

- (a) An electricity market regulatory body has submitted a rule change request and has consulted with the public on the nature and content of the request, and
- (b) The AEMC is of the opinion that the consultation was adequate, having regard to the nature and content of that request and the kind of consultation conducted by the electricity market regulatory body.

The Panel considers this rule change request meets the requirements in limb (a) outlined above, given it:

- is an electricity market regulatory body under section 87 of the NEL, and
- undertook the 2022 RSS Review in accordance with the rules consultation procedures under rule 8.9 of the NER.

2.2 Summary of consultation conducted by the Panel

The Panel is made up of a range of representatives from both industry and consumer sectors which bring a diverse set of views and considerations to the Panel's work.¹² For the 2022 RSS Review, the Panel undertook extensive stakeholder consultation, which included:

- two rounds of consultation inviting submissions to the Issues Paper (27 January 2022) and Draft Report (9 June 2022)
- a public stakeholder forum (31 March 2022)
- individual meetings with stakeholders who provided submissions to the Issues Paper and Draft Report
- individual meetings with energy contract traders and retailers to better understand the potential impacts of increasing cap prices which was a major concern of consumer groups, and
- individual meetings with each of the NEM jurisdictions prior to the publication of the Draft Report and Final Report.

¹² See Appendix A for background to the Reliability Panel and a list of its representatives.

3. Statement of issues being addressed

The majority of the Panel considered that the current level of the MPC and CPT needed to be increased as they currently would not support the investment required to achieve the reliability standard. The Panel also considered that the current level of the APC should be increased to reduce reliance on the compensation regime and reduce additional pass-through costs to consumers. The key issues with the existing levels of the settings are further outlined below.

3.1 Key issues: MPC and CPT

The Panel considered that retaining the existing MPC of \$15,100/MWh and CPT of \$1,359,100 for the review period from 1 July 2025 to 30 June 2028 would result in key issues, including that the current levels of the MPC/CPT would:

- not support the investment needed to achieve the reliability standard, particularly given the degree of thermal generation retirement expected following the review period, and
- not achieve sufficient revenue for any marginal new entrant technology in NSW or VIC.

3.2 Key Issues: APC

The Panel considered retaining the existing APC of \$300/MWh for the review period from 1 July 2025 to 30 June 2028 would result in the following key issues:

- possible future administered price periods caused by high fuel costs may result in significant generating capacity being withdrawn and potential market suspension by AEMO similar to the events in June 2022
- there is an increased risk of undue reliance on the administered pricing compensation process, when taking into account the misalignment between the unchanged APC of \$300/MWh and the increasing consumer price index, as well as Australia's exposure to volatile international coal and gas prices
- storage units may not be incentivised to participate during a future administered price period if there is limited price movement to signal charging and discharging, and
- the risk of increased consumer costs from large compensation payments may be higher if there is undue reliance on the compensation process, and retailers cannot hedge against these compensation costs which also introduces uncertainty.

4. Proposed rule to amend the MPC, CPT and APC

4.1 Recommendation to amend the MPC and CPT

The Panel is proposing amendments to the NER to implement the 2022 RSS Review final recommendations related to the MPC, CPT and APC. The Panel made its final recommendation having regard to the Panel's assessment framework, the requirements in the NER, and the 2021 RSS Guidelines.

The Panel's final recommendations for these settings are that:

- there is a progressive adjustment in the level of the MPC and CPT to achieve an MPC of \$21,500/MWh and a CPT of \$2,193,000 (corresponding to 8.5 hours of market prices at the recommended MPC) (in \$2021) by the end of the review period, and
- three progressive annual changes to achieve the recommended level by the end of the review period on 30 June 2028 as set out in Table 2 below.

Table 2: Recommended progressive annual changes to MPC and CPT

2021 \$	1 July 2025	1 July 2026	1 July 2027
MPC	\$17,500/MWh	\$19,500/MWh	\$21,500/MWh
CPT	\$1,575,000	\$1,872,000	\$2,193,000
CPT hours at MPC	7.5	8	8.5

The final recommendation addresses the issues in section 3.1 in the following ways:

- IES modelling outcomes demonstrate a material benefit compared to the current incentives for investment¹³
- gradual changes in the MPC will minimise impact while also achieving the necessary levels identified by IES modelling results to produce outcomes consistent with the reliability standard
- the value of increasing demand response participation was taken into account to the greatest extent possible
- incentives for storage investment will be incrementally improved
- contract market impacts and systemic risk will be minimised, and
- impact on electricity costs will be minimised to the level required to support reliability.

According to IES modelling outcomes, the proposed increase is the minimum level required to support investment in generation, storage, and demand response to avoid exceeding the reliability standard in light of thermal generator retirements after 30 June 2028.

The majority of the Panel considered the final recommendation was justified given the value of the benefit realised by consumers from enhanced future reliability outcomes as indicated by the detailed modelling. It is worth noting that two Panel members representing consumers did not consider an increase to the MPC or CPT was needed, on the basis that they considered the:

- reliability standard is unlikely to be exceeded during the review period
- financial risks for some retailers and spot-exposed customers may be too high
- the modelling assumed limited volumes of demand response would be available under the existing price cap which does not reflect anticipated changes to the Wholesale Demand Response Mechanism, and
- the modelling did not include revenue from jurisdictional schemes, such as the NSW Electricity Infrastructure Roadmap in calculating the MPC and CPT required to support marginal new entrants.

The Panel considered consumer concerns about possible and future increasing electricity costs. The Panel's final recommendation sought to limit end-user bill impacts to the minimum level possible while still supporting future outcomes consistent with the reliability standard. High-level analysis for the review indicated consumer bill cost increases to be around 3 per cent (in real terms), spread over a three-year period from 1 July 2025 to 30 June 2028.

¹³ Reliability Panel, 2022 RSS Review Final Report, 1 September 2022, [available here](#) on the AEMC website.

The Panel notes that additional MPC and CPT increases in future review periods may be required to sufficiently incentivise investment consistent with the reliability standard in all NEM regions, and to incentivise investment in storage to manage reliability risk in a high VRE power system. The Panel's recommendation for this review period, therefore, may represent a first step in a longer-term adjustment.

The Panel considers prospective future increases in the MPC, beyond the level recommended in this report and in future reviews, may warrant consideration of potential complementary measures. In particular, where complementary measures provide investment support necessary to support reliability in a high VRE power system while avoiding systemic risk challenges, and an MPC that approaches the value of customer reliability (VCR).

4.2 Recommendation to amend the APC

The Panel recommends increasing the level of the APC from \$300/MWh to \$500/MWh for the review period of 1 July 2025 to 30 June 2028.

The final recommendation was informed by the Panel's review requirements, analysis of issues made apparent by the recent administered price period in June 2022, and stakeholder feedback. In its analysis, the Panel also had regard to the greater financial burden a higher APC may have on retailers and consumers.

On balance, the Panel considered that there was a material benefit to increasing the APC to reduce undue reliance on the compensation regime and reduce additional pass-through costs to consumers. Two panel members did not support an increase of the APC to \$500/MWh, and further detail on their views is outlined in section 5.2.

The final recommendation addresses the issues in section 3.2 in the following ways:

- provides for robust outcomes to possible future high fuel price periods - while the high fuel costs in the recent administered price period (APP) are not typical, the Panel considers that they may be less rare in the future. Increasing the APC to \$500/MWh should recover the SRMC of most generators in a range of credible scenarios, noting that the APC will likely be rarely imposed and generally in times of unpredictable and extreme circumstances. Additionally, by July 2025 the APC would have been \$643/MWh after adjusting it for the Consumer Price Index (CPI) based on actual and forecasted inflation since its implementation.
- prevents undue reliance on compensation processes - in light of the recent APP where the AEMC has indicated that 23 registered participants have submitted claims, the Panel considers that the increased APC will reduce reliance on the compensation process to a limited number of very high-cost generators during periods of unusually high fuel costs.
- improves incentives for storage to participate during an APP - during the recent APP, the Panel heard reports that energy-limited units found the \$300/MWh APC did not sufficiently provide incentives to charge and discharge as normal, which resulted in less than optimal utilisation without material intervention from AEMO.
- enables better management of APP-related consumer costs - raising the APC reduces unhedgable compensation costs that are passed through to consumers but may increase retailer hedging costs. On balance, minimising the reliance on compensation reduces cost uncertainty for both retailers and consumers.

The Panel noted that several stakeholders suggested changing the form of the APC from a fixed to a dynamic value in recognition of the links between gas and electricity prices. The Panel has recommended not to change the form of the APC for the review period, however, recommended that this issue be considered in the Panel's follow-up review into the form of the reliability standard with

consideration of links with the gas APC. This is to ensure it is addressed as the market continues to transition, and there is a sufficient adjustment period if the form does change.

5. Requirement to meet the National Electricity Objective

This section outlines how the proposed rule will contribute to the NEO, and its expected costs and benefits.

5.1 How the proposed rule will contribute to the NEO

The 2021 RSS Guidelines require the Panel to be guided by the National Electricity Objective (NEO) in making its final recommendations, which is:

To promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to:

- a) price, quality, safety, reliability and security of supply of electricity; and*
- b) the reliability, safety and security of the national electricity system.*

In accordance with the requirements in the 2021 RSS Guidelines,¹⁴ the Panel also considered the following assessment principles for undertaking its assessments of the 2022 RSS Review.¹⁵ At a high level, these are:

- allowing efficient price signals while managing price risk
- delivering a level of reliability consistent with the value placed on that reliability by customers, and
- providing a predictable and flexible regulatory framework.

Market price cap and cumulative price threshold

The Panel considers that the proposed amendments to the NER will, or are likely to, contribute to the achievement of the NEO as the proposed MPC and CPT are likely to significantly improve the alignment of incentives for investment with those needed to achieve the reliability standard.

Modelling for the 2022 RSS Review indicated that the existing MPC and CPT do not currently provide revenue sufficiency for any marginal new entrant technology in NSW or VIC (as the two regions with reliability outcomes closest to the level of the reliability standard) over the review period. The magnitude of the identified misalignment exceeds the level of uncertainty inherent in the modelling and indicates existing arrangements are inconsistent with achieving the standard.

Administered price cap

The Panel is of the view that, while it is mindful of the burden it represents to retailers and consumers, the existing APC does not promote efficient operation and use of, electricity services for the long-term interests of consumers.

This is largely because it presents an unacceptable risk that undue reliance is placed on compensation, which would ultimately be paid for by consumers in higher levels of unserved energy and through their retailers who are unable to hedge against compensation claims. Large and frequent compensation claims represent a reduction in the reliability that would otherwise be provided by the market via hedging and investment decisions.

The significant amount of capacity that was withdrawn under the recent APP and which led to AEMO suspending the market from 15 to 24 June 2022, demonstrates that the existing APC is no longer fit

¹⁴ AEMC, *Review of the Reliability Standard and Settings Guidelines*, 1 July 2021, [available here](#) on the AEMC website.

¹⁵ A full description of these is provided in the 2021 RSS Guidelines.

for purpose under high fuel cost conditions and not in alignment with the long-term interest of consumers.

5.2 Expected costs and benefits of proposed rule

Market price cap and cumulative price threshold

The Panel considers the key expected benefits of increasing the MPC and CPT over three progressive annual adjustments include:

- a material benefit will be achieved relative to outcomes under existing arrangements as indicated by the IES modelling outcomes
- market price settings will be sufficient to incentivise investment consistent with the reliability standard will minimise overall total system costs borne by consumers
- the final recommendation achieves the minimum MPC and CPT required to incentivise investment by the end of the review period in advance of the investment needs anticipated post-2028, and insufficient market price settings would risk consumers experiencing inefficient levels of unserved energy which is inconsistent with their willingness to pay
- the final recommendation aims to provide a gradual a change in the MPC while also achieving levels identified by modelling as necessary to support reliability outcomes consistent with the standard
- the value of increasing demand response (DR) participation was taken into account to the greatest extent possible¹⁶
- the proposed increase is a step toward an MPC and CPT that sufficiently incentivises storage investments
- contract market impacts and systemic risk will be minimised both by the level of increase and gradual transition, and
- the impact on electricity costs will be minimised to the level required to support reliability.

High-level analysis for the 2022 RSS Review estimated the consumer bill cost increases that would arise from the Panel's recommendation to increase the MPC and CPT. This analysis indicated an increase of around 3 per cent in real terms, with that increase spread over the three year period from 1 July 2025 to 1 July 2027. The Panel notes that end-user consumer costs are primarily driven by average price outcomes rather than peak prices influenced by the MPC. Recent cost increases have been driven by large increases in international fuel prices, which feed into average market prices, rather than peak market prices due to the level of the MPC. An increase in peak market prices, however, incentivises investment (and thereby competition) and is likely to produce lower future average prices.

The Panel expects its proposed increase may see higher contract prices, thereby enhancing contract market support for new investment. The recommended increase in the MPC and CPT is likely to incentivise buyers of caps and other market customers to hedge more of their retail load than would have otherwise been the case. This will increase demand for risk management products. Conversely, the final recommendation may make sellers more conservative in the number of caps they sell to manage increased financial risk from unplanned outages. The intersection of supply and demand is expected to see contract market prices shift over the long term towards new entrant levels.

The Panel considers its proposed amendment for the MPC and CPT will not create risks that threaten the overall integrity of the market. The Panel noted in its final report that any increase in financial risk

¹⁶ New entrant DR limits the investment that is required to address a reliability gap and can therefore reduce the required MPC from what it would have otherwise been in the absence of any DR.

Appendix

Appendix A: Background to the Reliability Panel

The Reliability Panel (the Panel) is a specialist panel established by the Australian Energy Market Commission (AEMC) in accordance with section 38 of the National Electricity Law (NEL). It is responsible for monitoring, reviewing and reporting on the safety, security and reliability of the national electricity system and advising the AEMC in respect of such matters.

The Panel's responsibilities are specified in section 38 of the NEL and rule 8.8 of the National Electricity Rules (NER). It comprises the following industry and consumer representatives in accordance with section 8.8.2 of the NER:

- Charles Pople, Chair of Reliability Panel, AEMC Commissioner
- Stephen Clark, Marinus Link Project Director, TasNetworks
- Joel Gilmore, General Manager Energy Policy and Planning, Iberdrola Australia
- Craig Memery, Director Energy and Water Consumer's Advocacy Program, Public Interest Advocacy Centre
- Ken Harper, Group Manager Operational Support, Australian Energy Market Operator
- Keith Robertson, General Manager Regulatory Policy, Origin Energy
- Ken Woolley, Executive Director Merchant Energy, Alinta Energy
- Peter Price, Head of Corporate Strategy and Executive General Manager Asset Safety and Performance, Energy Queensland
- Melissa Perrow, General Manager Energy, Brickworks Limited, Board Member, Energy Users Association of Australia
- Rachele Williams, General Manager of Project Delivery, ARENA (discretionary representative)

Appendix B: Proposed rule

See attached proposed rule below.

Proposed Rule

Proposed National Electricity Amendment (Reliability settings from 1 July 2025 to 30 June 2028) Rule 2022

1 Title of Rule

This Rule is the *Proposed National Electricity Amendment (Reliability settings from 1 July 2025 to 30 June 2028) Rule 2022*.

2 Commencement

Schedule 1 of this Rule commences operation on 1 July 2025.

Schedule 2 of this Rule commences operation on 1 July 2026.

Schedule 3 of this Rule commences operation on 1 July 2027.

3 Amendment to the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 1.

4 Amendment to the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 2.

5 Amendment to the National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 3.

Schedule 1 Amendment to the National Electricity Rules

(Clause 3)

[1] Clause 3.9.4 Market Price Cap

In clause 3.9.4(d), omit "BV^{MPC} is \$12,500/MWh (being the value of the *market price cap* prior to 1 July 2012)" and substitute "BV^{MPC} is \$17,500/MWh".

[2] Clause 3.9.4 Market Price Cap

In clause 3.9.4(d), omit "b is calendar year 2010" and substitute "b is calendar year 2021".

[3] Clause 3.14.1 Cumulative Price Threshold and Administered Price Cap

In clause 3.14.1(a), omit "\$300/MWh" and substitute "\$500/MWh".

[4] Clause 3.14.1 Cumulative Price Threshold and Administered Price Cap

In clause 3.14.1(e), omit "BV^{CPT} is \$1,125,000 (being 6 times the value of the *cumulative price threshold* prior to 1 July 2012 calculated on a 30-minute basis)" and substitute "BV^{CPT} is \$1,575,000".

[5] Clause 3.14.1 Cumulative Price Threshold and Administered Price Cap

In clause 3.14.1(e), omit "b is calendar year 2010" and substitute "b is calendar year 2021".

Schedule 2 Amendment to the National Electricity Rules

(Clause 4)

[1] Clause 3.9.4 Market Price Cap

In clause 3.9.4(d), omit "BV^{MPC} is \$17,500/MWh" and substitute "BV^{MPC} is \$19,500/MWh".

[2] Clause 3.14.1 Cumulative Price Threshold and Administered Price Cap

In clause 3.14.1(e), omit "BV^{CPT} is \$1,575,000" and substitute "BV^{CPT} is \$1,872,000".

Schedule 3 Amendment to the National Electricity Rules

(Clause 5)

[1] Clause 3.9.4 Market Price Cap

In clause 3.9.4(d), omit "BV^{MPC} is \$19,500/MWh" and substitute "BV^{MPC} is \$21,500/MWh".

**[2] Clause 3.14.1 Cumulative Price Threshold and
Administered Price Cap**

In clause 3.14.1(e), omit "BV^{CPT} is \$1,872,000" and substitute "BV^{CPT} is \$2,193,000".