



Amendment to the Market Price Cap, Cumulative Price Threshold and Administered Price Cap

AEMC invites submissions on the consultation paper

The Australian Energy Market Commission (AEMC) has commenced consultation on a rule change request from the Reliability Panel (Panel). The Panel's rule change request seeks to amend the market price cap (MPC), cumulative price threshold (CPT) and administered price cap (APC), known collectively as the market price settings,¹ to the levels recommended in the 2022 Reliability Standard and Settings Review (RSS Review). The rule change will adjust the market price settings to levels that are consistent with supporting the new entrant investment required to maintain reliability consistent with the reliability standard.

This rule change request stems from the 2022 RSS Review

The Reliability Panel (Panel) is tasked with reviewing and recommending the market price settings every four years, with any recommended changes then being considered by the Australian Energy Market Commission (AEMC) in a rule change.

The Panel published the final report for the 2022 RSS Review in September 2022. The report was prepared based on extensive stakeholder consultation and a detailed modelling exercise. In the report, the Panel identified that:

- The current MPC and CPT are too low to support the investment needed to achieve the reliability standard over the long term. This risks insufficient investment leading to consumers experiencing inefficient future levels of unserved energy.
- The APC at \$300/MWh was too low for a significant part of the thermal generator fleet to recover its variable costs under high fuel price conditions. The Panel considered that this could lead to undue reliance on compensation mechanisms during future administered price periods and risk future market suspensions similar to those seen in June 2022.²

The rule change request proposes changes to the market price settings

On 16 November, the Panel submitted a rule change to the AEMC to make the following changes to the MPC, CPT and APC:

Table 1: Recommended progressive annual changes to the MPC, CPT and APC

2021 DOLLARS	CURRENT LEVEL*	1 JULY 2025	1 JULY 2026	1 JULY 2027
MPC	\$15,100/MWh	\$17,500/MWh	\$19,500/MWh	\$21,500/MWh
CPT	\$1,359,100	\$1,575,000	\$1,872,000	\$2,193,000
CPT in hours at MPC	7.5	7.5	8	8.5
APC	\$600	\$500/MWh		

Note: The APC was amended from \$300/MWh to \$600/MWh by the December 2022 APC rule change.

The Panel considered its recommendation to increase the MPC and CPT would:

- minimise consumer and market impact necessary to support reliability by basing the

¹ The market price settings in the NEM also include the market floor price (MFP). The Panel did not recommend any changes to the MFP for the review period.

² These risks are associated with administered price periods that occur due to high fuel cost conditions.

required MPC and CPT on the lowest cost marginal new entrant.³

- provide certainty in market settings to maximise the scope for the market to adjust by progressively transitioning to the recommended level over the review period.
- incrementally improving support for storage investments; and
- support contract markets, by increasing the incentive for market participants to hedge their risks through contracting and mitigate systemic financial risk.

The Panel considered its recommendation to increase the APC would:

- make the NEM more robust to possible future high fuel price periods reducing the need for AEMO intervention and possible future market suspension.
- prevent undue reliance on compensation processes. In light of the recent APP where 23 registered participants submitted claims, the need for future compensation claims would be limited to a small number of very high-cost generators during an APP.
- improve incentives for storage to participate during an APP.
- enable better management of APP-related consumer costs by reducing unhedgable compensation costs that are passed through to consumers.

The Panel sought to balance the consumer cost impacts and limit increases while encouraging necessary investment. The Panel's modelling indicated a customer bill increase of 3% in the final year of the review period,⁴ incurred progressively over the review period, relative to outcomes under the existing settings.

The Commission is seeking feedback on the following issues

- Whether stakeholders agree with the Panel's recommendations for changes to the market price settings.
- Whether there are other considerations the Commission should make when assessing this rule change request.
- Whether stakeholders agree with the Commission's proposal for how it will assess this request.

Stakeholders are encouraged to comment on these issues, the costs and benefits of the proposed changes, and any other aspect of the rule change request or consultation paper. Submissions are due by **22 June 2023**.

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³ The marginal new entrant is the new entrant generator which supplies the final MW of generation necessary to limit unserved energy to the level defined by the reliability standard.

⁴ The three per cent increase is the total bill increase including network and other bill components.