INFORMATION

Amendment of the market price cap, cumulative price threshold and administered price cap

The AEMC has made a final rule to amend the market price settings in the NEM

The Australian Energy Market Commission (AEMC or Commission) has made a more preferable final rule to amend the existing market price settings in the national electricity market (NEM). The final rule is the same as our draft rule. It will progressively increase the market price cap (MPC) and cumulative price threshold (CPT), and maintain the administered price cap (APC) at its current level, from 1 July 2025 to 30 June 2028.

The final rule has been made in response to a rule change request from the Reliability Panel, following its 2022 Reliability Standard and Settings Review. The final rule's MPC and CPT changes are consistent with those proposed by the Reliability Panel (updated for inflation). The Commission has made a more preferable rule to maintain the APC at $600/MWh, rather than set the APC at $500/MWh as recommended by the Panel. The Commission's final rule on the APC will lead to improved reliability for consumers during administered price periods by encouraging more generation and storage to operate.

Overall, after carefully considering stakeholder feedback and our assessment criteria, we consider the final rule will best promote the long-term interests of consumers, compared to all other options.

The final rule's changes to the market price settings from 1 July 2025, in 2022 dollars, are set out in the table below.

Table 1: Changes to the MPC, CPT and APC under the final rule

MARKET PRICE SETTINGS	1 JULY 2025	1 JULY 2026	1 JULY 2027
MPC	$18,600/MWh	$20,700/MWh	$22,800/MWh
CPT	$1,674,000/MWh	$1,987,200/MWh	$2,325,600/MWh
CPT hours at MPC	7.5	8	8.5
APC	$600/MWh	$600/MWh	$600/MWh

Changes are needed to support reliability as the NEM transitions

The NEM is going through unprecedented change as ageing coal-fired generation retires and is replaced by renewable energy and storage in the transition to net zero. These changes will support the necessary investments to help keep the electricity system reliable for households and businesses. These changes are needed as the existing market price settings are too low to support investment in the generation, demand response, and storage that will operate when there is a shortage of electricity supply to meet consumer demand.

These changes also work with other mechanisms to support the energy transition, including the Commonwealth Government's Capacity Investment Scheme (CIS) and state-based jurisdictional schemes.[1] The investment incentives created by jurisdictional schemes and the CIS complement rather than replace the need for market price settings that are sufficient to achieve the reliability standard over the long term. The revised MPC

1 The Commission notes that the CIS and some jurisdictional schemes remain in development. The Commission has used the information available at the time of publication to assess interactions with the market price settings.

AUSTRALIAN ENERGY MARKET COMMISSION LEVEL 15, 60 CASTLEREAGH STREET SYDNEY NSW 2000
T: 02 8296 7800 E: AEMC@AEMC.GOV.AU W: WWW.AEMC.GOV.AU

and CPT, in partnership with these schemes, will help to support investment in a mix of supply options, including storage, demand response, and gas generation. Together, the final rule, CIS and jurisdictional schemes will work together to help decarbonise the NEM by providing the flexible supply needed to support reliability given increasing levels of wind and solar generation.

In making this final rule the Commission has considered the expansion of the CIS announced on 23 November 2023.[2] The Commission retains its view that the long-term interests of consumers are best served by progressively increasing the MPC and CPT to the level necessary to support long-term reliability outcomes. The Commission considers the expanded CIS remains fundamentally complementary with efficient market price settings.[3]

The final rule minimises cost impacts for consumers and delivers long-term cost benefits

In making the final rule, the Commission has been focused on addressing reliability risks at the lowest possible cost to households and businesses, particularly in light of current cost of living concerns. The final rule may result in relatively small short-term cost increases for consumers. The Commission takes these potential cost increases seriously but considers they are outweighed by consumer benefits from lower bill costs and higher reliability over the long term.

Over the period to 2028, modelling indicates that the new market price settings could increase retail electricity prices by 2.7% on average across all regions of the NEM, relative to outcomes under existing market price settings. Increases in the MPC and CPT will however act to improve reliability and reduce costs to consumers over the long term.[4] We also note that the additional investment supported by the expanded CIS may reduce the 2028 consumer cost impact below the modelled level.

The final rule APC is sufficient considering the effects of inflation

The final rule retains the current $600/MWh APC rather than adopting the Panel's recommended $500/MWh. The $600/MWh APC will maintain the intended price signals while accounting for the expected effects of inflation over the rule change period.[5] The $600/MWh APC will remain sufficient to encourage hydro and battery storage, and existing thermal generation to operate during times of extended very high prices, reducing the need for AEMO intervention and the risk of outages for consumers over the period to 2028.

For information contact:

Principal Advisor, **Graham Mills** +61 2 8296 7800

Director, **Ben Davis** +61 2 8296 7800

Media enquiries: media@aemc.gov.au

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2 On 23 November 2023, the Australian Government announced an expansion of the Capacity Investment Scheme (CIS) to target 9 GW of dispatchable capacity and 23 GW of variable zero-emission capacity nationally - for a total of 32 GW nationally.

3 In fact, this is an explicit feature of the CIS because one of its design objectives is to ensure that new capacity enters Australian energy markets with limited to no impact on electricity market functions and associated rules.

4 The long term is taken to be the investment time horizon over which the NEM's generating fleet would evolve in response to the final rule. Lower consumer costs arise due to higher levels of investment in generation and storage. This will increase competition in the NEM and enable more supply to be available when households and businesses need it, reducing wholesale electricity prices for consumers over the long term.

5 The APC is a nominal figure that is not annually indexed by CPI like the MPC and CPT.