

17 July 2025

Reliability Panel

Submitted online



2026 Reliability Standard and Settings Review

The Australian Financial Markets Association (AFMA) is responding to the Reliability Panel's Consultation Paper for its Reliability Standard and Settings Review.

AFMA is the leading financial markets industry association promoting efficiency, integrity and professionalism in Australia's financial markets, including the capital, credit, derivatives, foreign exchange, energy, carbon, and other specialist markets. Our membership base is comprised of over 130 of Australia's leading financial market participants, including many energy firms who are key participants in the NEM.

Key Points

- **The market settings remain fit for purpose**
 - **There should be a mechanism to escalate the Administered Price Cap**
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AFMA wants to ensure that settings in the underlying physical markets are appropriate for both the physical and the financial markets. AFMA considers that the framework for market settings continues to be fit for purpose and is robust enough to support the transition to a low emissions grid. We also note that the initial findings of the NEM Wholesale Market Settings Review are that the spot market works well and sends efficient operational signals and they do not anticipate recommending significant changes to the spot market or its key settings. We therefore do not think that there is a need for significant change to the market settings at this stage.

1. The role of the market settings

The extended periods of high NEM prices in 2022, which ultimately resulted in AEMO suspending the spot market, led to an increasing focus on the role of the market settings. While there was much discussion of the impact of the events on the financial market, ultimately AEMO's decision to suspend the NEM was driven by the impracticality of attempting to schedule the market when the Administered Price Cap (APC) was not high enough to allow many generators to recover their costs.

The market settings do not have a direct role in the financial market, but they have an impact as the value of financial products is ultimately determined by reference to the spot price and therefore it is important for them to be set to facilitate predictable spot pricing. But while spot prices are very important for the financial market, we consider that the level of any particular setting is unlikely to have a direct impact on individual products, i.e. there is no reason why APC needs to be set at the cap strike price.

2. Question 7: Market Price Cap

The Market Price Cap (MPC) is an important operational tool that serves the dual purposes of signalling when capacity is most valuable and ensuring that market customers do not face

completely unquantifiable price risk. Additionally, MPC acts as a signal for new investment. As a result, MPC needs to be set at a level that balances these interests.

MPC was reviewed recently by the Reliability Panel with the AEMC determining in late 2023 to implement the Panel's recommendations to raise MPC incrementally to \$22 800 by 2027. MPC will then be escalated by CPI going forward. Given the Panel's review of MPC is still quite recent and that the resulting escalation is yet to be fully implemented, AFMA does not consider that there is a case to review the arrangements for MPC at this stage.

3. Question 8: Market Floor Price

Like the MPC the Market Floor Price (MFP) is an important operational setting that serves an important role in incentivising participants to reduce output at times when the market is over supplied. MFP needs to be set at a sufficient level to allow negative prices to be a strong disincentive to running unnecessary capacity, as a result it is a slightly arbitrary number, as unlike other market settings it is not linked to generation cost. AFMA considers that the current level of -\$1 000 continues to act as an adequate disincentive and there is no obvious case to change it.

The Panel has asked if MFP could be contributing to race-to-the-floor bidding in a market with higher levels of variable renewables. AFMA's view is that race-to-the-floor bidding is generally driven by AEMO's approach to tie-breaking during network constraints where units are incentivised to bid to MFP to ensure more preferential dispatch outcomes. AFMA considers that race-to-the-floor bidding is a rational response to manage constraints and considers that participants would be likely to engage in the same behaviour regardless of the level of the MFP.

Additional we do not think that the increase in variable renewable generation has fundamentally changed the role of the MFP, but acknowledges that the increased connection of new (mostly renewable) generation has exacerbated some constraints which may lead to more race-to-the-floor bidding as participants look to manage their exposure to these constraints.

4. Question 9: Cumulative Price threshold

AFMA considers that the Cumulative Price Threshold (CPT) works effectively as a technology neutral mechanism that provides a useful circuit breaker in the event of periods of extended high prices. We consider that indexing has worked well to ensure that CPT remains at a commercially relevant level.

5. Question 10: Administered Price Cap

The Administered Price Cap (APC) has been the market setting that has gained the most attention since the disruptions of 2022. The key learning from the events of 2022 was that, having not been escalated since market start, the real value of APC had dropped to a level below the short run marginal cost of many units making it impossible for AEMO to schedule the market during periods of administered pricing.

AFMA considers that the current level of \$600 is appropriate but we consider that the events of 2022 demonstrated that there needs to be a mechanism to escalate APC to ensure it remains commercially relevant. We consider that the most appropriate mechanism is to index it to CPI as has been done for MPC and the CPT. Additionally given the ongoing above CPI increases to the MPC we consider that there may be merit in the Reliability Panel reviewing the level of APC to determine if it should have similar increases.

6. Question 11: Indexation of market settings

AFMA supports the indexation of MPC and CPT to CPI as we consider that it is the simplest way to ensure that they remain commercially relevant. As discussed above, we also support indexing APC to ensure it retains its value both absolutely and relative to MPC.

AFMA Recommendations

- i. APC should be indexed to CPI
- ii. The Panel should consider if additional increases to APC above CPI are warranted

AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information or clarity as required. Please contact me at lgamble@afma.com.au or 02 9776 7994.

Yours sincerely,



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