ENERGY CONSUMERS AUSTRALIA

2026 Reliability Standard and Settings Review Draft Report

Submission to Australian Energy Market Commission and Reliability Panel

Submitted by: Benjamin Willey

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Feedback on the 2026 Reliability Standard and Settings Review Draft Report

Dear Victor and the Reliability Panel,

Energy Consumers Australia (ECA) is the national voice for household and small business energy consumers. We advocate for a fair, affordable, and reliable energy system—one that meets everyone's needs and leaves no one behind on the journey to net zero.

Thank you for the opportunity to provide feedback on the draft report for the *2026 Reliability Standard and Settings Review.* This review is not just important for reliability outcomes but also for the end prices paid by consumers.

Our previous submission emphasised that the framework must prevent unnecessary increases in wholesale prices by accounting for government-led capacity procurement and avoiding duplicated investment signals. We also highlighted independent analysis showing the limited effectiveness of recent Market Price Cap (MPC) increases, underscoring the need to reassess the role of the market settings in an evolving market to ensure efficient, consumer-focused reliability outcomes.[1]

We remain of the view that current market settings remain **much** higher than necessary, exposing consumers to costs beyond what is required to maintain reliability. While we appreciate the modelling effort that AEMC puts into setting a suitable reliability standard and corresponding reliability settings, we caution against overestimating the ability of price settings to deliver desired market outcomes in the current transition.

In this submission, we make two key points:

- The role of the price settings as investment signals is overstated. As the International Energy Agency (IEA) recently identified, "Electricity markets alone cannot deliver the reliability standards society demands."[2]
- The modelling assumptions made about the behaviour of marginal generators are not realistic and are upwardly biasing the results.

We provide further information and evidence behind our views below. If you have any questions, please contact Benjamin Willey at ben.willey@energyconsumersaustralia.com.au.

Yours sincerely,

Ashley Bradshaw

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[1] ECA, Submission to 2026 Reliability Settings Review Issues Paper, July 2025
[2] International Energy Agency, Electricity Market Design, 2025, p. 83

The role of the price settings as investment signals is overstated

The AEMC and the Panel should avoid overestimating the power of the market price settings to achieve desired market outcomes. The role of a price cap is to limit risk and reflect consumer willingness to pay - not to direct investment.

The Market Price Cap (MPC), historically known as the Value of Lost Load, caps wholesale spot prices.[3] It was introduced to:

- Limit extreme price shocks and systemic risk in the market for market participants and consumers.[4]
- Serve as a proxy for consumer willingness to pay for reliability in an energy-only market that does not take real-time bids from end customers, who contract through retailers and are largely insulated from real-time spot decisions.[5]

Of course, the level of price caps can impact investment and bid decisions, therefore impacting reliability and market outcomes:

- If price caps are too low, revenues during scarcity may be insufficient, risking under-investment or accelerated exit.[6]
- If price caps are too high, this increases incentives to bid at or near the cap, raising volatility and hedging costs. It can also encourage an oversupply of generation to the market.[7]

Further, higher than necessary price settings also mean consumers pay more than necessary for a given level of reliability. These upside risks are often unexplored in discussions about the price settings.

The extent of these price and market distortions depends on the frequency of 'price spikes' that induce high prices, and the duration of these events. If these events occur infrequently and are short lived, then the distortionary impacts of the price cap are relatively minor.[8]

The role of the MPC as an investment signal is limited

The consultation paper makes strong comments about the role of the price settings in directing investment. For example:[9]

> *"Investment delivered by effective wholesale market signals is crucial to achieving the reliability outcomes that consumers value and expect. Softening those signals in response to jurisdictional support for a subset of generators, comprising a subset of available technologies, could result in cascading revenue insufficiency issues for both new and existing generators."*

While this view reflects the Panel's orthodox perspective on the MPC, it is increasingly out of step with observed outcomes, domestic policy and the views of international experts, including the IEA.

[3] ACCC, Applications for Authorisation National Electricity Code, December 1997, p. 70
[4] Ibid, p.73
[5] Ibid, p.71
[6] Ibid, p.73
[7] Ibid, p.73
[8] Ibid, p.73
[9] AEMC Reliability Panel, 2026 Reliability Standard and Settings Review, November 2025, p, 45

Firstly, even in regions where prices reach the cap, there is no assurance they will do so frequently enough to support investment. While this may be modelled, actual market outcomes can be very different to forecasted ones.

Secondly, in basic economic theory, a new entrant will come to market if their expected revenues exceed their marginal costs. For an individual generator, several factors determine expected revenues including actual and forecast wholesale prices and the spread of those prices, expected future demand, contract markets and risk appetite. While the price cap impacts expected future revenues, it is just one of many factors that drive investments. In other words, investment incentives come from competitive markets and expectations of future revenues, not just from regulatory price design.

Last, recent commentary by the International Energy Agency (IEA) suggests that the change of the generation mix to variable renewables while demand is changing is impacting revenue streams and increasing investment risk.[10] As such, there is a growing role for complementary mechanisms to reduce investment risk and provide revenue certainty for capital intensive technologies required to support system adequacy.[11]

We also note that the need for new investment is not just driven by reliability needs but also government decarbonisation goals. This inherently reduces the role of market prices to direct investment and naturally increases the role of government to signal investment requirements.

The Reliability Standard and Market Settings should both be set at the regional level

We have given evidence to suggest that the relationship between the market price settings and the reliability of the market (both in terms of the occurrences of outages and the lack of necessary generation) is weak. However, there is a clearly understood relationship between these settings and the prices that consumers face. Put simply, if one continually increases the MPC and CPT, then high prices get higher and so the cost of a cap contract increases. Retailers will need to pass these increases on to consumers. Indeed, jurisdictional minimum offers such as the VDO and the DMO assume that they do so.

If the AEMC and the Reliability Panel believes that adjusting market settings can be an investment signal to batteries and gas generators, then our recommendation would be to first identify where such resources are most required and then direct the settings to that region. This would avoid unduly increasing prices by increasing the MPC in areas that have sufficient generation capacity.

In short, both the standard and the settings should be set at the regional level. This change to the existing framework would measurably improve outcomes for consumers without negatively impacting reliability.

[10]International Energy Agency, Electricity Market Design, 2025, p. 81
[11] Ibid. 82

Modelling assumptions made about "marginal generators" are not realistic

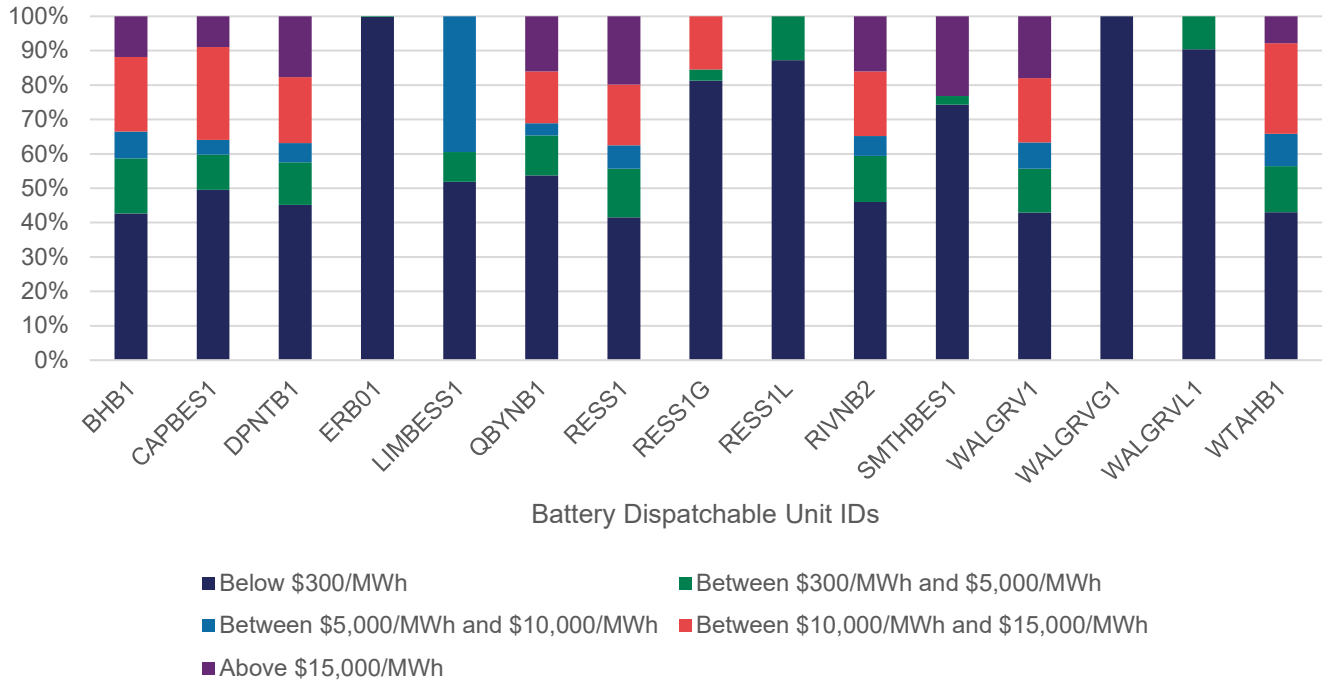
The AEMC's modelling of the MPC assumes that the "marginal" entrant unit recovers most of its costs during scarcity events when prices are close to or near the MPC. As the NEM Review Panel explains:[12]

> *Under the current framework, this marginal unit is often modelled as an open-cycle gas turbine or other fast-start peaking generator. The objective is to ensure that this unit, operating during scarcity conditions for a small number of hours, can recover its fixed and variable costs through a plausible number of high-price events.*

The optimisation model takes these assumptions and then sets the MPC and cumulative price threshold (CPT) so that this unit can recover its costs.

However, we do not consider this assumption to be realistic, since we observe that every existing gas generator and grid-scale battery in the NEM earns significant revenue at prices well below the MPC. Figure 1 shows that in the year beginning 1 Oct 2024, only one battery in NSW recovered more than 20% of their revenue from prices above $15,000/MWh. Figure 2 shows that for the same period, **no** gas peaking generators in the NSW recovered more than 20% of their revenue from prices above $15,000/MWh.

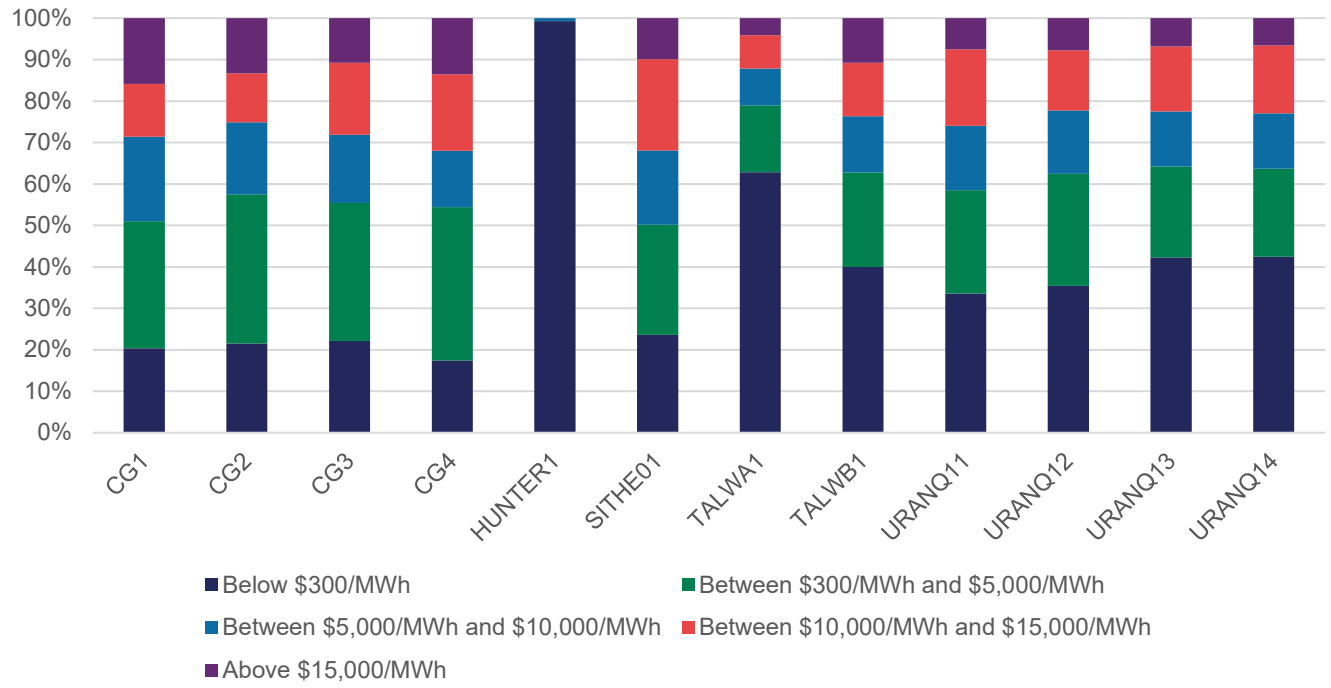
Figure 1: Batteries in NSW are not overly reliant on the highest wholesale prices



Source: AEMO, data covering the period from 1 Oct 2024 to 1 Oct 2025

[12] NEM Review, National Electricity Market wholesale market settings review final report, December 2025, p 123

Figure 2: Gas generators in NSW are not overly reliant on the highest wholesale prices



Source: AEMO, data covering the period from 1 Oct 2024 to 1 Oct 2025

An obvious consequence of this modelling assumption is that it artificially inflates the MPC and CPT posited from the modelling, since if the model assumes heavy reliance on the scarcity period, then the MPC and CPT must be set much higher than otherwise.

We also note that a potential new battery or gas generator needs a compelling investment case which considers the conditions of not just the wholesale market in their region, but also:

- FCAS markets.
- Derivatives markets.
- Jurisdictional schemes for managing their risk.

Therefore, we recommend that the Panel should examine the impacts of different assumptions on how reliant marginal generators are on scarcity events. For example, model a scenario where a new entrant gas generator was dispatched at similar price intervals to existing generators in the jurisdiction.

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