

Our final rule amends the calculation of the cumulative price

The Commission has made a final rule that amends the calculation of the cumulative price in specific situations of market stress

The Commission has made a more preferable final rule that amends the calculation of the cumulative price during periods of peak market stress in response to two rule change requests submitted by Delta Electricity (Delta) and Snowy Hydro (Snowy). The final rule comes into effect on 1 November 2028.

The Commission's final rule addresses Delta's rule change request

The issue raised by Delta in its rule change request is that when a region is not under administered prices but is exporting electricity to a region that is under administered prices, the settled price that is received by the generator is lower than the dispatch price. This creates an outcome where a region's cumulative price threshold (CPT) is reached based on higher dispatch prices, while lower prices are received by generators in settlement.

Our final rule addresses this issue, as it aligns the CPT calculation with the price received by generators. This is because it requires the AEMO to use received prices, instead of dispatch prices, to calculate when the CPT is reached in a region.

The final rule will result in improved signals for peaking generation to offer competitively priced generation when supply and demand are tightening with multiple regions approaching their CPT and entering into administered pricing periods (APPs). It will provide clearer investment and maintenance signals. This is important because peaking generation's ability to provide system security and reliability is becoming increasingly important as the NEM transitions to a higher variable renewable energy system.

The final rule will allow the CPT to function as intended and complement other market settings to achieve a safe, secure and reliable electricity system.

The Commission's final rule addresses Snowy's rule change request

The issue raised by Snowy in its rule change request where the cumulative price does not appropriately reflect market stress following market suspension. Specifically, when there is underlying market stress prior to the market suspension (e.g. the cumulative price approaching or passing the CPT), and the market suspension ends, the cumulative price reflects the market suspension pricing schedule (30 day historic average). This may not appropriately capture the underlying market conditions, and give the impression that the underlying market stress has subsided.

Our final rule addresses this issue by adopting Snowy's proposal to exclude trading intervals from the cumulative price calculation, if AEMO has set the price for those trading intervals in accordance with the market suspension pricing schedule. This improves the protection provided by the CPT following a market suspension where there was underlying market stress, without adding unnecessary regulatory complexity. The final rule does not require AEMO to differentiate based on the reason for the market suspension before applying the methodology for the calculation of the cumulative price.

The final rule will lessen the risks for generators selling hedging products, potential insolvency, and enhance the protection provided by the administered price cap. This is because the rule will incentivise fuel-constrained generators to offer hedges at competitive prices, without an additional risk premium to reflect the uncertainty relating to the operation of the CPT during market suspension, leading to better outcomes for consumers.

It will also provide certainty that the cumulative price calculation will capture any underlying stress in the market that precedes a suspension, as the updated methodology will apply to all situations where the market is suspended. This will also ensure AEMO can implement the final rule in its systems without incurring unnecessary cost or complexity.

Informed by stakeholder feedback, the final rule also includes minor consequential amendments to align the NER with AEMO's processes for applying market suspension pricing and its post-event reporting on a market suspension. This promotes transparency and consistency, for good regulatory practice.

The Commission considered the ten submissions from stakeholders in response to the draft determination

In response to Delta's rule change request and consistent with our draft determination, stakeholders were supportive of using received prices (instead of dispatch prices) to calculate when the CPT is reached in a region. This is because stakeholders accept that the costs of implementing the draft rule are outweighed by the benefits of:

- improved certainty for generators as the CPT reflects prices actually received
- the CPT not being reached prematurely
- strengthened scarcity pricing signals
- supporting investment in peaking plant.

In response to Snowy's rule change request, most stakeholders were supportive of the policy rationale and methodology to exclude prices set by the market suspension pricing schedule from the cumulative price calculation during a market suspension. The Commission considers the benefits outweigh the costs, as it will:

- provide participants with greater flexibility to offer hedging contracts
- reduce potential insolvency risk, and
- maintain the protection of the administered price cap, to be in the long term interests of consumers.

AEMO submitted that it could be implemented in a joint project with the rule in response to Delta's rule change request, without substantially increasing its scale, conditional on minor changes to remove the differentiation for technological failure, greater transparency and alignment with existing processes.

The final rule will commence on 1 November 2028

The final rule has a commencement date of 1 November 2028. While the project itself can be completed in a broad 12-month timeframe, AEMO must accommodate the work within its systems development pipeline and prioritise it against other projects.

As AEMO's system development resources and budget are fully committed for the whole of the 2026-27, and it is unable to start work on this project until at least the start of the 2027-28 year, the commencement date reflects AEMO's existing resourcing.

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