AEMC

RULE

Australian Energy Market Commission

CONSULTATION PAPER

NATIONAL ELECTRICITY AMENDMENT (AMENDING THE ADMINISTERED PRICE CAP) RULE

PROPONENT
Alinta Energy

4 AUGUST 2022

INQUIRIES

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ABOUT THE AEMC

The AEMC reports to the Energy Ministers' Meeting (formerly the Council of Australian Governments Energy Council). We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the Energy Ministers' Meeting.

SUMMARY

As the energy sector undergoes unprecedented change in the transition to net zero, it is vital we keep the electricity grid in a safe, stable, and secure operating state. Establishing the right settings is essential for efficiently promoting the interests of consumers.

Alinta Energy is of the view the current market settings risk the security and reliability of the power system. In a rule change request to the Australian Energy Market Commission (AEMC), the gentailer says that while the National Electricity Market (NEM) has returned to regular operations since the Australian Energy Market Operator (AEMO) took the unprecedented step of suspending it, the threat to the wholesale market remains.

Alinta considers that the current energy challenge has impeded the effective operation of the electricity market which in turn has threatened the security and reliability of the system. As a result, Alinta contends that the underlying settings must be changed to ensure normal market operation and to balance trade-offs to meet the long-term interests of consumers.

The Administered Price Cap (APC) is a tool to stabilise the market through periods of significant and extended volatility. It works by capping prices paid to market participants, and it is applicable when volatile or high prices reach a cumulative price threshold defined by the Rules. The APC acts to reduce risk and financial distress to market participants by limiting their spot exposure. At the same time, the APC should provide sufficient spot revenues for generators to cover their short term costs and incentivise them to supply energy while the APC is in operation.

On 1 July 2022, Alinta submitted its rule change request to increase the APC from $300/MWh to $600/MWh in every NEM region for 12 months to address the significant increase in the short-run marginal cost (SRMC) of most generators as a result of high global commodity prices. Alinta observe that failing to adjust the underlying settings risks a repeat of the dysfunctional market conditions that ultimately led to the recent market suspension and potentially adds unpredictable and avoidable compensation costs to retailers and end users.

Alinta requested that the proposed rule change proceeds under the expedited process as urgent under section 96(1) of the National Electricity Law (NEL). An urgent rule means a rule relating to any matter or thing that, if not made as a matter of urgency, will result in that matter or thing imminently prejudicing or threatening— (a) the effective operation or administration of the wholesale exchange operated and administered by AEMO; or (b) the safety, security or reliability of the national electricity system.[1]

We consider the rule meets the definition of an urgent rule under section 87 of the NEL as it relates to a matter imminently prejudicing or threatening the safety, security and reliability of the national electricity system. The AEMC must publish a final rule determination within eight weeks of commencing the rule change under an expedited process. Stakeholders can object to the rule change being made under an expedited rule change process and we request you

1 See section 87 of the NEL

contact Commission staff before doing so. If there are any objections to the expedited process they must be received by 18 August 2022.

The AEMC has commenced its consideration of the request, and this consultation paper has been prepared to facilitate public consultation and seek stakeholder submissions.

Key questions for this rule change request are:

- What is the problem the rule change is trying to solve?
- Is the solution proposed in the rule change the right solution?
- What benefits and impacts will there be from the proposed rule?
- What is an appropriate temporary level of APC?
- What is an appropriate temporary cumulative price threshold (CPT)?
- If the APC or CPT are changed on a temporary basis, for what period should they apply?

Stakeholders are encouraged to comment on the issues identified and any other aspect of the rule change request or this paper, including the proposed assessment framework. Submissions to the consultation paper are due by 1 September 2022.

The Commission requests that where possible, evidence should be provided to support stakeholder submissions. Any confidential information can be treated as confidential and redacted from submissions published on the AEMC's website. The Commission also welcomes early submissions where possible.

Key dates:

- commencement of rule change process: **4 August 2022**,
- public forum: **16 August 2022**,
- objections to an expedited process due by: **18 August 2022**,
- submissions to the consultation paper due by: **1 September 2022**, and
- final decision to be published under an expedited process by: **29 September 2022**.

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1 INTRODUCTION

On July 1, Alinta Energy submitted a rule change request to the Australian Energy Market Commission (AEMC or Commission). The rule change request seeks to amend the administered price cap (APC) to mitigate ongoing threats to the reliable operation of the NEM (National Electricity Market).

The rule change proposes to increase the APC from $300/MWh to $600/MWh in every NEM region, with a sunset period of 12 months or a suitable period as determined by the AEMC.[2]

The proposed amendment to the APC seeks to ensure normal market operation and settlement during administered price periods (APP), where prices are reflective of the short-run marginal cost (SRMC) of coal and gas generators buying fuels under today's market conditions and dispatch is based on least cost.[3]

Alinta Energy requested that the AEMC consider the proposal as a request for an urgent rule under section 96(1) of the NEL.

This consultation paper has been prepared to facilitate public consultation on the rule change request and to seek stakeholder submissions.

The paper:

- sets out a summary of, and background to, the rule change request,
- identifies several questions and issues to facilitate the consultation on this rule change request, and
- outlines the process for making submissions.

1.1 The Commission considers the rule change to be urgent and proposes an expedited process

Alinta Energy requested that the AEMC consider the proposal as a request for an urgent rule under section 96(1) of the NEL. An urgent rule means a rule relating to any matter or thing that, if not made as a matter of urgency, will result in that matter or thing imminently prejudicing or threatening— (a) the effective operation or administration of the wholesale exchange operated and administered by AEMO; or (b) the safety, security or reliability of the national electricity system.

Alinta states that the current energy challenge on the east coast of Australia has materially impeded:

- the effective operation and administration of the wholesale electricity market; and
- the security and reliability of the interconnected system.[4]

2 Alinta Energy, *Rule change proposal - amendment to the administered price cap to mitigate the ongoing threat to the reliable operation of the market and system*, rule change request, p.2.

3 Ibid, p. 4.

4 Ibid, p.1.

The Commission considers that the proposed rule meets the definition of an urgent rule under section 87 of the NEL as it relates to a matter that, if not made as a matter of urgency, will result in that matter imminently prejudicing or threatening the safety, security and reliability of the national electricity system.

Through recent administered pricing periods (APP) many generating units were bidding unavailable, requiring AEMO to issue directions to these plants. Directions are instructions from AEMO to generators to produce particular levels of electricity output. When this occurs, generators are forced to generate at a particular level of output rather than following the National Electricity Market Dispatch Engine (NEMDE) instructions as they would during normal dispatch conditions.

The information from generating units bidding unavailable is used by NEMDE as an input constraint. An increase in input constraints translates to a reduction in feasible and secure outcomes that can be generated by NEMDE. This mechanism led to many NEMDE constraints being violated which increased the likelihood of the market operating outside of the safe operating envelope, threatening the security of the national electricity system and increasing the likelihood of blackouts.

The rule change also seeks to address the effective operation and administration of the wholesale electricity market. With more capacity bidding unavailable in the market there is less capacity available to be dispatched and reduced pricing signals to indicate the cost of generation available to the market at any point time. This can contribute to further high prices and lack of reserve conditions. During recent market events, as increasing amounts of capacity bid unavailable, AEMO determined that it had become impossible to operate the spot market and suspended the market.

The Commission can process rule change requests that are considered urgent under an expedited (faster) process under which there is only one round of consultation and a requirement to publish a final determination within eight weeks of commencing the rule change process.[5]

The Commission has decided to use an expedited process for this rule change. If there are any objections to the expedited process, they must be received by 18 August 2022. To be valid, an objection should not be misconceived or lacking in substance.[6] The process for submitting an objection is set out in chapter 7.

1.2 Key dates in the rule change process

The key dates for stakeholders in this process are as follows:

5 The AEMC has published a notice under sections 95 and 96 of the NEL to commence and assess the rule change request as an urgent rule.

6 NEL s. 96(3)

Table 1.1: **Key dates**

MILESTONE	DATE
Commission starts the rule change process and publishes a consultation paper.	4 August 2022
Public Forum	16 August 2022
Due date for written request not to use an expedited process.	18 August 2022
Due date for submissions to the consultation paper.	1 September 2022
Commission publishes final determination and final rule (if made).	29 September 2022

2 BACKGROUND

The NEM is designed to ensure customer demand can be continuously met with electricity from the cheapest energy sources within the capacity of the network while maintaining power system security. The price of electricity is normally determined in every 5 minute dispatch interval based on demand, generator offers and network capability.

However, in response to more extreme pricing events, the market activates safeguards that help return the market to more normal pricing outcomes without excessive systemic risk of financial failure while maintaining incentives for participants to continue to operate normally.

The Reliability Panel forms part of the AEMC's institutional arrangements and has detailed functions and powers under the NEL. It has the responsibility to monitor, review and report on the safety, security and reliability of the national electricity system by providing guidelines on the appropriate market settings to ensure that the market deals with extreme outcomes.

The Reliability Panel's Reliability Standards and Settings guidelines provide information on the following components of the reliability regulatory frameworks, which include, with other factors, the form and the level of the Cumulative Price Threshold (CPT), and APC.

2.1 Defining the terms

The Cumulative Price is a summation in Australian dollars, by region, of the interval-by-interval spot price in that region, over the preceding seven days.

The Cumulative Price Threshold is the trigger level for the cumulative price above which an Administered Price Period (APP) commences, and the APC is applied to market prices in that region. The level of the CPT is determined by the AEMC and is indexed to movements in CPI [7]. The CPT is designed to provide price signals to support the achievement of the Reliability Standard and manage risks which may threaten the overall integrity of the market.[8] The CPT effectively caps the total spot price risk to which market participants are exposed over a given time period and maintains the market price signals that drive operational and investment decisions in generation capacity and/or demand-side response.

An administered price period is a period in which:

- the sum of the spot prices in the preceding 7 days exceeds the cumulative price threshold.
- the sum of the ancillary services prices in the preceding 7 days exceeds the cumulative price threshold.
- a trading interval in a trading day in which a prior trading interval is an administered price period.[9]

The administered price cap applies during an APP. The APC is the maximum market price paid to market participants, measured as a $/MWh value, that can be reached in any

7 NER, clause 3.14.1(d)
8 NER, clause 3.9.3A(f)
9 NER, clause 3.14.2(c)

dispatch interval, during an APP. The APC is currently set at $300/MWh.[10] By limiting the maximum market price, the APC limits a market participant's spot exposure. At the same time the APC should provide sufficient spot revenue for the generators to cover their short term costs and provide an incentive for participants to continue to supply energy through normal market mechanisms thereby allowing the market to return to normal operation as soon as possible.

Table 2.1: Current values of the CPT and APC

PARAMETER	VALUE IN 2008 ($/MWH)	FINANCIAL YEAR 2022 ($/MWH)	FINANCIAL YEAR 2023 ($/MWH)
CPT	150,000*	1,359,100	1,398,100
APC	300	300	300

Note: *The CPT in 2008 was calculated from the sum of 7 days of 30-minute prices, it is now calculated based on 5-minute prices. That is the equivalent 5-minute CPT is 6 times $150,000 or $900,000/MWh.

The two most recently determined values of the CPT represent approximately 7.5 hours at the market price cap (MPC), or an average spot price, over the previous 7 days, of $694/MWh.[11]

2.2 How are the levels of the APC and CPT set

At the start of the NEM, the principal concern was the potential for systemic financial failure as a result of generator failure causing high prices in the NEM. Then as now, when a generator fails, it can face significant financial exposures against hedging contracts, particularly if the failure results in high spot prices which then drive contract payments from the generator, for periods where it was unable to generate. Similarly, retailers with insufficient hedge contract cover may face purchasing some portion of their customer load from the market at prices significantly higher than they have contracted to sell to customers.

To determine the APC the Commission attempts to balance:

- the risk of a systemic financial collapse of the electricity industry during an extreme market event is significantly reduced,
- compensation claims by market participants following an application of the APC are minimised, and
- market participants have appropriate incentives to supply electricity during administered price events and market signals for new investment are retained.

10 NER, clause 3.14.1(a)

11 The MPC for the 2022/2023 year is set at $15,500/MWh. AEMC, Schedule of reliability settings, February 2021.

The APC was set at $300/MWh in a 2008 rule change to reflect contemporary fuel costs and generator efficiency at that time. While the value of the APC has been reviewed regularly since then, fuel costs and plant efficiency have not changed sufficiently, until very recently, to overtake the $300/MWh set in 2008. Recently fuel prices have risen to unprecedented levels and, as highlighted in Alinta's Rule change request, some gas and liquid fuelled generation is now more expensive to operate than the price allowed for under the APC.

The CPT was originally set with regard to the annual revenue requirements for an open cycle gas turbine operating on an expensive fuel such as diesel. In 2008 the CPT was updated to be 15 times what was then called the Market Price Limit [12]. The Market Price Limit later became the Market Price Cap and the CPT was indexed to move with the MPC. The APC and CPT work together such that the financial exposure of market participants is not excessive but that once the APC is triggered prices are capped at a level sufficiently low to mitigate the risk of a systemic financial collapse but sufficiently high to allow generators to recover their costs from the market without the need for separate compensation and to remain available to supply electricity during an APP[13]. Compensation to generators operating at a loss during an APP are recovered from energy retailers and, because they are not hedged as part of normal contracting instruments, are passed through to customers.

2.3 Recent issues in the operation of APC and CPT

The cost of key generator inputs including gas, coal and liquid fuel prices, have risen materially over the last 12 months driven by the conflict in Ukraine and local fuel shortages. The ACCC LNG netback benchmark price for gas in Australia increased to $27.96/GJ in June, $27.91/GJ in July and for the forward month of August is now trading at $48.91/GJ.[14] While historically gas prices have traded closer to $10/GJ, global gas supply chain price increases have seen domestic gas prices close to and above the gas APC in most regions.[15]

Similarly, export coal prices from Newcastle have increased to over $400 USD/t in recent months, from historical levels closer to $100 USD/t. This has impacted coal availability to domestic power generators. Extreme rain events in the eastern states have also reduced coal availability to domestic power generators, compounding domestic coal supply issues.

The increase in these input costs translated to a higher cost of generation from coal, gas and liquid fuelled generators and higher wholesale costs generally. In addition, other factors led to changes in the normal merit order of generation and reduced available capacity which resulted in further price increases. Factors include:

- higher customer demand due to cooler than expected winter condition

12 https://www.aemc.gov.au/sites/default/files/content/6f773a0f-7857-453e-9c35-79b20e83e086/Proposed-Rule-%28Rule-Change-Proposal%29.pd

13 https://www.aemc.gov.au/sites/default/files/content/b8c0bbc2-013a-490b-a70a-a04618f5ec1c/Final-Determination.pdf

14 ACCC LNG netback price series, 18 July 2022. The ACCC LNG netback price reflects the equivalent price in AUD/GJ that gas could be sold for on the international market, less the short run costs of providing gas into international markets. As such, it establishes a clear link between domestic prices and international prices. Domestic spot gas prices tend, over time, to reflect changes in this key benchmark.

15 Similar to the electricity market, the gas market also has safeguards including a cumulative price threshold and administrative price cap. The Gas APC is not linked to the Electricity APC and this rule change process is not considering changes to the gas APC. The value of the gas administrative price cap is currently $40/GJ.

- lower than average wind and solar output
- the volume of planned and unplanned outages of conventional thermal generators

In June, high prices, and continued issues with the availability of generation capacity led to the CPT in all regions of the NEM being breached, except for Tasmania. The APC was then applied in these regions of the NEM through the APP. The level of the APC, when compared with the cost of generation, led to additional capacity being withdrawn. Subsequently, AEMO determined that it was impossible to operate the spot market in accordance with the market rules and suspended the market on 15 June 2022.

The challenging conditions experienced in June 2022 led to a greater reliance on gas-powered generation and inventory reductions at the Iona gas storage facility in Victoria.[16] To address the increased demand for gas and its impact on Iona's storage inventory levels, AEMO activated the Gas Supply Guarantee (GSG) mechanism in July 2022 to secure additional gas supplies.[17]

These events led to a significantly elevated risk to the reliability and security of the power system through periods where AEMO was required to issue increased market directions and eventually suspend the market. The APPs and subsequent market suspension also lead to a number of costs which are not hedgeable by retailers and which ultimately need to be recovered from consumers. These costs include:

- APC compensation,
- Reliability and Emergency Reserve Trader (RERT) costs,
- Directions compensation, and
- Market suspension compensation.

2.4 Reliability standards and settings review (RSSR)

The Reliability Panel is currently considering the level and form of the APC for the period 1 July 2025 to 30 June 2028. The 2022 Reliability standard and settings review final report will be published on 1 September 2022.

The RSS focuses on the reliability provided by power generation and interconnection assets (interconnectors) to meet customer demand and are limited to the key parameters that affect reliability in the market— reliability standard and the four reliability settings, being the MPC, CPT, APC and the Market Floor Price.[18]

The Panel's final recommendation on the APC for FY2026-FY2028 will aim to provide robust outcomes for future fuel cost increases, minimising undue reliance on compensation, while also minimising the potential for systemic financial risk.

16 AEMO takes further steps to manage tight gas supplies, https://aemo.com.au/newsroom/media-release/aemo-takes-further-steps-to-manage-tight-gas-supplies,19 June 2022.

17 AEMO, Outcome of the Gas Supply Shortfall Event - 19 July 2022, http://nemweb.com.au/Reports/Current/Gas_Supply_Guarantee/Gas%20Supply%20Guarantee%20-%20Outcome%20Notice%20-%2019%20Juy%202022.pdf, July 2022

18 Reliability Panel AEMC, Draft Report 2022 Review of the reliability standard and settings, 9 June 2022, p. 4.

The Panel's final decision will be informed by analysis including modelling a number of APC scenarios ranging between $500/MWh and $1,000/MWh. The Panel's considerations include:

- the need for an increase in the APC required to cover increased SRMC faced by generators from sustained high fuel costs,
- consideration for the compensation claims by generators that incurred extra costs higher than the APC during the recent APP and potential improvements made to date and those potentially required (in context of APC) going forward,
- impact on MPC and CPT from a higher APC,
- impact on the contract market by changing expected future prices and residual risk,
- financial risk on retailers from increased wholesale costs and unhedgable compensation costs
- incentives for energy limited storage, and
- alignment of the electricity APC with existing gas market caps.

The form of the APC will also be considered, including a fixed APC and the potential for index-linked and peak-off peak APC. While this issue will be considered in the final report, the Panel may recommend the form of the APC be further considered in a future rule change or review process. Any changes to the APC recommended by the Panel are required to be put in an AEMC rule change.

3 DETAILS OF THE RULE CHANGE REQUEST

This chapter outlines the:

- issues raised in the rule change request,
- proposed approach
- potential benefits and drawbacks of the proposed rule, and
- scope of the rule change request

3.1 Issues raised in the rule change request

Alinta raised several key issues in their rule change request, namely:

- the current APC does not reflect the SRMC of generators in the NEM,
- there is a misalignment between the gas and electricity APCs,
- current fuel prices are expected to remain high, and
- without changes to the APC, should resource prices remain high, a repeat of the dysfunction of the wholesale market could recur.

3.2 Proposed approach

Alinta's rule change request proposed an increase in the APC from $300/MWh to $600/MWh in every NEM region, with a sunset period of 12 months or a suitable period as determined by the AEMC with consideration of other processes underway, such as the 2022 Reliability Standard and Settings Review. In Alinta's view, this will help meet the long-term interests of consumers and ensure the most efficient operation of the market.

The proposed rule aims to address the significant increase in the SRMC of most generators in the NEM driven by recent high commodity prices, which may continue for some time. The rule change will aim to create a more predictable, transparent and stable market environment which will likely eventuate by:

- providing adequate incentives for generators to continue to bid capacity into the market and minimise the likelihood of triggering further compensation claims whilst still protecting energy purchasers and the financial stability in the market in response to extreme market events,
- avoiding, as far as possible, increased complexity of system operations causing additional operational pressures and heightening operational risks which can lead to market suspension,
- allowing generators more scope to bid in a way that recovers their short-term operating costs, and
- encourage utility-scale energy storage operators a greater opportunity to deliver market services.

3.3 Potential benefits and costs of the proposed rule

Alinta considers that implementing the proposed rule will deliver significant benefits including:

- enabling normal market operation and settlement by reflecting the actual SRMC of gas and coal generation in the APC,
- mitigating the risk of a systemic financial collapse of the electricity industry during an extreme market event, and
- protecting the long-term interest of consumers with respect to pricing, dispatch and the reliability and security of the national electricity system.

Alinta also expects there will be some consequences from the proposed rule including:

- changes to the structure and price of existing exchange-traded and off-exchange trades undertaken directly between two parties, also referred to as OTC contracts,
- uncertainty in the OTC market concerning market disruption clauses which can include material change formulas related to the specified price,
- potential additional margin calls against exchange-traded caps if a change to the APC results in an increase their market value, and
- an impact on existing cap contracts, which are currently priced at $300/MWh.

In Alinta's view, the benefits are expected to significantly outweigh the costs and should reduce costs to retailers and consumers.

3.4 Scope of the rule change request

The rule change request proposes a rule change with a sunset period of 12 months or a suitable period as determined by the AEMC with consideration of other processes such as the 2022 Reliability Standard and Settings Review.

4 ASSESSMENT FRAMEWORK

This chapter outlines the:

- decision-making framework the Commission must apply to determine whether the rule change request contributes to the national energy objective (NEO),
- proposed assessment framework, and
- Commission's options to make a more preferable rule.

4.1 Achieving the NEO

Under the NEL the Commission may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the NEO.[19] This is the decision making framework that the Commission must apply.

The NEO is:[20]

> to promote efficient investment in, and efficient operation and use of, electricity services for the longer term interests of consumers of electricity with respect to -
>
> (a) price, quality, safety, reliability and security of supply of electricity; and
>
> (b) the reliability, safety and security of the national electricity system.

4.2 Proposed assessment framework

To determine whether the proposed rule change would likely promote the NEO, the Commission will assess the rule change request against an assessment framework. The framework may be refined during the rule change process. The Commission is seeking stakeholder views on its proposed assessment framework, which includes the following criteria:

- **Outcomes for consumers:** Will consumers face lower costs as a consequence of changes to the APC?
- **Safety, security and reliability:**
  - How would the rule change enable the reliable, secure and safe provision of energy at an efficient cost to consumers over the long term?
  - How would the rule promote efficient operation and use of, and investment in, generation facilities, load, storage, networks and other system service capability?
- **Market efficiency:**
  - **Productive efficiency**: does the rule change facilitate least-cost dispatch to meet demand?

19 Section 88 of the NEL.
20 Section 7 of the NEL.

  - **Allocative efficiency**: does the rule change enable prices that facilitate the allocation of electricity to its highest-valued uses?
  - **Dynamic efficiency**: does the rule change promote the long-term interest of consumers through incentives to meet demand as the market evolves and new technologies develop?
  - **Transparency**: Does the rule change provide market participants with transparency on prices during administered price periods?
  - **Risk allocation:** Does the rule change allocate risk to the parties that are best suited to manage risk using existing instruments?
  - **Incentives:** Does the rule change encourage operation and settlement where prices reflect SRMC of electricity generation?
- **Implementation:**
  - **Cost and complexity:** Will a change in the APC lead to ongoing or administrative costs to market participants, consumers and market bodies?
  - **Timing and uncertainty:** What are the interactions between this rule change and the next RSSR in 2025/26?
- **Impact analysis**: Which market participants will be affected by a change in the APC level?
- **Principles of good regulatory practice:**
  - **Predictability and stability**: how do the proposed changes provide the market with predictability and regulatory stability?

We will also give consideration to the *RSSR Guidelines* which direct the Reliability Panel when undertaking each RSSR in order to meet the NEO. The general assessment principles include:

- allowing efficient price signals while managing price risk
- delivering a level of reliability consistent with the value placed on that reliability by customers
- providing a predictable and flexible regulatory framework.[21]

QUESTION 1: ASSESSMENT FRAMEWORK

1. Is the proposed assessment framework appropriate for considering the proponent's rule change request?
2. Are there any other relevant considerations that should be included in the assessment framework?

21 Reliability Panel AEMC, *Final guidelines review of the reliability standard and settings* guidelines, July 2021, p. 6.

5 ANALYSIS

The Commission is analysing the impact of the proposed rule change with respect to three broad areas:

- an assessment of whether there are net benefits to consumers from the proposed change,
- an appropriate temporary level for the APC, if change is required, and
- an appropriate temporary change to the CPT and whether a change is required, for any given change in the APC.

Initial considerations are presented below. Key findings will be presented in the final determination.

5.1 Net benefits to consumers

The APC is intended to balance the consequence of high spot prices during extreme market events with incentives for generators to supply electricity during administered price periods and to avoid the need for additional compensation to generators during those periods. The right settings are important to ensure the availability of capacity and the reliability of the grid, without imposing additional costs on consumers.

The primary outcome expected from increasing the APC, where the cost of fuel to dispatchable generation has increased significantly in the near term, is to improve the incentive for high cost generators to continue to bid capacity into the NEM during APP periods. The greater availability of dispatchable generating capacity provides for a number of key benefits:

- greater system security and reliability and a reduced need for AEMO to issue directions to maintain system security and reliability.
- a reduction in energy scarcity during APP meaning prices and bids are more reflective of costs rather than scarcity value. This also improves signals for generators that rely on the bids of other generators, such as battery and hydro storage.
- a reduction in the risk and magnitude of unhedgeable costs falling on retailers and consumers. These costs include RERT costs, APC compensation, directions compensation and market suspension compensation. These costs also pose problems for generators, where there is a mismatch in the timing of cashflows between when costs are incurred and when they can be recovered.
- over time, a higher APC may also drive greater retailer hedging.

However, there are risks of additional costs for consumers and these include:

- higher wholesale spot prices during an APP,
- over time, higher contract prices to reflect the greater exposure under a higher APC, and
- administrative costs and uncertainty in the contract market associated with a new APC, in relation to the need for new instruments and the impact on existing contracts. For example, cap contracts with new strike prices may be needed. If the APC was to rise,

existing cap contracts, currently priced at the APC, could force generators to source additional fuel and operate to protect those contracts.[22] Further, retailer credit support requirements and bank guarantees may change.

Overall the net benefit of these changes to consumers will depend on the extent to which the benefits identified can be expected to outweigh the costs and impacts over the period in which a temporary APC might be applied. A key consideration in looking at net benefits will be the extent to which retailers are hedged over that period.

A well hedged retailer should be better off under a higher APC. Compensation costs, which are not covered under hedge contracts, are likely to be avoided or minimised, and higher APC prices, where they eventuate, are covered under hedge contracts. If this is the case, consumers will be better off with a higher APC in terms of their overall costs. A retailer with very little hedging in place may be better off under a lower APC, during an APP, as prices are capped at a lower level, providing compensation costs are small or not required. Further work over the course of the rule change will look to identify the impact on retailers at different hedging levels, and the overall impact to be expected on consumers in the NEM as a result of any change recommended.

The timing of expected benefits to consumers from changes to the APC will depend on the expected duration of continued high commodity prices, issues with generator availability and access to fuel. Further analysis will be aimed at determining this timeframe. In relation to gas fuels, the Commission notes the existing analysis published by the ACCC in relation to both the forward price of gas on the east coast via the LNG netback[23] and the expected supply demand balance for gas in the east coast gas market suggest the potential for continued high prices and issues with gas availability through 2023.[24]

5.2 An appropriate temporary level of APC

As market safeguards, triggering of the CPT and the application of the APC should be rare events. They should however be set at appropriate levels such that generators are encouraged to continue to participate in the market operation and maintain reliability by maximising available capacity and ensure that generators receive at least sufficient market revenue to cover their SRMC.

With a view to determining an APC value that would minimise the level of compensation, the initial analysis has considered a range of potential fuel costs and performance characteristics for market generators. The analysis currently excludes renewable energy generators, grid scale battery storage systems and hydro plant. It reflects the approximately 35 GW of thermal generators in the NEM.[25] A lower, 24 GW figure has also been included which

22 A generator that has sold a cap contract will need to have fuel supply in place to run the generator where prices exceed the strike price. Currently during the operation of the APC, the price is capped at $300, and so fuel to operate the station above $300/MWh prices is not needed during APP. With a higher APC, additional fuel would be needed to back an existing cap contract at a strike price of $300/MWh, during APP.

23 https://www.accc.gov.au/regulated-infrastructure/energy/gas-inquiry-2017-2025/lng-netback-price-series

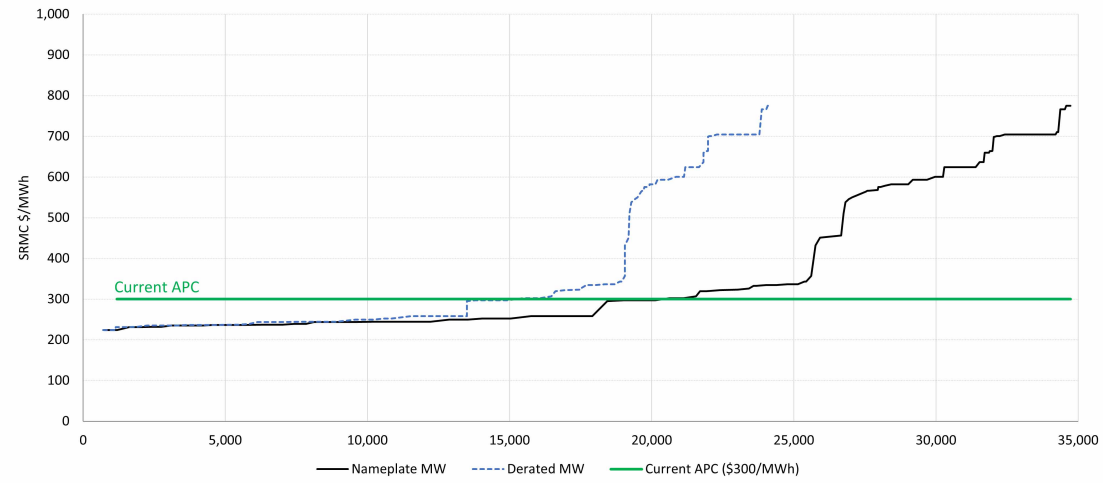
24 ACCC Gas Inquiry July 2022 report notes there is a significant risk to the east coast's energy security in 2023 with a projected shortfall of 56 PJ. https://www.accc.gov.au/publications/serial-publications/gas-inquiry-2017-2025/gas-inquiry-july-2022-interim-report

25 based on name plate rating listed by AEMO in the 2022 Inputs, assumptions and scenarios work books

excludes from the total all the capacity that was unavailable during the period 1 June 2022 to 14 June 2022 (derated basis).

Figure 5.1 shows that while there is significant capacity available below $300/MWh there is 7,000 MW of capacity that requires a price above $300/MWh to run in order to recover its SRMC, based on a gas price of $40/GJ.

Figure 5.1: NEM thermal capacity supply stack - high fuel price scenario

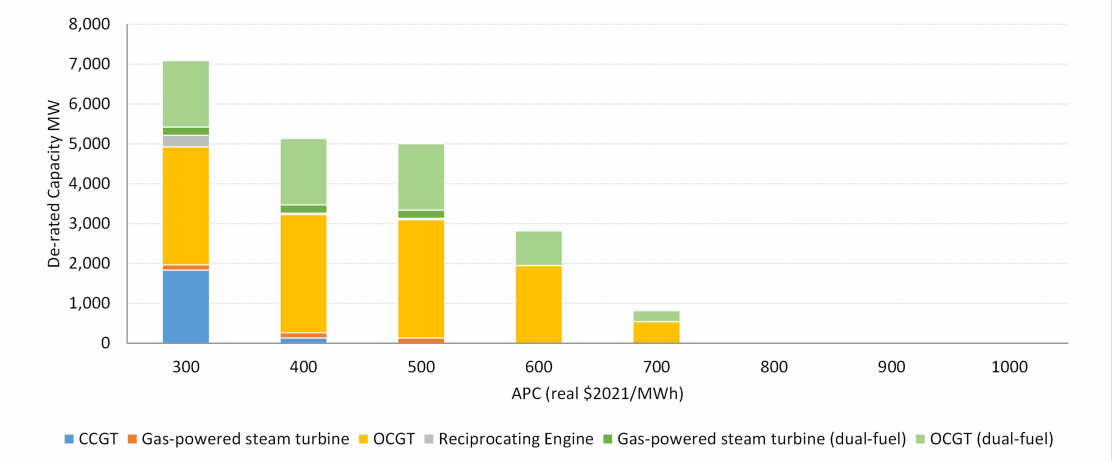


Source: AEMC analysis
Note: This assumes US400/tonne for coal, $40/GJ for gas commodity and $2/GJ for gas transport, and no diesel being used in dual fuel generators.
Note: Derated refers to the available capacity as declared by the NEM generators in the period 1 June 2022 to 14 June 2022
Note: Heat rates are based on the marginal heat rates at minimal stable levels to reflect partial loading of units. The majority of peaking gas units at minimum stable output have a heat rate between 14 and 18 GJ/MWh.

It is worth noting, that sustained higher spot prices sufficient to reach the CPT are likely to be related to supply scarcity, where some portion of capacity is unavailable. In recent events additional capacity was made unavailable by generators during the APP. The derated curve seeks to represent that change and it is likely that a higher APC would avoid the withdrawal of capacity that occurred during the APP.

Figure 5.2 below shows the capacity of generation, by technology, that has SRMC values higher than a range of different APC thresholds up to $1000/MWh. This analysis shows that an APC above $700/MWh would effectively cover the SRMC of all but 800 MW of the capacity in the market out of a derated total of 24 GW. An APC of $800/MWh would cover all capacity.

Figure 5.2: Supply stack thermal generation above $300/MWh - high price scenario



Source: AEMC Analysis
Note: This assumes a gas commodity price of $40/GJ, $2/GJ for gas transport and diesel costs of $39.41/GJ.

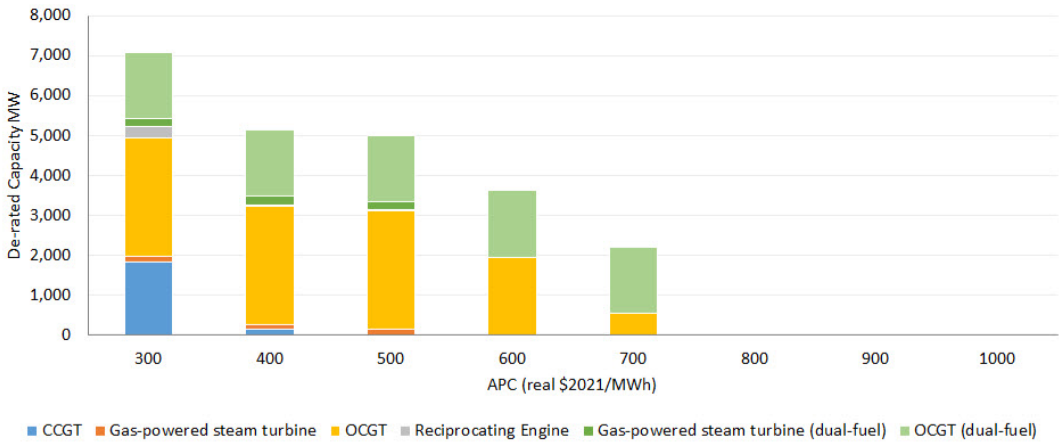
This analysis has considered the impact of a potential gas shortage where some generators with dual fuel capability would be forced to burn alternative fuels during APP.

An initial assessment shows that the 99th percentile cost of diesel fuel for electricity generation, based on east coast diesel prices for Q2 2022, is $39.41/GJ, very close to the same level as the $40/GJ gas market APC. The highest SRMC of generation using these assumptions is $775/MWh. And so similarly an APC of $800/MWh would ensure that the SRMC of all generation in the NEM would be covered by such a price level. AEMO highlighted to the AEMC that the ERAWA determined that diesel-fired open cycle generators in Western Australia had high part load heat rates. However, the diesel price used in their analysis was $36.42/GJ offsetting to some degree the high part load heat rate.[26] The ERAWA analysis determined that the SRMC, for an open cycle gas turbine burning diesel at $36.42/GJ, was $969.26/MWh.

Figure 5.3 shows the amount of generation, in a gas constrained scenario with an SRMC above different potential APC levels. Dual fuelled units in this scenario are assumed to run on liquid fuels.

26 Energy Regulatory Authority, Energy Price Limits Review 2021 Final Determination, January 2022 (https://www.erawa.com.au/cproot/22403/2/-EPL.2021-Energy-price-limits—-Final-determination—-Redacted-for-publishing.PDF). Energy Regulatory Authority, Addendum to the Energy Price Limits Final Determination, January 2022 (https://www.erawa.com.au/cproot/22406/2/-EPL.2021—-Final-determination—-Addendum.PDF)

Figure 5.3: Supply stack thermal generation above $300/MWh - gas constrained scenario



Source: AEMC analysis
Note: This assumes gas prices of $40/GJ, gas transport of $2/GJ and $39.41/GJ for diesel.

Changes to the APC while encouraging generators to continue to bid in the market, also impacts retailers and consumers, and, as noted in the first section, this impact will depend on the degree of hedging undertaken by retailers, during the period in which a temporary change in price cap might apply. Further analysis will be undertaken to determine the impact on retailers and consumers of different APC levels, assuming different degrees of hedging.

Temporary changes to the APC will also need to take account of potential further changes in the cost factors underlying these assumptions. For example, changes to the gas APC levels, were they to occur during the application of the temporary APC, would change the SRMC of gas fired generators in the timeframe.

Additionally, any change to the level of APC will also need to take account of the required spread in prices needed to provide sufficient price opportunities for grid scale batteries and hydro storage to charge and discharge during the application of the APC and recover their costs of generation.[27] Further analysis of the implications of this required spread for any change to the level of the APC will be undertaken.

5.3 An appropriate temporary change to the CPT and whether a change is required, for any given change in the APC

The CPT and the APC are the reliability settings designed to mitigate the risk of a systemic financial collapse of the electricity industry during an extreme market event. Assuming the APC is set sufficiently high to ensure that generators continue to participate in the market,

27 Some grid scale batteries are being charged by providing FCAS services for which they are paid.

the CPT, which triggers the start of an APP, is the setting that governs how long high spot prices continue before the APC is applied.

The risk of systemic collapse of retailers is not only related to market prices but also the degree to which a retailer has hedged their loads with contracts. The more a retailer covers their load with hedge contracts the less they are exposed to high spot prices. In the longer term, if market participants understand the implications of any new APC and CPT, they will change their contracting strategies to match, no prudent retailer will adopt a strategy that could see it become insolvent.

Ideally, the CPT should be set as high as possible to minimise market disruptions but still avoid systemic collapse of the market. The CPT acts to limit generator and retailer risk, by triggering the APC. The CPT is currently determined by its relationship to the MPC which is indexed to CPI.

The Alinta rule change request highlighted that the CPT would be triggered if the market price averages $674/MWh over seven days (this figure is now $694/MWh following indexation of the CPT for the current financial year).

Continued high electricity prices during normal market operation, outside APP, reduces the headroom provided in the existing CPT level for market volatility before the threshold is breached and the APC is brought into effect. This needs to be taken into consideration in looking at potential temporary changes.

The interaction between the APC and CPT is a factor to be considered, noting that the CPT is currently calculated with reference to uncapped prices as determined by NEMDE during APP.

Changing the CPT may preserve some of the buffer for price volatility and therefore reduce the number of times that the APC would be triggered. If the CPT and APC were to increase it could reduce the likelihood of a trigger. Furthermore, a change in the level of the APC and CPT together may change the respective imperatives for generators and retailers to purchase contracts.

The analysis will consider changes to the APC and CPT and whether there are consequential risks to reliability and security of supply. Furthermore the analysis will examine whether a variable APC and CPT will affect financial signals to the market.

6 ISSUES FOR CONSULTATION

Taking into consideration the assessment framework, several issues have been identified for initial consultation. Stakeholders are encouraged to comment on these issues as well as any other aspect of the rule change request or this paper, including the proposed assessment framework.

Key questions for this rule change request are:

- What is the problem the rule change is trying to solve?
- Is the solution proposed in the rule change the right solution?
- What benefits and impacts will there be from the proposed rule?
- What is an appropriate temporary level of APC?
- What is an appropriate temporary cumulative price threshold (CPT)?
- If the APC or CPT are changed on a temporary basis, for what period should they apply?

6.1 What is the problem the rule change is trying to solve?

Alinta states the energy challenge in eastern Australia has materially impeded the effective operation and administration of the wholesale electricity market, in turn threatening the security and reliability of the interconnected electricity system.[28]

The threat to the ongoing effective operation of the system remains, and if the underlying market settings are not changed, there is a risk we will see the same conditions that led to the dysfunction and suspension of the market in June recurring.

Specifically, the APC does not currently reflect the SRMC of generators in the NEM. Gas and liquid fuelled generators are currently facing resource costs that would see their SRMC well above the existing APC level of $300/MWh. In addition, across the eastern Australian gas markets, safeguards on prices[29], such as the administered price cap for gas of $40/GJ, do not align with those APC in the electricity market. Gas generators, purchasing gas at the administered price cap in the gas market, would have a SRMC above the current electricity market APC.

Fuel prices are expected to remain high for the balance of 2022 and potentially to mid-2024. This will likely see further periods where average prices over seven days are high, thereby challenging the NEM CPT over any seven-day period.[30]

Without changes to the APC, Alinta states that the NEM may move in and out of administered pricing over the coming 12-24 months leading to continued challenges to the normal operation of the market, reliance on the interventions framework, including directions by AEMO, and the need for ongoing compensation claims, which are eventually recovered from

28 Alinta rule change proposal p.1.
29 Includes the gas APC in the different gas markets. However, the gas MPCs CPTs across these gas markets are not aligned.
30 Ibid p.7.

consumers. Left unaddressed these impacts will not deliver outcomes in the long-term interests of consumers.[31]

QUESTION 2: PROBLEM STATEMENT

1. Has the problem been appropriately identified? For example, is the current level of the APC, owing to the recently increased cost of generation, the principal problem or a key contributing factor?
2. Is there a risk that a failure to address the problem identified would have a significant negative economic impact and be inconsistent with the long-term interests of consumers?
3. Does the rule change address the problem?
4. Is the rule change the best solution to the problem? Are there other solutions that would better solve the problem over the timeframe considered?

6.2 What is an appropriate level of APC?

To address the problem, Alinta seeks to increase the APC from $300/MWh to $600/MWh in every NEM region with a sunset period of 12 months in order to ensure normal market operation and settlement, and least cost dispatch.[32]

Alinta, however, notes that there are trade-offs to consider in amending the level of APC. These include trade-offs between:

- Having a sufficiently low administered price to mitigate the risk of a systemic financial collapse during an extreme market event.
- Having a sufficiently high administered price to incentivise market participants to supply electricity during APP events, and
- Having a sufficiently high administered price to minimise compensation claims by market participants following an APP.[33]

Global commodity prices have increased significantly for coal, gas and liquid fuels which have consequentially changed the SRMC of generation in the NEM. If the APC does not cover a generator's SRMC, Alinta states that a rational generator would not operate during APP events to avoid losses.[34] When this occurs, NEMDE cannot solve the market, i.e. meet the required level of demand with the combination of least cost supply, and AEMO is therefore required to issue directions to generators.

Generators that withdraw their capacity and are directed to supply energy by AEMO may seek compensation for following AEMO's direction.[35] This process is administered by AEMO

31 Ibid. p.1.

32 Alinta Energy, *Rule change proposal - amendment to the administered price cap to mitigate the ongoing threat to the reliable operation of the market and system*, rule change request, p. 4.

33 Ibid, p. 5.

34 Ibid, p. 6.

35 See rule 3.15.7 of the NER.

and the compensation payable to each directed participant is determined in accordance with the rules.[36] Generators that supply energy during an APP may be eligible for compensation if they incurred a net loss.[37] This process is administered by the AEMC, and claims are assessed based on direct costs and opportunity costs.

The proposed level of APC seeks to be high enough to minimise the likelihood of compensation claims during APP and address significant increases in the SRMC of generators in the NEM, driven by recent high commodity prices which are expected to be maintained for a sustained period.[38] Additionally, Alinta suggests that the proposed rule change would provide a predictable, transparent and stable environment by:

- providing adequate incentives for generators to bid capacity as normal into the market and minimise the likelihood of triggering further compensation claims whilst protecting energy purchasers and the financial stability in the market during extreme market events;
- avoiding, as far as possible, the strains on AEMO and the dysfunction that lead to a market suspension;
- allowing generators to bid at their SRMC which enables AEMO to schedule dispatch based on least costs; and
- providing utility-scale energy storage operators with a greater ability to deliver a range of market services.[39]

Initial analysis suggests that at gas prices of $40/GJ, the existing APC level of $300/MWh would currently see 7,000 MW of thermal capacity in the NEM requiring compensation in order to recover costs during the application of the APC. At a higher level of APC, $600/MWh, this drops to 3,000 MW, at $700 it falls to 800 MW and at $800 the SRMC of all thermal capacity in the NEM is covered by a higher level of APC.

Under a scenario in which access to gas supply is constrained, and dual fuel peakers are required to run on liquid fuels, this changes slightly with $600 covering all but 3,500 MW of thermal capacity, $700 covering all but 2,000 MW and all capacity covered by a higher APC level of $800/MWh.

These are initial figures, and any change in APC must be viewed in the context of the overall impact on retailer and consumers costs in meeting their energy needs over the timeframe that a change might be applied.

QUESTION 3: PROPOSED SOLUTION

1. Is Alinta's proposed amendment to the APC rule appropriate to address the problem?
2. Given current commodity prices, what level of APC is appropriate to enable the normal market operation and settlement under an APP?

36 See rules 3.15.7(c) of the NER.
37 See rule 3.14.6 of the NER.
38 Ibid, p. 8.
39 Ibid, p. 8.

3. What is the impact of such a change likely to be on generator and retailer risks borne in participating in the market?
4. How might the APC change to accommodate different commodity price assumptions?
5. What are alternative options for amending the level of APC. Options could include, for example, different levels of APC for different technologies, different values in each region, values that change by time of day, linkages between the electricity APC and the gas APC?

6.3 What is an appropriate temporary level of CPT?

The rule change request asked the AEMC to look at any consequential impacts on the CPT.[40]

Higher electricity prices in general, in normal market operation outside APP, reduce the headroom provided in the existing CPT level for market volatility before the threshold is breached and the APC is brought into effect. Through an extended period of high commodity prices, higher electricity prices are more likely to be prevalent in the normal operation of the market. As such, this needs to be taken into consideration in looking at potential temporary changes to the level of CPT while a new APC is in effect.

The calculation of the CPT is described in detail in clause 3.14.1 of the NER. The CPT is currently calculated with reference to uncapped prices as determined by NEMDE during APP. This can present problems, where capacity is unavailable in periods during the application of the APC, if uncapped prices significantly exceed the APC in operation. This may have the effect of prolonging the application of the APC.

The main issue for consideration is the quantum of the CPT as the trigger for an APP given interactions between the APC and the CPT and given higher electricity prices in general.

QUESTION 4: TEMPORARY LEVEL OF THE CPT

1. Is there any consequential need for a change to the CPT resulting from a temporary change to the level of APC?
2. Should the calculation of the CPT be different during the APP?
3. Is there a more appropriate method of triggering the APC?
4. Should a temporary change to the level of the APC consider the interaction between the gas APC and electricity APC?

40 Alinta rule change request, p.8.

6.4 For what period should a new APC and CPT apply?

Alinta's rule change request suggests that the higher APC should apply for a period of 12 months (or a suitable period as determined by the AEMC with consideration of other processes underway such as the 2022 RSSR).[41]

In considering temporary changes to the APC, the Commission must consider the timing of the temporary change.

The Reliability Panel is currently considering the level and form of the APC for the period 1 July 2025 to 30 June 2028. The Panel's recommendation will aim to provide robust outcomes for future fuel cost increases, minimising undue reliance on compensation, while also minimising the potential for systemic financial risk.

Key considerations, for example, include the:

- need for an increase in the APC required to cover increased SRMC faced by generators from sustained high fuel costs,
- consideration of compensation claims by generators that incurred extra costs higher than the APC during the recent administered price period and potential improvements made to date and those potentially required (in context of APC) going forward,
- impact on the MPC and CPT from a higher APC,
- impact on the contract market by changing expected future prices and residual risk,
- financial risk on retailers from increased wholesale costs and unhedgeable compensation costs,
- incentives for energy limited storage, and
- alignment of the electricity APC with the administered price cap in the gas market.

The 2022 RSSR final report is required to be published by 1 September 2022. Any changes to the APC recommended by the Panel are required to be implemented through an AEMC rule change.

In considering temporary changes to the APC, the Commission must consider any potential interaction between the temporary measures and the Panel's final outcome, should it differ from these temporary changes, what, if any transition, may be necessary.

The Commission will also need to consider the period between a proposed sunset period of 12 months and the implementation of changes made by the Reliability Panel.

The Commission will also need to give consideration to the expected duration of high commodity prices and their impact on the cost of generation in the NEM.

In considering potential changes to the APC that might involve a dynamic level of APC or a level of APC indexed to an appropriate commodity price, the Commission will need to consider the consequences of a dynamic mechanism for the contract market and the retail sector.

41 Alinta Energy, *Rule change proposal - amendment to the administered price cap to mitigate the ongoing threat to the reliable operation of the market and system*, rule change request, p. 2.

QUESTION 5: TIMEFRAME OF APPLICATION OF PROPOSED RULE

1. What is an appropriate temporary timeframe for application? Considering the factors that require the rule change to be made including commodity price changes?
2. What consideration should be made of changes and the timing of changes to be introduced by the Reliability Panel?
3. How should a temporary change in the level of APC accommodate changes to commodity prices during its application?
4. What are the consequences for the retail and contract markets from one-off or sequential changes to APC?
5. Should there be a mechanism to ensure that the APC is dynamic and indexed with an appropriate commodity price?

6.5 What are the likely benefits and costs from the proposed rule?

Alinta state that the proposed rule is expected to have a net impact that is significantly positive. Alinta state the proposed rule mitigates factors that if sustained would fundamentally undermine the retail sector and result in higher costs to consumers.[42]

Alinta expects the benefits to include:

- Enabling normal market operation and settlement. A higher APC provides adequate incentives for generators to bid capacity as normal into the market. This provides more accurate price signals for other participants, for battery storage and hydro and for AEMO in operating the market. This helps to avoid compensation payments during APP and market suspension.
- Mitigating the risk of a systemic financial collapse of the electricity industry during an extreme market event. The increased APC is expected to facilitate better cashflow management for participants, to lower the probability and impact of volume risk to generators during an APP, and to manage scarcity pricing and hence retailer bankruptcy risk.
- Protecting the long-term interests of consumers with respect to pricing, dispatch and the reliability and security of the national electricity system. An increase in APC provides for a more secure, reliable and efficient system, as it allows AEMO to schedule generators based on least cost and is therefore less likely to require AEMO to intervene in, or suspend, the market.
- Compensation costs which are passed through to retailers and consumers are avoided, whereas higher prices, where they occur under the higher APC, would be covered by retailer's hedge contracts and therefore are less likely to be passed through to consumers.

Alinta outlined expected costs and impacts from the proposed rule:

42 Alinta rule change proposal, p.9.

- There would be expected impacts to existing exchange traded and OTC contracts, and there would also be implications for future contract structures. This may have a bearing on risks for generators and energy users and the incentives for market participants to offer and purchase energy derivatives. However, given the changes also hep to ensure normal market settlement, this is likely to reduce underlying spot prices during APP periods and therefore provide downward pressure on derivatives. On balance, Alinta expect a reduction in the overall cost of electricity to retailers and end-users through extended periods of high commodity prices, compared to the status quo.
- There may be impacts on exchange traded and OTC cap contracts that are generally based on a $300 price. Changing the value of the APC changes the exposure of sellers under caps and the value of the product.
- Changing the APC may create uncertainty in the OTC market, for example in relation to market disruption clauses, which can include material change formulas related to the specified price.
- Generators with short positions may need to post additional funds against their contract positions on the exchanges, if the change in APC was to result in an increase in forward contract prices. However, this may not be material compared to the overall increase in funds already required to manage increases in contract prices due to higher fuel costs.

QUESTION 6: BENEFITS AND IMPACTS

Security and reliability

1. What is the likely impact of a temporary change in APC on security and reliability through APP periods and through the avoidance of market suspension? What would be the likely impact of a temporary change in the CPT?

Cost of energy

1. Would a temporary change to the level of APC likely reduce costs to market participants over the timeframe applied? Should temporary changes to the level of CTP be considered?
2. Would a change to APC reduce compensation payments to generators and costs associated with market suspension, including RERT costs? Should a change to the CPT be considered?
3. Would a change to APC increase or reduce the wholesale cost of energy during APP periods? Should a change to the CPT be considered?

Contract market and financial requirements

1. What is the likely impact of a temporary change in the level of APC on exchange traded contracts, OTC contracts and any other electricity contract products. In relation to existing contract clauses, the effectiveness of these products in addressing retailer risk, and the value of fixed price contract instruments? What would be the impact of a change to the CPT?

2. What is the likely impact of a temporary change in APC on retailer credit support requirements? What would be the likely impact of a temporary change in the CPT?
3. What is the likely impact of a temporary change in APC on NEM bank guarantees and security deposits to support trading? What would be the likely impact of a temporary change in the CPT?
4. What costs are imposed by the imposition of a temporary change, on a market setting that is normally unchanging?

7 PROCESS FOR THIS RULE CHANGE

7.1 Treatment as an urgent rule change

Alinta proposed the rule change request be treated as urgent in accordance with s.96 of the NEL such that it could be processed on an expedited basis. This request has been made on the basis that the market is in urgent need of intervention.

The Commission considers that the rule change should be subject to the expedited rule making process under s.96 of the NEL on the grounds that it considers the rule change request to be urgent. An urgent rule is defined in s.87 of the NEL as a rule relating to any matter or thing that, if not made as a matter of urgency, will result in that matter or thing imminently prejudicing or threatening— (a) the effective operation or administration of the wholesale exchange operated and administered by AEMO; or (b) the safety, security or reliability of the national electricity system.[43]

The rule change, if not made, will result in a threat to the effective operation or administration of the wholesale electricity market or the safety, security or reliability of the national electricity system.[44] Through recent administered pricing periods (APP) many generating units were bidding unavailable, requiring AEMO to direct these plants. Directions are instituted by dispatch constraints in the National electricity market dispatch engine (NEMDE). The increase in input constraints into NEMDE, and corresponding reduction in feasible, secure outcomes led to many constraints violating. The greater the number of constraints that violate, the less NEMDE is representing a secure dispatch, and hence threatening the security of the national electricity system.

The rule change also seeks to address the effective operation and administration of the wholesale electricity market. With more capacity bidding unavailable in the market there is less capacity available to be dispatched and reduced pricing signals to indicate the cost of generation available to the market at any point time. This can contribute to further high prices and lack of reserve conditions. During recent market events, as increasing amounts of capacity bid unavailable, AEMO determined that it had become impossible to operate the spot market and suspended the market.

Rule changes that are considered to be urgent may be processed under an expedited process under which there is only one round of consultation and the AEMC is required to publish its final rule determination within six weeks of commencing the rule change process.[45]

The Commission has decided to use an expedited process to consider this rule change request provided that it does not receive any valid requests not to use the expedited process by 18 August 2022. To be valid, an objection should set out the reasons why the AEMC should not make a rule in accordance with an expedited process, and accordingly, that the rule change request is not an "urgent rule" as defined in s.87 of the NEL. Objections on the

43 ASee section87 of the NEL

44 Section 87 of the National Electricity Law.

45 The AEMC has published a notice under ss. 95 and 96 of the National Electricity Law to commence and assess this rule change request as a non-controversial rule.

basis of supporting or not supporting the changes proposed in the rule change proposal itself, will not be valid.

8 LODGING A SUBMISSION

The Commission invites requests not to make a rule under the expedited process and written submissions on this rule change proposal.

All enquiries on this project should be addressed to **Craig Oakeshott** on **(02) 8296 7800** or **craig.oakeshott@aemc.gov.au**.

8.1 Lodging a request not to make a rule under an expedited process

Written requests not to make a rule under the expedited process in s. 96 of the NEL must include reasons for the request, and must be lodged with the Commission by **18 August 2022** online in accordance with the process specified below.

8.2 Lodging a submission to this rule change request

Written submissions on the rule change request must be lodged with the Commission by **1 September 2022** via the Commission's website, www.aemc.gov.au, using the "lodge a submission" function and selecting the project reference code **ERC0347**. The submission must be on letterhead (if submitted on behalf of an organisation), signed and dated.

Where practicable, submissions should be prepared in accordance with the Commission's guidelines for making written submissions on rule change requests.[46] The Commission publishes all submissions on its website, subject to a claim of confidentiality.

46 This guideline is available on the Commission's website www.aemc.gov.au.

ABBREVIATIONS

AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
APC	Administered price cap
APP	Administered pricing period
ASX	Australian Securities Exchange
Commission	See AEMC
CPT	Cumulative price threshold
MCE	Ministerial Council on Energy
MPC	Market price cap
NEL	National Electricity Law
NEO	National electricity objective
NERL	National Energy Retail Law
NERO	National energy retail objective
NGL	National Gas Law
NGO	National gas objective
RSSR	Reliability standards and settings review