



## Amending the administered price cap

### Stakeholder submission invited on a new urgent rule change request.

The Australian Energy Market Commission (AEMC) has published a consultation paper on an urgent rule change proposal from Alinta to change the administered price cap (APC) to mitigate ongoing threats to the reliable operation of the NEM (National Electricity Market). The proposed amendment to the APC seeks to ensure that prices during an administered price period (APP) reflect the short-run marginal cost (SRMC) of coal and gas generators buying fuels under today's market conditions to support normal market operation and settlement.

### Alinta's rule change request

The rule change request proposed by Alinta is 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 with consideration of other processes underway, such as the 2022 Reliability Standard and Settings Review. In Alinta's view, this proposed change 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, and potentially sustained, commodity prices.

### Treatment as an urgent rule change request

Alinta Energy requested that the AEMC consider the proposal as a request for an urgent rule under section 96(1) of the NEL. Under section 87 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.

The Commission considers 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. 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 eight weeks of commencing the rule change process.

### Issues for consultation

Several issues have been identified for 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?

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 this 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**.

### Background on the APC, APP and CPT

The APC applies during an APP, which is when the sum of the spot prices in the preceding 7 days exceeds the CPT. The CPT is the trigger level for the cumulative price above which an administered price period 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. The CPT is designed to provide price signals to support the achievement of the Reliability Standard and manage potential risks to the overall integrity of the market.

The APC is the maximum market price, in \$/MWh, paid to market participants in any dispatch interval, during an APP. The APC is currently \$300/MWh. By capping the maximum market price, the APC limits a market participant's spot exposure over a given period. At the same time, the APC should provide sufficient spot revenue for the generators to cover their short-term costs and encourage participants to continue to supply energy through normal market mechanisms to allow the market to return to normal operation as soon as possible.

At the start of the NEM, the principal concern was the potential for systemic financial collapse as a result of a generator failure causing sustained high spot prices. Then, as now, when a generator fails, it can face significant financial exposure against its 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 and earn spot revenue. 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 need to:

- reduce the risk of a systemic financial collapse of the electricity industry during an extreme market event ,
- minimise compensation claims by market participants following an application of the APC, and
- provide market participants with appropriate incentives to supply electricity during administered price events and retain market signals for new investment.

For information contact:

Project Leader, **Craig Oakeshott** [craig.oakeshott@aemc.gov.au](mailto:craig.oakeshott@aemc.gov.au)

Acting Executive General Manager, **Russell Pendlebury**  
[russell.pendlebury@aemc.gov.au](mailto:russell.pendlebury@aemc.gov.au)

Media inquiries: [media@aemc.gov.au](mailto:media@aemc.gov.au)

4 August 2022