

22 June 2023

Anna Collyer
Chair
Australian Energy Market Commission
SYDNEY SOUTH NSW 1235
Submitted online
ERC0353

Dear Anna,

ERC0353 - Consultation Paper – Amendment to MPC, CPT and APC

AEMO appreciates the opportunity to provide a response to the rule change consultation paper to amend the market price settings to levels recommended in the Reliability Panel's 2022 Reliability Standard and Settings Review (RSSR).

Within the current market construct, the market price settings are the primary lever relied upon to incentivise investment and support the delivery of desired reliability outcomes. As the system transitions and thermal generation retires, it is increasingly important that the market settings are set at the level commensurate with the level of reliability risk in the system.

AEMO supports the Panel's recommendation to increase the market price settings to a level that supports investment while maintaining market integrity.

Progressive increase the MPC and CPT

AEMO respects the Reliability Panel's role in determining the economic incentives for reliable supply.

AEMO considers the Reliability Panel assessment that there is a gap between current market price settings and the level required to continue to achieve reliable outcomes was reasonable and was supported by detailed modelling completed in the RSSR.

The MPC and CPT are set to maintain reliability to the level of the standard while minimising market exposure to high and volatile prices that may compromise the stability of the market. As the energy market transitions and thermal generation retires, the Panel found that the scale and range of investment required to maintain reliability need higher price settings. AEMO considers that the 2022 RSSR reasonably demonstrated that current levels are no longer fit-for-purpose as the system transitions. In practice, this includes the increasing operational risks that are emerging as the system transitions and large thermal generating units exit the market.

Without significant investment and the development of new generation, including energy storage, there is an evolving and increasing risk to system reliability, that without sufficient market response, will require ongoing operational management. Whilst AEMO acknowledges the longer-term reliability support schemes and projects underway, some mechanisms which were expected to be place during the Panel's review, including the capacity mechanism, have now been paused. As operational risks and the transition of the power system are continuing to evolve, market price settings remain primary lever to support investment into the market. During this transitional period, it is increasingly important that the MPC and CPT are set at a level that appropriately signals the



investment need and supports revenue adequacy for new entrant generation required to maintain power system reliability.

In submission to the 2022 RSSR Draft Report, AEMO supported the identified ranges for the MPC and CPT and noted the appropriateness of selecting a MPC and CPT combination that is not at the extreme end of either of the modelling settings.¹ AEMO respects the discretion the Panel has in recommending the settings and considers it adequately considered the relevant issues when determining its final recommendation. AEMO considers that the proposed progressive increase to \$21,500/MWh and 8.5 hours respectively, effectively balances the functions and roles of the MPC and CPT and will support revenue adequacy for new entrant generation, during this transitional period.

As there have been minimal increases in market price settings to date, AEMO acknowledges a potential impact of increased market price settings on market participants, including contracting and hedging practices. The proposed implementation through progressive increases should minimise the significance of any impact and provide market participants with a stable transition to the settings level.

The consultation paper also notes the range of reliability support schemes and projects underway to address the reliability risk and ensure supply adequacy as the system transitions.² While AEMO recognises the importance of these schemes, including the Commonwealth Government's Capacity Investment Scheme (CIS), it does not consider that these schemes or projects mitigate the need to update the market price settings. Without conjecting on any specific investment/underwriting schemes, market price settings are required to complement them to achieve reliable outcomes, to encourage dispatch of resources at times of scarcity, especially for resources not subject to such a scheme.

Further, it is relevant to consider that the 2022 RSSR was completed prior to the Ministerial decision to stop the development of a capacity mechanism. While AEMO notes the development of the CIS is underway, there is increased importance for market settings to continue to provide clear signals in line with the level of and changing nature of reliability risk. The MPC and CPT should support the continued and increasing need to progress investment to meet the standard in parallel to the development of broader reliability support schemes. AEMO also notes that the Panel has recommended an increase to the MPC and CPT at the minimum level recommended by the modelling.

Increase the APC

AEMO agrees with the need to retain the increased level of the APC and notes the operational difficulty incurred during the July 2022 Administered Price Period that resulted from plant unavailability due to the previous level of the APC. The APC needs to be sufficiently high to encourage participants to continue to offer into dispatch during periods of administered pricing. In submission to the 2022 RSSR, AEMO considered the validity of a more flexible approach to the APC³ which is now being explored in the Reliability Panel's Review of the Form of the Standard and APC. In the interim, AEMO considers the Panel's proposed increase to \$500/MWh will maintain

¹ AEMO, Submission to 2022 Reliability Standards and Settings Review Draft Report, page 10 - <https://www.aemc.gov.au/sites/default/files/2022-07/AEMO%20Draft%20Report%20submission%20June%202022%20RSSR.pdf>

² AEMC, Amendment to MPC, CPT and APC – page 23 <https://www.aemc.gov.au/sites/default/files/2023-05/ERC0353%20-%20Consultation%20paper.pdf>


³ AEMO, Submission to 2022 Reliability Standards and Settings Review Draft Report, page 11 - <https://www.aemc.gov.au/sites/default/files/2022-07/AEMO%20Draft%20Report%20submission%20June%202022%20RSSR.pdf>

orderly dispatch operations during periods of administered pricing. However, the consultation correctly questions the value in changing the APC to \$500/MWh over retaining the current temporary increase to \$600/MWh that is applied until 1 July 2025. The APC should prioritise consistency and stability to provide participants with confidence and allow contract markets to respond over time. Given the broader review of the form of the APC underway and absence of compelling evidence of the benefits of a \$500/MWh APC over \$600/MWh, AEMO agrees the benefits maintaining stable regulatory frameworks and the existing temporary arrangements to 1 July 2028 should be considered.

In summary, AEMO supports the rule change request to amend the market price settings through progressive increases to the Market Price Cap (MPC), Cumulative Price Threshold (CPT), and agrees with the need to retain an increased Administered Price Cap (APC).

If you have any questions please contact Kevin Ly, Group Manager – Reform Development and Insights, kevin.ly@aemo.com.au.

Yours sincerely,



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