



Government  
of South Australia

Department for  
Energy and Mining

Our Ref: DEMC23/00803

Ms Anna Collyer  
Chair  
Australian Energy Market Commission  
GPO Box 2603  
SYDNEY NSW 2001

Dear Ms Collyer

Thank you for the opportunity to make a submission to the *Amendment of the Market Price Cap, Cumulative Price Threshold and Administered Price Cap* rule change proposal consultation paper.

The Energy and Technical Regulation Division (the Division) within the Department for Energy and Mining (DEM) supports the rule change proposed by the Reliability Panel to amend these market price settings.

#### *The level of the MPC and the CPT*

The Division acknowledges the challenges associated with ensuring market price settings balance financial risks to retailers and consumers with the need to provide incentives for investment in generation to meet customer's energy demand. The Division notes the Reliability Panel advice that, when considered together, the current settings of the Marginal Price cap (MPC) and the Cumulative Price Threshold (CPT) are too low to encourage investment in new dispatchable capacity to preserve longer run reliability in the National Electricity Market (NEM) during the transition to a net-zero emissions future.

As highlighted in the consultation paper, a range of jurisdictional schemes, including the Commonwealth's Capacity Investment Scheme, will increasingly play a part in boosting investment signals for clean renewable generation and storage in the NEM. The Division considers that there is still a need for conventional gas generation to be retained in the market to meet long duration capacity requirements, which is more likely to be achieved by appropriately increasing the MPC and CPT.

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The Division considers that the proposed approach to incrementally raise the MPC and CPT to \$21,500 per megawatt hour (MWh) and \$2.193 million respectively by 1 July 2027 is appropriate so market participants to adjust, and to dampen any impacts on consumers from upward pressure on retail costs.

To ensure the proposal from the Reliability Panel, if approved, is effective as the energy transition continues, the Division also encourages the Reliability Panel to use this annual change transition period to actively monitor market outcomes for consumers and industry and further review the market price settings if required both over the period to 30 June 2028 and beyond.

#### *The level of the APC*

Consistent with our submission to the *Amending the administered price cap* rule change consultation paper of 23 August 2023, the Department considers that the reasons for temporarily increasing the APC from \$300/MWh to \$600/MWh in December 2022 persist. In particular, the higher APC remains a mechanism to provide more incentive for generator to remain in the market during periods of increasingly likely, high impact events.

There also remains an ongoing need to both mitigate against the risk of future volatility in fuel prices placing pressure on normal market functions and avoid undue reliance on compensation processes.

The real value of the APC has decreased over time and has increasingly diverged from short run marginal costs of thermal generation. If input cost inflation been applied to the level of the APC since 2008, it would currently be at a level around \$600/MWh. Therefore, rather than reduce the APC to \$500/MWh from its current temporary value, the Division supports the APC remaining at its current level of \$600/MWh.

#### *The appropriateness of the reliability standard*

Reinforcing the view expressed in our submission to the *2022 Reliability Standard and Settings Review* issues paper, the Division continues to question the appropriateness of the existing form of the reliability standard.

As discussed in the modelling underpinning the submission, both the form and the level of the reliability standard highly influence optimal market price settings. The current objective of the reliability framework is to ensure the volume of unserved energy is below the 0.002 per cent threshold and the corresponding reliability settings are set to incentivise this outcome.

A consequence of this, as discussed in the modelling, is that the existing reliability standard representing unserved energy expressed as a percentage of demand, translates to a higher cost of addressing the reliability standard in smaller regions. The proposed combination of





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MPC and CPT is based on the lowest marginal new entrant option in New South Wales, rather than the mostly costly region in the NEM. Therefore, as a relatively small region on the periphery of the NEM, the proposed price settings have the potential to be insufficient to incentivise new generation and meet the reliability standard in the longer term in South Australia.

Consumers expect continuity of power supply during increasingly likely, high impact events such as extreme weather events or coincident planned outages. The Division considers that the community places a high value on the frequency, duration, and depth of reliability events during these periods, which may be masked by the nature of the existing form of the reliability standard.

Thank you again for the opportunity to make a submission. If you have any further queries, please contact Mr Mark Pedler on (08) 8429 3361.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Vince Duffy".

Vince Duffy

**EXECUTIVE DIRECTOR, ENERGY AND TECHNICAL REGULATION**

16 / 06 / 2023





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