INFORMATION

Amendment of the market price cap, cumulative price threshold and administered price cap

The AEMC has made a draft rule to amend the market price settings in the NEM

The Australian Energy Market Commission (AEMC or Commission) has decided to make a more preferable draft rule to progressively increase the market price cap (MPC) and cumulative price threshold (CPT), and maintain the administered price cap (APC) at its current level from 1 July 2025 to 30 June 2028.

The draft MPC and CPT changes are consistent with those proposed by the Reliability Panel in its rule change proposal and will help to support the necessary investment to maintain reliability as the national electricity market (NEM) transitions to zero emissions.

Under the draft rule the:[1]

- MPC will progressively increase from $18,600/MWh on 1 July 2025 to $22,800/MWh on 1 July 2027[2]
- CPT will progressively increase from $1,674,000/MWh (or 7.5 hours at the MPC) on 1 July 2025 to $2,325,600/MWh (or 8.5 hours at the MPC) on 1 July 2027[3]
- APC will be maintained at its current level of $600/MWh.[4]

We are seeking feedback on our draft determination and draft rule by **26 October 2023**.

Changes are needed to support reliability as the NEM transitions

The NEM is going through unprecedented change as ageing coal-fired generation retires and is replaced by renewable energy and storage and transition to net zero. These changes will help to keep the electricity system reliable for households and businesses by supporting necessary investments.

These changes are needed as the existing market price settings are too low to support investment in the generation, demand response, and storage that will operate when we need it most; when there is a shortage of electricity supply to meet consumer demand.

The draft rule minimises cost impacts for consumers and delivers long-term cost benefits

In making the draft rule, the Commission has been focused on addressing reliability risks at the lowest possible cost to households and businesses, particularly in light of current cost of living concerns. The draft rule will result in some relatively small short-term cost increases for consumers, but the Commission considers these costs will be outweighed by improvements in reliability and lower costs for consumers over the long term.

Over the period to 2028, modelling indicates that, relative to outcomes under existing market price settings, the new market price settings could increase retail electricity prices

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1 Note these MPC and CPT figures are in 2022 dollars, the MPC and CPT are annually indexed by CPI to maintain their real value over time. The APC is a nominal figure which is not indexed by CPI.

2 The MPC is the price ceiling in the wholesale electricity market and is currently set at $16,600/MWh. It is generally only reached when there is a shortage of supply to meet demand and serves as a price signal for more generation to enter the system.

3 The CPT is a trigger point to end a sustained seven-day period of extreme high prices in the wholesale electricity market and is currently set at the equivalent of 7.5 hours at the MPC.

4 The APC caps the price in the wholesale electricity market, and the associated financial risk, once the CPT has been reached. The APC is currently set at $600/MWh but is scheduled to revert to $300/MWh on 1 July 2025.

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by 2.7% on average across all regions of the NEM. On the same basis, over the long term, the draft increases in the MPC and CPT will reduce costs to consumers.[5]

The draft rule works with Commonwealth and state government investment schemes to deliver the investment mix needed as the NEM transitions

These changes also work with other mechanisms to support the energy transition, including the Commonwealth Government's Capacity Investment Scheme (CIS) and State-based jurisdictional schemes.[6]

The Commission has identified that the draft market price settings are complementary to the CIS and other jurisdictional schemes and will work together to encourage new investment. The Commission does not consider that the presence of jurisdictional schemes removes the need for an MPC and CPT sufficient to support necessary investment in the lowest cost new entrant options.

The draft MPC and CPT, in partnership with jurisdictional schemes, will help to support investment in a mix of supply options, including storage, demand response and gas generation, which together will provide the flexible supply needed to support reliability given increasing levels of wind and solar generation.

The draft rule APC is sufficient considering for the effects of inflation

The draft rule retains the current $600/MWh APC rather than adopting the Panel's recommended $500/MWh. Since the APC is a nominal figure that is not annually indexed by CPI like the MPC and CPT, the current APC will maintain the intended price signals while accounting for the expected effects of inflation over the rule change period.

The draft $600/MWh APC will remain sufficient to encourage hydro and battery storage, and existing thermal generation to operate during times of extended very high prices, reducing the need for AEMO intervention and risk of outages for consumers over the period to 2028.

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5 The long term is taken to be the investment time horizon over which the NEM's generating fleet would evolve in response to the draft rule. Lower consumer costs arise due to higher levels of investment in generation and storage. This will increase competition in the NEM and enable more supply to be available when households and businesses need it, reducing wholesale electricity prices for consumers over the long term.

6 The Commission notes that the CIS and some jurisdictional schemes remain in development. The Commission has used the information available at the time of publication to assess interactions with the market price settings.