

Australian Energy Market Commission
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Lodged online: www.aemc.gov.au

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National Electricity Amendment MPC, CPT and APC Rule – Consultation paper

The Australian Energy Council welcomes the opportunity to make a submission to the National Electricity Amendment MPC, CPT and APC Rule – Consultation paper (Consultation paper).

The Australian Energy Council (AEC) is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

(1) Market Price Cap (MPC) and Cumulative Price Threshold (CPT)

The MPC and CPT are two of the most fundamental components in the competitive market design of the NEM. This is evidenced by the volume of work that is undertaken by the Panel and stakeholders as part of its reviews. They are the mechanisms that provide generation and storage the necessary investment signals to ensure the reliability standard is maintained. While also ensuring they are set at the minimum levels that are required to limit cost impacts on consumers and unmanageable price risk for participants.

The AEC supports the Panel's conclusions on the need to increase both the MPC and CPT. To arrive at the proposed increases the Panel and its consultants conducted extensive and rigorous analysis and conducted substantial stakeholder consultation. In its Final Report the Panel stated that:

"The Panel's final recommendation, in respect of the review period 1 July 2025 to 30 June 2028, should be interpreted as the first step in a longer-term adjustment in the market prices settings to achieve MPC/CPT that are sufficient to incentivise:

- *investment consistent with the reliability standard in all NEM regions, and*
- *investment in the storage required to manage reliability risk in a high VRE power system."*¹

¹ <https://www.aemc.gov.au/sites/default/files/2022-09/2022%20RSS%20Review%20Final%20Report%20%281%29.pdf>

It is clear from the Panel's work that the existing MPC and CPT are too low to support marginal new entrant investment and if they are not increased the reliability standard of .002% unserved energy (USE) is likely to be breached. Furthermore, the changes are designed to support the necessary storage investment to allow a high VRE power system to function reliably. Hence, these changes are critical in facilitating the energy transition.

The Panel's proposed increase to the MPC and CPT represent a measured and least cost approach to setting these parameters as the values they have chosen are at the lower end of the ranges that the analysis indicated. As stated by the Panel:

*"According to the Panel's modelling, the proposed increase is the minimum level required to support investment in generation, storage and demand response needed to avoid exceeding the reliability standard in light of thermal generator retirements after 30 June 2028."*²

(2) Administered Price Cap (APC)

The AEC does not support changing the APC to \$500/MWh. Instead the AEMC should retain the \$600/MWh that it implemented on 1 December 2022.³ Increasing the APC from \$300/MWh to \$600/MWh was a significant change for the market to absorb and a necessary one. Regulatory predictability and stability are extremely important for markets and the AEC can see no justification for impinging on these attributes by unnecessarily changing the level of the APC again.

The AEMC's decision to increase the APC to \$600/MWh until 30 June 2025 has resolved the problem of an inadequate APC level. The AEMC clearly demonstrated with \$42/GJ delivered gas prices and diesel costs of \$39.41/GJ, 3,000 MWs to 3,500 MW of generation has a Short-Run-Marginal-Cost (SRMC) that exceeds the \$600/MWh APC.⁴ At an APC of \$500/MWh this increases to 5,000 MW. Therefore, why change the APC again by lowering it such that an additional 1,000 MW to 2,000 MW will exceed it? This is particularly the case given many claims arising from the June 2022 APP are still yet to be finalised.⁵

The other benefit of retaining the \$600/MWh APC is that it is more likely than a \$500/MWh APC to facilitate a dynamic market during an APP. Otherwise the administered market's price will stay relatively close to the APC hence limiting price arbitrage opportunities for storage. This benefit is going to become increasingly important as more storage enters the market. Increased storage is critical for a functioning market as the transition to lower emissions introduces more VRE and less thermal generation is available. The AEC is of the view that the \$600/MWh is the only option satisfies both the current and expanded NEO (i.e., emissions objective).

² Ibid.

³ <https://www.aemc.gov.au/rule-changes/amending-administered-price-cap>

⁴ <https://www.aemc.gov.au/sites/default/files/2022-08/Amending%20the%20administered%20price%20cap%20-%20Consultation%20Paper%2010%20aug%2024%20pm.pdf>

⁵ <https://www.aemc.gov.au/our-work/apc-claims/june-2022>

The AEC considers that if the APC is regularly reviewed, it is not necessary to be set based on expected inflation.

(3) AEMC's Decision-making Framework and Considerations

There appears to be some inconsistency of approach within the AEMC in that it recently decided to extend the interim reliability measure (of 0.0006% USE) out to 2028 without economic justification. While the IRM is used to trigger the Retailer Reliability Obligation (RRO) and not to determine the market settings it still increases costs for consumers for no tangible benefit in return. In its IRM decision the AEMC rejected concerns around additional costs for consumers.⁶ The Panel considered more conservative reliability standards (albeit not as conservative as the IRM) and decided they did not “advance the NEO in a materially better way”⁷ than the 0.002% USE reliability standard.

For this rule change the AEMC:

“ ... particularly intends: to consider if the benefit with a reduction in expected future levels of unserved energy justifies the consumer price impact of a higher MPC and CPT.”⁸

While there is no apparent economic rationale for targeting the IRM as a reliability standard the AEMC has decided to extend it for the RRO. In contrast, there is an economic rationale for pursuing the Panel's MPC and CPT recommendations to meet the less conservative (and less costly) 0.002% USE reliability standard. Furthermore, it appears the AEMC is proposing to reprocess the Panel's work which included detailed analysis utilising the AER's Value of Customer Reliability (VCR) results in determining the level of the USE at a level where the tradeoff between reliability and cost is acceptable to consumers.

The AEMC is proposing to consider jurisdictional and Commonwealth support schemes as part of this rule change process. With respect to the Commonwealth's planned Capacity Investment Scheme (CIS) albeit with limited detail currently available, the AEC would like to point the AEMC to its recently published report by consultants CEPA, *Adjustments to the market price cap in presence of a capacity mechanism*.⁹ The AEC commissioned this work to help it understand (in theoretical terms) the implications of the introduction of a capacity market in parallel with the energy only market. The primary focus of the report was engaging with the theoretical claim that generators could be compensated twice for the capacity they provide – once through the existing energy market, and again through the capacity market (ie, “double-

⁶ https://www.aemc.gov.au/sites/default/files/2023-05/Review%20of%20the%20IRM%20-%20EPR0090%20-%20Final%20report_for%20publication.pdf

⁷ <https://www.aemc.gov.au/sites/default/files/2022-09/2022%20RSS%20Review%20Final%20Report%20%281%29.pdf> p.56.

⁸ <https://www.aemc.gov.au/sites/default/files/2023-05/ERC0353%20-%20Consultation%20paper.pdf>. p14.

⁹ Attached to this submission and can be found online at:
https://www.energycouncil.com.au/media/y0elhbvl/cepa_aec_finalreport.pdf

dipping”). While the CIS is not the same as the capacity market assumed in the CEPA report, there are many parallels, and their analysis and conclusions provide useful insights.

The simplest learning from the CEPA’s analysis is that in a competitive market there is essentially a fixed amount of revenue required by the market and the source of this revenue is not relevant. Hence, if the market is bifurcated through the introduction of a capacity market alongside the existing energy only market, total revenue is unchanged.

In a scenario where the MPC and CPT are lowered, revenues from the energy only market would decrease and this decrease in revenue would be matched by an increase in revenue for the capacity market. Applying this scenario to the introduction of a CIS implies that the CIS will be more costly as the energy only revenue losses would need to be recovered through it. Each of these outcomes generates the same total revenue as an energy only market. However, less of the revenue is determined through competitively efficient means and more accrues to the subsidised centrally planned schemes. This results in an inferior outcome for consumers as they pay the same price as an energy only market plus the subsidies for the schemes.

Any questions about this submission should be addressed to me directly, by email to peter.brook@energycouncil.com.au or by telephone on 03 9206 3103.

Yours sincerely,



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