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Australian Energy Market Commission

Submitted online at: <https://aemc.gov.au/contact-us/lodge-submission>

Re Calculating the Cumulative Price - draft rule determination

The Australian Energy Council (AEC) welcomes the opportunity to provide comment on the Calculating the Cumulative Price draft rule determination.

The AEC is the peak industry body for retailers and generators operating in energy markets. Our members generate and sell energy to over 10 million homes and businesses. We seek to deliver a market that allows consumers to benefit from the transition to a reliable, affordable and decarbonised energy system. The AEC supports the transition to net zero emissions by 2050, and the role of the electricity sector in unlocking opportunities for reductions in other sectors. AEC members are major investors in the renewable energy, firming and energy security services needed to deliver an effective transition.

Overall Views

The AEC supports the intent of both the Delta and Snowy Hydro cumulative price threshold (CPT) rule changes. This submission seeks to clarify how those two rule changes are proposed to be implemented through this draft rule determination.

Delta rule change proposal

Regarding the Delta proposal, the draft rule correctly resolves issues in the cumulative price calculation methodology and improves certainty for generators by ensuring the CPT reflects prices actually received, strengthening scarcity pricing signals and supporting investment in peaking plant. The draft rule restores the original intent of and ensures consistency across regions as to how the cumulative price calculation works in operation.

We suggest that stakeholder hesitation about AEMO's implementation costs overlooks prior AEMC work showing that accurate scarcity pricing is essential in an energy only market, where peaking and firming plant revenue is highly concentrated in a small number of high price intervals. If the cumulative price is calculated using dispatch (or region original) prices that diverge from received prices, scarcity pricing is truncated - reducing high price duration and significantly weakening investment returns, maintenance incentives, and long-term reliability outcomes.

Conditions similar to the 2022 CPT breaches remain present in the NEM, such as fuel price volatility, outages, high demand, and increasing renewable driven variability. This makes concurrent multi-region CPT events more likely and reinforces the importance of accurate CPT calculation.

Snowy Hydro rule change proposal

The AEC has reservations with the wording of the draft rule determination which may be too vague to give effect to the intent of the Snowy Hydro proposal. This could allow AEMO to simply continue to do what occurred in June 2022 and end a CPT period prematurely. It is critical that the intent of the rule change remains and is implemented in a manner which allows participants to understand what would happen.

We are concerned that the decision hurdle to implement market pricing in accordance with 3.14.5(b) is very low and not subject to defined and transparent criteria or clear reporting requirements. We recommend that the implementation of pricing during a market suspension period under clause 3.14.5(b) should only be allowed when the NEMDE is no longer able to calculate dispatch and pricing outcomes, potentially due to a system failure or other significant event such as a system black event. We also recommend that the AEMC consider an amendment to clause 3.14.3(g) to require reporting on the decision-making process to implement pricing in accordance with clause 3.14.5(b) during a market suspension period.

Whilst supporting the intent of the draft determination, regarding the Snowy Hydro rule change request, we are concerned that the draft rule does not provide certainty as to the time period over which the cumulative price is to be calculated when a price is excluded. The final rule must ensure that when a price is excluded, the cumulative price remains calculated over the most recent 2,016 trading intervals.

The recent 2026 Reliability Standard and Settings Review highlighted that the CPT is critical to limit the financial exposure of market participants during extended volatility events. This is exactly what Snowy Hydro's rule change is seeking to support through the methodology change.

The rule change also has benefits for the contracts market. The CPT is an important risk management tool for generators in managing their contract exposure. Fuel constraints create risk for generators selling hedges, because they must have confidence that they can defend contract exposure by dispatching into the NEM. By reducing the spot prices during extended market volatility (to the level of the Administered Price Cap), the CPT mitigates the need for contract defence and therefore generator fuel risk. This rule change will therefore reduce fuel risk for generators, enhancing their ability to offer hedges at competitive prices - that is, without an additional risk premium that would otherwise be needed to reflect the uncertainty relating to the operation of the CPT during market suspension.

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