

8 June 2023

Anna Collyer
Chair
Australian Energy Market Commission



Submitted online
Reference: ERC0353

Dear Ms Collyer,

Market Settings Rule Change

The Australian Financial Markets Association (AFMA) is responding to the AEMC's consultation on the Reliability Panel rule change application to Amendment of the Market Price Cap (MPC), Cumulative Price Threshold (CPT) and Administered Price Cap (APC).

AFMA is the leading industry association promoting efficiency, integrity, and professionalism in Australia's financial markets, including the capital, credit, derivatives, foreign exchange, energy, carbon, and other specialist markets. Our role is to provide a forum for industry leadership and to advance the interests of the markets and their respective participants. Our membership is comprised of over 125 of Australia's leading financial market participants, including many of the energy firms who participate in the National Electricity Market (NEM).

Key Points

- **AFMA supports the proposed changes to the market settings**
- **APC should be indexed to ensure it remains commercially relevant**

As an advocate for participants in financial markets, AFMA wants to ensure that settings in the underlying physical markets are appropriate for both the physical and the financial markets. AFMA supports the Reliability Panel's recommendations to increase MPC and CPT. AFMA also supports their proposal to ensure that APC does not revert to \$300 in 2025 but believes the AEMC should take the opportunity to index APC.

1. Increases to MPC and CPT

AFMA supports the Reliability Panel's proposal to increase MPC and CPT to ensure that they are at an appropriate level to support investment in firming capacity which is essential for the successful operation of the physical and financial markets. Recent changes in the electricity market mean that providers of firming capacity have to recover their costs over shorter periods of high prices, in the absence of any other mechanism to support investment in firming capacity, it is important to ensure that MPC and CPT are set at levels to justify investment. AFMA's members consider that the proposed changes are appropriate to do this.

AFMA notes policy makers are currently considering a range of other interventions to support investment in firming capacity, including the Capacity Investment Scheme (CIS). While AFMA supports the current changes to MPC and CPT future policy changes, such as the CIS, may mean that further large increases to MPC may not be required. We therefore recommend that the level of MPC and CPT should be reviewed, with a view to ensuring that it is set at a level that balances the need to encourage investment against the risk it imposes on market participants, when there is greater clarity about these other policy measures.

AFMA Recommendations

- i. MPC and CPT should be increased as proposed by the Reliability Panel.
- ii. The level of MPC and CPT should be reviewed, if other policies to support investment in firming capacity, are adopted.

2. Providing clarity about APC

APC is an important setting in both the physical and financial markets that limits participants' exposure during periods of extreme volatility. For APC to continue to perform this role over the long term, the market needs to have certainty about the level it will apply at. Since the suspension of the NEM in mid-2022, there has been a flurry of activity regarding APC, with; a previous rule change temporarily increasing APC to \$600, this rule change proposing to move it to \$500 from 2025 and a separate Reliability Panel review, which is considering changing the form of APC.

As noted in our submissions to the above consultations, AFMA considers that it is important to provide certainty to the market about the level of APC.¹ AFMA has advocated for APC to be set at a fixed value and then indexed (in the same way as MPC) to ensure it remains commercially relevant. As noted by the AEMC, if APC had been indexed since it was originally set, it would now be at close to \$600; and we suspect all of the above work could have been avoided. While we appreciate that the Reliability Panel is currently conducting a review of the form of APC, as pointed out in our submission to that review, we do not consider that any of the proposed options (other than indexing APC) is viable.² We recommend the AEMC take the current opportunity to provide certainty to the market by indexing APC to ensure it remains at a commercially relevant level.

AFMA Recommendations

- iii. APC should be indexed to ensure it remains at a commercially relevant level.

AFMA would welcome the opportunity to discuss the proposed rule change. Please contact me on 02 9776 7994 or by email at lgamble@afma.com.au.

Yours sincerely



Lindsay Gamble
Policy Director

¹ [AFMA submission APC Rule Change Directions Paper](#); [AFMA Submission APC Rule Change Consultation Paper](#); [AFMA Submission Reliability Panel Review](#)

² [AFMA Submission Reliability Panel Review](#)