19 January 2024

Reliability Panel
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Submitted via email: aemc@aemc.gov.au

Dear Reliability Panel,

Review of the Form of the Reliability Standard and APC – Directions Paper

The Australian Financial Markets Association (**AFMA**) is pleased to respond to the Reliability Panel's Review of the form of the Reliability Standard and Administered Price Cap (APC) Directions Paper.

AFMA is the leading financial markets 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 membership base is comprised of over 125 of Australia's leading financial market participants, including many energy firms who are key participants in the National Electricity Market (NEM).

Key Points

- **AFMA supports the Reliability Panel's decision to shortlist two approaches to APC**
- **Given the current proposals for increases to Market Price Cap (MPC) AFMA considers that there may be value in considering linking APC to MPC**

AFMA's submission focuses on the Panel's proposals to change the form of APC and our comments are directed at ensuring that APC is appropriate for both the financial and physical markets and that it remains commerically relevant.

1. APC as an indexed fixed value

As AFMA expressed in its May 2023 submission to the review,[1] we do not believe there is an obvious case to move away from a fixed APC and we appreciate the Panel adopting our recommendation for APC to remain a fixed value. The current fixed APC works well as it is simple and provides the market with certainty about when it will apply.

The events of 2022 demonstrated that leaving APC unchanged for a long period of time can result in it ceasing to be commercially relevant as it was too low to allow generators to recover their costs. However, at the time, had APC been indexed to the Consumer Price Index (CPI), APC would have been ~$592/MWh- approximately the level it was increased to in 2022 to restore its commercial relevance.

We also believe that the rules should be predictable and that the parameters be set in a way that will remain predictable over the long term. We note that the previous APC increase did not provide

[1] AFMA submission

sufficient time for some participants to adjust their contracting arrangements and think the rules should be designed to avoid this happening in future. We therefore think that indexing APC to CPI is likely to be the best way to ensure that it remains commercially relevant in the long term.

AFMA Recommendations

i. APC should be retained as a fixed value and indexed to CPI.

2. Impact of the MPC increases on APC

APC is currently ~3.6% of the value of MPC and this ratio would remain unchanged if MPC and APC are both indexed to CPI. However, separately, MPC is set to increase beyond CPI to $18,600/MWh July 2025 and then to $22,800/MWh in July 2027.[2] As a result, APC will drop to ~2.6% of MPC by 2027.

AFMA recommends that the Panel consider if the changes to MPC will have an impact on the effectiveness of APC and if it might be appropriate to make similar, above CPI, increases to APC to retain the relative ration between the two values.

AFMA Recommendations

ii. The panel should additionally consider if APC should be increased to reflect the scheduled increases in MPC.

AFMA would welcome the opportunity to discuss this submission further and would be pleased to provide further information or clarity as required. Please contact me via myoung@afma.com.au or 02 9776 7917.

Yours sincerely,

Monica Young

Policy Manager

[2] AEMC MPC Rule Determination