ENERGY CONSUMERS AUSTRALIA

2026 Reliability Settings Review Issues Paper

Submission to Australian Energy Market Commission and Reliability Panel

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Feedback on the 2026 Reliability Standard and Settings Review Issues Paper

Energy Consumers Australia (ECA) welcomes the opportunity to provide input into the important review of the Reliability Standard and wholesale market settings.

Consumers tell us that the most important features of an energy plan are keeping energy bills as low as possible and ensuring a stable, reliable electricity supply with minimal outages.[1] This review is therefore critical to ensuring these outcomes are met efficiently and fairly for all consumers.

Our submission responds to several of the overarching questions raised in the consultation paper. In doing so, we propose several actions the Reliability Panel and the AEMC must do to ensure wholesale spot prices—and ultimately retail electricity bills—are not higher than needed to ensure the levels of reliability that consumers value.

One issue to highlight is the existence of multiple government policies designed to ensure targeted, firm capacity when and where it is needed. The most material of these are governmental underwriting schemes, including the Commonwealth's Capacity Investment Scheme. If the Reliability Panel does not adjust the reliability framework to account for these parallel procurement mechanisms, there is at least a risk - and at worst a certainty - of duplicating investment signals.

Indeed, given these existing government policies, there is a clear tension between the Panel's objective "to deliver efficient reliability outcomes through market mechanisms" and the National Electricity Objective "to promote efficient investment in…electricity services for the long-term interest of consumers." The Panel must resolve this tension by focusing on the NEO's objective in "efficient investment" if government policy makes the Panel's stated interests in "market mechanisms" redundant or unnecessary.

We attach with our submission an independent report by Baringa which estimates the impact of recent increases in the Market Price Cap (MPC) and evaluates its effectiveness in incentivising new generation. This report demonstrates the need to reconsider the role of the MPC in the evolving market.

Further information is provided in our responses to the questions posed by the Consultation paper. If you have any questions, please contact Ashley Bradshaw at ashley.b@energyconsumersaustralia.com.au.

Yours sincerely

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[1] Energy Consumers Australia, Consumer Energy Report Card (2025).

Question 2: CER and demand implications

The uptake of consumer energy resources (CER) such as rooftop solar, batteries and electric vehicles (EVs), alongside growing electrification, will reshape — but not necessarily increase — electricity demand or reliability risk. If harnessed correctly, they will reduce some reliability risks by reducing peak demand.

While overall electricity *consumption* is projected to grow with population and electrification, historical trends show this does not equate to rising electricity *peak demand*. Despite sustained growth in GDP, population, and customer numbers, peak demand has remained flat or even declined across most NEM regions over the last 15 years (with Queensland as the main exception).[2]

The growth of rooftop solar and improved energy efficiency has played a key role in reducing peak demand. Looking forward, the 2024 Integrated System Plan (ISP) forecasts that growth in residential consumption will be offset by the uptake of rooftop solar and energy efficiency.[3]

As battery uptake increases – likely accelerated by the federal government's battery rebate – demand management will be improved by:

- raising minimum operational demand (through reduced midday solar export), and
- flattening evening peaks via self-consumption and battery discharge.

Multiple studies confirm that EVs pose less risk to peak demand than many expect. For example:

- ARENA trials found that unmanaged charging tended to occur outside peak periods, and participants were generally comfortable with third-party management of charging if opt-out options were available. [4]
- In Norway, where EVs now represent over 20 per cent of vehicles, there has been negligible impact on peak demand.[5]

These findings are unsurprising, especially considering that many EV owners will charge during solar-rich hours, particularly when paired with home solar systems. This also shows further potential for increased minimum demand and demand-side flexibility as CER adoption increases.

Given this evidence, and accounting for the uncertainty of the impact of increasing CER and electrification, the Reliability Panel (the Panel) should exercise caution in assuming that they will increase the need for peaking generation.

[2] https://www.aer.gov.au/industry/registers/charts/seasonal-peak-demand-regions
[3] AEMO, 2024 Integrated System Plan, July 2024.
[4] https://arena.createsend1.com/t/t-e-zkuirly-l-r/
[5] https://electricvehiclecouncil.com.au/wp-content/uploads/2022/08/Home-EV-charging-2030.pdf

Question 3: Impact of government policies on reliability settings

The Panel should explicitly account for current and anticipated government-backed procurement when assessing the level of required market signals.

It is critical to acknowledge the significant role of Commonwealth and State governments in actively shaping the supply of reliable capacity through targeted interventions. While these interventions may be difficult to model with precision, they are neither theoretical nor rare — they are embedded in current market dynamics.

In the last ten years, most new dispatchable generation and storage capacity has been delivered via long-term contracts, retailer underwriting, and — increasingly — government-backed schemes. This was found by both the Energy Security Board in 2022[6] and more recently, the panel undertaking the NEM's wholesale market settings review.[7]

This reality has implications for how the Panel must approach both the reliability standard and the associated market settings. The Panel's stated objective to "deliver efficient reliability outcomes through market mechanisms to the greatest extent possible" assumes a level of market purity that no longer reflects how capacity is procured. Persisting with this assumption may inadvertently skew settings toward higher price caps and wider reliability buffers based on the belief that only market signals can ensure adequate investment.

However, multiple government policies are designed to either provide targeted, firm capacity when and where it is needed or to ensure that it will exist. The most material of these are governmental underwriting schemes, including the Commonwealth's Capacity Investment Scheme, NSW Electricity Infrastructure Roadmap, and Victoria's VRET Auctions. The Retailer Reliability Obligation and AEMO's Reliability and Reserve Market Trader are further mechanisms used to ensure capacity is available.

Without adjusting the reliability framework to account for these parallel procurement mechanisms and other policies to ensure reliability, there is at least a risk - and at worst, a certainty - of duplicating investment signals. Indeed, given these existing government policies, there is a clear tension between the Panel's objective "to deliver efficient reliability outcomes through market mechanisms" and the National Electricity Objective "to promote efficient investment in…electricity services for the long-term interest of consumers." The Panel must resolve this tension by focusing on the NEO's objective in "efficient investment" if government policy makes the Panel's stated interests in "market mechanisms" redundant or unnecessary.

Any modelling by the Panel must include scenario analysis with and without government interventions to understand interactions and avoid duplicative investment incentives. This analysis would demonstrate what the settings, and ultimately wholesale prices, would be if capacity were fully sourced directly through alternative schemes.

We also make the following points that are relevant for The Panel:

- Government policy can be a more efficient means of getting investment where and when you need it than relying on market settings. The Market Price Cape is a national signal, which do not always reflect local constraints or timing.

[6] Energy Security Board, Capacity Mechanism High-level Design Paper, June 2022.
[7] NEM Panel Public Forum presentations.

- Furthermore, it is legitimate to raise equity considerations for the use of high spot prices to deliver new investment. Market settings that rely solely on high spot prices and scarcity pricing transfer costs to energy consumers through bills — often impacting vulnerable households most. Government-backed capacity procurement, funded via taxation or levies, may in some cases offer a more equitable and efficient way to ensure system reliability.

Question 5: The level of the reliability standard and consideration of Value of Customer Reliability

The Panel should formally incorporate the 2024 Value of Customer Reliability (VCR) values as a core input to the reliability standard — and explain any deviation from VCR-aligned outcomes. The reliability standard should reflect what consumers actually value. If the VCR has declined, then — all else being equal — the case for a more stringent (i.e., more costly) reliability standard weakens.

Between 2028 and 2032, consumer energy resources (CER) — including rooftop solar, batteries and electric vehicles — are projected to grow significantly. This changes how consumers experience and value reliability, different ways:

- Some consumers, particularly those with home batteries or vehicle-to-home EV charging, will increasingly be able to ride through outages. For these households, grid reliability may become less critical.
- At the same time, the electrification of transport, heating and cooking will heighten the consequences of major outages for many households. Outages may disable not just lighting and appliances, but mobility and climate control — especially affecting renters, apartment dwellers, and lower-income households without CER access.

As CER uptake grows, the Panel should consider commissioning more frequent updates to VCR methodologies that account for changes in consumer technology, electrification levels, and resilience. Undertaking a VCR review only every five years may no longer be fit for purpose in this period of transition.

VCR values may become more temporal and locational, depending on underlying technology mixes. For example, due to electrification of heating, VCR may change materially in Victoria as existing gas heating load is electrified. In contrast, electrification will have less impact on Queensland consumers given the low use of gas in the state.

Question 7: The role of the Market Price Cap

The Panel should explicitly reassess the purpose of the MPC in a market increasingly shaped by long-term policy and public investment. It should avoid relying on unproven assumptions that a high MPC is the most "efficient" way to secure capacity. Consideration should be given to reducing the MPC, particularly if complementary mechanisms (like the Capacity Investment Scheme) are expected to meet reliability objectives.

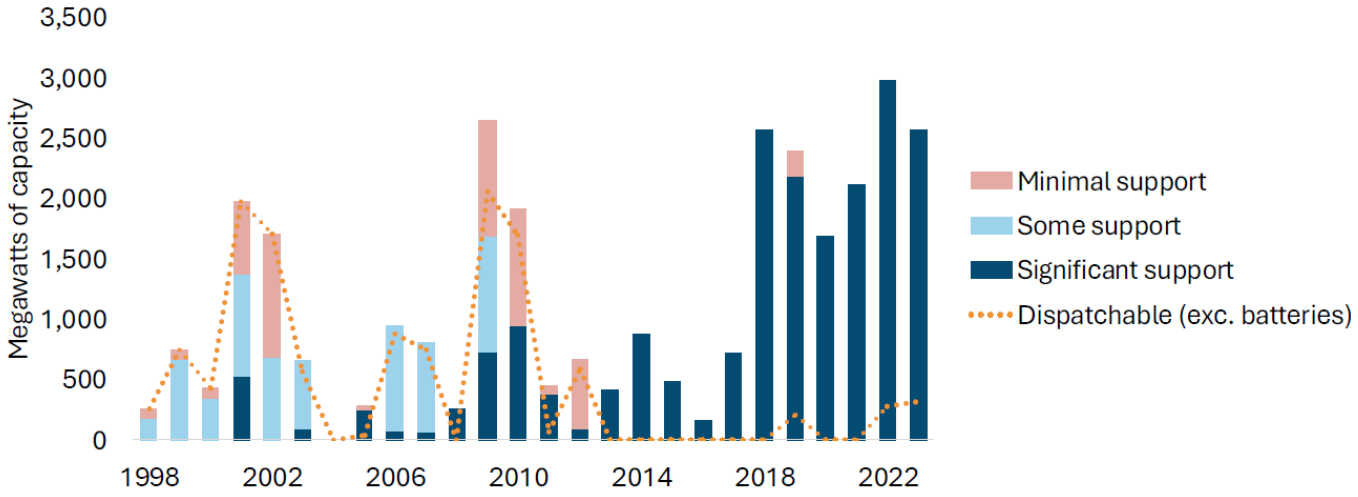
There is little evidence a higher MPC drives investment

There is little evidence that the MPC has been a primary driver of new investment in the National Electricity Market (NEM). As discussed in our response to Question 3, most new dispatchable generation and storage capacity has been delivered via long-term contracts, retailer underwriting, or government-backed schemes. With the growing role of public investment vehicles such as the Capacity Investment Scheme (CIS), the MPC is even less likely to be a binding or meaningful investment signal.

In recent consultation, the panel undertaking the review of the NEM's wholesale market settings has observed that "increasingly, market signals alone aren't driving [investment]". Figure 1 shows, based on the NEM Review Panel's analysis, that for the last 10 years, nearly all investment in the NEM required significant support.

We note that a 2021 study by Rai and Nelson surveyed investors and found that a low MPC was ranked as the least important barrier to new investment.[8] Rather, investors seek long-term investment certainty, which is something high-priced events do not provide.

Figure 1: Generation built in the NEM by complementary investment support



Source: NEM Review Panel, Presentation slides on findings and directions, 2025.

Government schemes change the purpose of the MPC

As discussed in response to Question 3, governments at both State and Federal levels are now playing a central role in underwriting firm capacity through long-term mechanisms such as the Capacity Investment Scheme. These policies materially shift the role of the MPC as an investment signal.

[8] https://research-repository.griffith.edu.au/server/api/core/bitstreams/532fd9d7-a372-4f1c-a7b4-de0e43202999/content

In this context, the MPC no longer needs to bear the full burden of incentivising dispatchable generation. Continuing to rely on it — or increasing it — risks double-counting the investment signal and increasing costs to consumers without improving reliability outcomes. Instead, the Panel should explicitly consider whether a lower MPC, calibrated to complement rather than duplicate public schemes, would better support a cost-effective and stable investment environment.

A higher MPC has materially increased system costs

A question must be asked: is price volatility — a key feature of scarcity-driven market mechanisms — beneficial to consumers over the long term? While it may stimulate investment, it also creates a number of costs that ultimately are passed on to consumers one way or another. [9]

The Issues Paper acknowledges that market volatility carries costs, yet appears to dismiss any use of the MPC to manage those costs, asserting that doing so would "distort investment decisions." This statement is made without adequate evidence. Consumers are ultimately exposed to volatility through retail hedging costs and risk premiums, even if they do not face spot prices directly. High price caps can increase volatility, and the costs are eventually socialised through energy bills.

The statement that "a higher MPC may not necessarily lead to higher consumer costs" also appears inconsistent with both experience and evidence. Analysis by Baringa, which we have attached to our submission, and supported by analysis by Watt Clarity,[10] finds that recent increases to the MPC did lead to material increases in wholesale spot prices and market transaction costs. These costs are passed on to consumers in one way or another.

The NEM's MPC is likely already the highest cap in the world

As per the AEMC's December 2023 determination, the MPC will increase significantly in the coming years (estimated to increase to nearly $27,000 per MWh in nominal terms) on 1 July 2027. This represents a material increase in just a short number of years, and would likely make the NEM's MPC the highest price cap in the world by some margin.

Baringa's analysis confirms this, finding that at its current level, the NEM's MPC is already much higher than other price caps in other energy-only markets in the world. Even with those lower price caps, these markets still attract new investment. Figure 2 compares the NEM's MPC to other comparable international markets.

We remain of the view that these MPC increases are not justified, and risk imposing unnecessary costs on consumers. In our view, they are inconsistent with the long-term interests of consumers as set out in the National Electricity Objective.

[9] https://www.erm.com/insights/asrs-aus-energy/articles/paying-the-price-for-volatility-and-illiquidity-how-apathy-is-compounding-power-market-risks/
[10] https://wattclarity.com.au/articles/2025/05/is-the-price-right-a-historical-exploration-into-the-nems-market-cap/

Figure 2: Comparison of the NEM's MPC to price caps in other energy-only markets

Jurisdiction	Price Cap* ($/MWh)	Additional	Capacity Mix Overview
NEM	$17,500/MWh	This price cap is projected to increase to a base value of $21,500/MWh	Coal baseload in most states, renewable generation has grown to around 40% of total
ERCOT	$7,250/MWh	This price cap was **decreased** by 44% in 2021 after extreme weather events.	Reliant on Gas but high growth in BESS. High renewables penetration.
New Zealand	N/A	There is no explicit price cap. Energy and reserves are co-optimised and prices during scarcity are set in relation to the Value of Lost Load of the demand which is not being met.	Dominated by hydroelectric (60%) and geothermal power (17%).
Singapore	$5,400/MWh	Singapore also has a temporary price cap which is based off actual gas prices at the time	94% Gas generation due to very limited space
Philippines	$890/MWh	The Secondary price cap is $175/MWh	>80% of installed capacity is met by fossil fuels (including coal and Gas) or hydro.

Source: Baringa, Does the market price cap in the NEM provide an effective investment signal?, June 2025.

Question 8: The role of the Market Price Floor

The Market Price Floor (MPF) may play an increasingly important role in enabling efficient dispatch and supporting a high-VRE grid. **The Panel should explore reducing the MPF further to reflect the growing reality of temporal abundance—periods when solar and wind output exceeds demand**.

As the NEM transitions to high levels of variable renewable energy (VRE), operational conditions are increasingly defined not just by scarcity but by periods of temporal abundance - periods in which supply from solar and wind resources exceeds demand, often leading to negative prices.

A higher MFP may not fully reflect the opportunity cost of charging storage or curtailing VRE during these periods. It also artificially limits price discovery and may lead to unnecessary AEMO interventions during Minimum System Load events.

In addition, a lower MFP could support:

- investment in flexible demand and storage, and
- market viability for demand-response participants and aggregators.

Question 14: Modelling principles, inputs, assumptions and limitations

The assumption that the MPC should ensure revenue sufficiency for new entrants based solely on unserved energy (USE) events should not be used as a foundation for market settings. This is because generators would receive revenue outside of just the rare USE events.

For example, gas-powered generators (GPG) are used to provide other services such as essential system services.[11] Looking forward, the ISP forecasts a growing reliance on GPG,[12] with GPG plants increasingly used to service low VRE supply events, rather than rare USE events.

Additionally, many new projects secure revenue through financial contracts, corporate power purchase agreements (PPAs), or hedging arrangements, further weakening the link between investment viability and high spot market prices during USE conditions.

Therefore, any modelling that underpins market settings must explicitly account for the additional and diverse revenue streams likely to be available to new entrants.

[11] Australian Energy Council, Gas in the NEM: Is there a case for a new and expanded RERT?, 2025
[12] AEMO – Integrated System Plan, 2024

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