

Reliability Panel AEMC

Australian Energy Market Commission
Reliability Panel

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Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear John,

Reliability Standard and Reliability Settings Review 2014 – Final Report

I am writing to advise you that the Reliability Panel (Panel) has now completed its review of the reliability standard and reliability settings that are to apply for the National Electricity Market (NEM) from 1 July 2016. The Panel's final report for this review has been published, in accordance with clauses 3.9.3A, 3.9.3B and 8.9 of the National Electricity Rules.

Following the completion of this review, the Panel has decided to retain the current reliability standard, and to recommend no changes to the reliability settings, from 1 July 2016. The existing values will continue to apply until such time as either the Panel amends the reliability standard and/or the AEMC amends the reliability settings as an outcome of a rule change process.

Reliability standard and reliability settings

In summary, the Panel's final conclusions are as follows:

- **Reliability standard:** The Panel has determined to retain the current form and level of the reliability standard to apply from 1 July 2016. That is:
 - the reliability standard will remain in the form of an output-based measure expressed in terms of the maximum permissible unserved energy (USE), or the maximum allowable level of electricity at risk of not being supplied to consumers, per financial year; and
 - the level of the reliability standard will remain at 0.002 per cent of the annual energy consumption for the associated NEM region, or regions, per financial year.
- **Market price cap (MPC):** The Panel's recommendation is that no change be made to the real value of the MPC to apply from 1 July 2016. The MPC should continue to be indexed by the Consumer Price Index (CPI), annually.

- **Cumulative price threshold (CPT):** The Panel's recommendation is that no change be made to the real value of the CPT to apply from 1 July 2016. The CPT should continue to be indexed by CPI annually.
- **Market floor price (MFP):** The Panel's recommendation is that no change be made to the current value of the MFP. The MFP should continue to be set at -\$1,000/MWh from 1 July 2016, until such time as it is amended.
- **Indexation:** The Panel's recommendation is that no change be made to the current measure of indexation of the MPC and CPT (that is, CPI will be retained as the measure of indexation of MPC and CPT).

Recommended future investigations

Although the Panel supports maintaining the current reliability standard and reliability settings from 1 July 2016, it has nevertheless identified a number of areas which it considers would benefit from further review. Specifically, the Panel recommends that the AEMC or the Panel (as appropriate) complete the following investigations prior to the next reliability standard and settings review which is due to commence in 2017:

- **Review of indexation of the reliability settings:** In response to stakeholder concerns regarding the current process for indexing the MPC and CPT, the Panel recommends that a review of the current indexation arrangements occurs within two years. This review should consider whether the current indexation process is operating as effectively as possible, and whether CPI remains the most suitable index to use. The timing of this work will allow the current indexation arrangements, which came into effect on 1 July 2012, sufficient time to operate before being subject to a comprehensive review.
- **Review of the form of the CPT:** During the review, several stakeholders raised questions around the appropriateness of the form of the CPT mechanism, including the suitability of the current multiplier. Noting that the review only considered the level of the CPT, and recognising that the form of the CPT has not been comprehensively reviewed for some time, the Panel recommends that a review to explore whether the current CPT mechanism is suitable and effective as a risk management mechanism be undertaken. The review should also consider whether it is appropriate to retain the link between MPC and CPT.
- **Reliability standard and value of customer reliability (VCR):** When carrying its review of the reliability standard and settings, the Panel must have regard to any VCR determined by AEMO, which the Panel considers relevant (the aim is to provide a level of reliability in the NEM that broadly reflects the value that customers place on reliable electricity supply). Noting that AEMO is currently conducting a national VCR review which is intended to deliver regional-specific VCRs, the Panel recommends the development of a methodology to derive an appropriate estimate of VCR to help inform the identification of an efficient reliability standard. This review should be carried out in consultation with stakeholders and have regard to any VCR values delivered by AEMO. This review would also be consistent with advice provided by the AEMC to the Standing Council on Energy and Resources (SCER) in December 2013, which recommended an approach to linking the reliability standard and reliability settings with VCR.
- **Methodology for future reliability standard and reliability settings reviews:** The Panel recommends that work be carried out to develop a methodology for undertaking future reliability standard and settings reviews. This recommendation is driven by several factors, including stakeholders' desire for increased clarity and transparency around the Panel's decision making framework for future reviews, including how the outcomes of any market modelling could be treated.

The Panel intends to review its current work program and, in collaboration with the AEMC, looks forward to determining the appropriate scope and timeframe for undertaking these investigations.

Conclusion

Overall, the Panel considers that its decision and recommendations for this review are likely to maintain certainty and help to continue to deliver efficient operational and investment decisions in the long term. This is in the long term interests of consumers, as it promotes an appropriate balance between prices and reliability of supply of electricity.

Should the AEMC have any questions with respect to the Panel's findings and recommendations for this review, please do not hesitate in contacting me.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Neville Henderson', followed by a long horizontal flourish line extending to the right.

Neville Henderson
Chairman, Reliability Panel
Commissioner, AEMC