



Reliability standard and reliability settings review 2014

Release of final report

The Reliability Panel (Panel) has published its final report for its review of the reliability standard and reliability settings that are to apply for the National Electricity Market (NEM) from 1 July 2016.

Panel's final decision and recommendations

Under the National Electricity Rules (NER), the Panel is required to review the reliability standard and reliability settings once every four years. The reliability standard refers to maximum allowable level of electricity at risk of not being supplied to consumers per financial year, whereas the reliability settings encompass the market price cap (MPC), cumulative price threshold (CPT) and market floor price (MFP).

Reliability standard and reliability settings

The Panel's decision with respect to the reliability standard and recommendations with respect to the reliability settings 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; 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:** 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:** 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 the CPI, annually.
- **Market floor price:** The Panel's recommendation is that no change be made to the current value of the MFP to apply from 1 July 2016. In addition, the MFP should continue to be set in nominal terms (that is, the MFP will not be indexed annually).

Recommended future investigations

The Panel also 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:** The Panel recommends a review to consider whether the current indexation process is operating as effectively as possible, and whether CPI remains the most suitable index to use. This review should occur within two years.
- **Review of the form of the CPT:** The Panel recommends a review to explore whether the current CPT mechanism is suitable and effective as a risk management mechanism, and whether it is appropriate to retain the link between MPC and CPT.
- **Value of customer reliability (VCR):** 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 as part of its national VCR review.
- **Methodology for future reliability standard and reliability settings reviews:** The Panel recommends a review to develop a methodology for undertaking future reliability standard and reliability settings reviews, including consideration of how the outcomes of any market modelling could be treated.

The Panel has concluded no changes are required to the reliability standard and reliability settings from 1 July 2016.

Concluding remarks

In developing its decision on the reliability standard and recommendations on the reliability settings, the Panel has sought to balance benefits of stability and predictability of the NEM reliability framework against the effects of changes to the reliability standard and the reliability settings, to further promote efficiency in the NEM.

The Panel considers that its decision and recommendations 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.

The Panel has advised the AEMC of the Panel's decision and recommendations arising from this review.

For interested stakeholders, the Panel has also published its modelling consultant's finalised modelling report for this review.

Purpose of this review

The purpose of this review was to:

- determine whether the existing reliability standard is appropriate for the current market arrangements;
- determine the form and level of the reliability standard that should apply from 1 July 2016;
- recommend the appropriate reliability settings to apply in the NEM from 1 July 2016 to achieve the reliability standard chosen; and
- propose processes for implementing any changes arising from the review.

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