

2022 Reliability standard and settings review draft report

The Reliability Panel has published its draft report for the 2022 Reliability standard and settings review.

The purpose of the 2022 Reliability standard and settings review (2022 RSS review) is to consider whether the existing form and level of the reliability standard and settings remain appropriate for the expected market conditions from 1 July 2025 to 30 June 2028.¹ The reliability settings include the Market Price Cap (MPC), Cumulative Price Threshold (CPT), Administered Price Cap (APC), and the Market Floor Price (MFP).

The standard and settings aim to encourage sufficient investment in generation or demand response capacity to meet consumer demand for energy, while protecting market participants from potential financial risks that threaten the overall stability and integrity of the market.

The 2022 RSS review draft report sets out the Panel's draft positions and observations based on the considerations and analysis to date. The Panel must still consider the views of stakeholders on the review's comprehensive modelling work. The Panel will seek that input before making any final recommendations.

The Panel is undertaking the review in the context of the existing energy-only market design. The Panel and the ESB are working together so that the outcomes of this review, in particular, the modelling work, may be used by the ESB to design a capacity mechanism and any required market price settings in that context. The Panel is collaborating with the ESB during all stages of the review to ensure all processes and solutions are appropriately aligned and do not introduce unnecessary duplication.

The Panel is seeking stakeholder input on its draft report with submissions due by **COB Thursday 7 July 2022**. A final report must be provided to the AEMC by 1 September 2022.

Summary of Panel draft positions

The 2022 Review is larger in scope, considering both the form and level of the standard and settings, and is being undertaken due to the rapid transition occurring in the NEM. The Panel, given the scope, uncertainty in future market conditions and the timeframes of the review, will need to make more judgements than past reviews on the standard and settings to apply for the review period.

The Panel positions below, therefore, are based on the issues that have been considered and the comprehensive modelling that has been undertaken to date.² The Panel's draft positions are also based on stakeholder feedback and the Panel requirements for the review.

Form of the reliability standard

- The Panel has not made specific recommendations for the form of the reliability standard at this stage of the review. The reliability standard is based on expected unserved energy in a national electricity market region and set at a level that balances delivering reliable electricity supplies and maintaining reasonable costs for customers.
- The Panel considers that there may be a case to change the way the reliability standard is applied and to capture more information about future reliability risks. This is because of the

¹ Refer to AEMC rule change relating to the three-year period of the review: see [here](#).

² Modelling for the review has been performed by Intelligent Energy Systems (IES).

transition of the power system to higher levels of variable renewable energy generation and therefore changing reliability risk profile.

Level of the reliability standard

- The Panel has not made specific recommendations on the level of the reliability standard at this stage of the review because of its ongoing considerations of the form of the standard. The review base case modelling however indicates that there may not be a material benefit to changing the existing level of the reliability standard from 0.002% when expressed using the existing form of the standard.³
- Review modelling considered the different values of customer reliability (VCR) to provide information about the cost of achieving potentially higher or lower levels of reliability.⁴ The Panel is seeking stakeholder feedback on the modelling outcomes for the level of the reliability standard.

Market Price Cap and Cumulative Price Threshold

- The Panel has not made specific recommendations in the draft report on the level of the MPC⁵ and CPT.⁶ The Panel is considering outcomes from modelling which indicate a materially significant misalignment between the *existing* MPC and CPT with the MPC/CPT which is required to support investment consistent with the reliability standard over the period 1 July 2025 to 30 June 2028.
- Modelling has identified a range of candidate MPC and CPT combinations that provide sufficient revenue to support investment consistent with the reliability standard. The Panel seeks stakeholder feedback on the following candidate MPC and CPT ranges:
 - **MPC** of \$21,000/MWh to \$29,000/MWh, and
 - **CPT** of \$1,359,100 (corresponding to 7.5 hours at the existing MPC) and \$4,176,000 (corresponding to 12 hours at a maximum MPC of \$29,000/MWh).⁷
- The MPC and CPT should together be sufficient to support investment outcomes consistent with the reliability standard while also limiting potential systemic financial risks. The Panel has considered the MPC and CPT together given their relationship in providing sufficient revenue to support investment in the marginal new entrant power system resource. The Panel seeks stakeholder views on its approach to identifying a NEM wide MPC/CPT that is appropriate for all regions of the NEM.

Administered Price Cap

- The Panel's initial consideration is that the level and form of the APC at \$300/MWh may remain appropriate for the period 1 July 2025 to 30 June 2028 but notes the recent increases in fuel costs.⁸ The Panel is seeking stakeholder feedback to inform further consideration of the APC given these recent increases in fuel costs.

Market Floor Price

- The Panel proposes to retain the existing form and level of MFP at -\$1,000/MWh for the review period from 1 July 2025 to 30 June 2028.⁹

³ The standard is set at a level that balances delivering reliable electricity supplies and maintaining reasonable costs for customers

⁴ The NER requires the Panel to have regard to any value of customer reliability determined by the AER and any changes applicable.

⁵ The MPC places an upper limit on wholesale market prices that can be reached in any trading interval. The value of the MPC is specified in the NER and is currently set at \$15,100/MWh.

⁶ The CPT is a threshold on the cumulative price for energy and frequency control ancillary services (FCAS) over a period of seven days beyond which an administered price period (APP) commences and the APC is applied to market prices.

⁷ It is important to note that a higher MPC may not necessarily equate to higher consumer costs because the revenue associated with high price periods is still very small when compared to revenues across the rest of the year.

⁸ The APC is the maximum market price paid to participants that can be reached in any dispatch interval and any trading interval, during an Administered Price Period (APP).

⁹ The MFP sets a lower limit on wholesale market prices that can be reached in any trading interval and is set to reflect the amount that inflexible generators are willing to pay to remain dispatched.

- The Panel's position is based on a number of considerations, including the trade-off between allowing the market to clear and not creating substantial risks to retail competition, the philosophy behind or objective of the MFP and the costs and benefits of a shift in that philosophy or objective.

Panel decision-making considerations and next steps

The 2022 RSS review is bound by a specific framework in the NER and the RSS review 2021 Guidelines. This includes a set of specific assessment principles that the Panel must apply when determining the final recommendations for the reliability standard and settings that include:

- allowing efficient price signals while managing price risk,
- delivering a level of reliability consistent with the value placed on that reliability by consumers, and
- providing a predictable and flexible regulatory framework.

The Panel needs to apply these considerations in its decision-making, as with its requirements set out in the AEMC Terms of Reference.

The Panel will set out its conclusions and recommendations as part of a final report to the AEMC.¹⁰ Where the Panel recommends any changes to the form or level of the reliability standard or settings, the Panel is required to submit rule changes to the AEMC given the existing standard and settings are set out in the NER. The AEMC will then go through its rule change process for any change to the existing standard and settings.

The RSS review consultation process and timeline are set out below:

- Stakeholder submissions due: 7 July 2022
- Stakeholder engagement and consultation: July to August 2022
- Publication of final report and supporting material: 1 September 2022

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¹⁰ Clause 3.9.3B of the NER.