



Governance arrangements and implementation of the reliability standard and settings

Commencement of consultation on rule change request

The AEMC has commenced consultation on a rule change request from the COAG Energy Council that proposes to shift responsibility for setting the reliability standard from the Reliability Panel to the AEMC, and require guidelines to be developed for reviewing the reliability standard and settings.

The rule change request also proposes to make the Australian Energy Market Operator (AEMO) responsible for all reliability operational decisions, and to provide AEMO with greater flexibility to amend its processes to assess the adequacy of generation reserves to meet the reliability standard.

Details of the rule change request

The COAG Energy Council considers that improvements could be made to the process for determining the reliability standard and settings to provide greater certainty and transparency for market participants. The proposed rule change is also intended to establish a clear allocation of responsibility for interpreting and applying the reliability standard.

The COAG Energy Council proposes to do this by modifying the national electricity rules (the rules) to:

- require the AEMC to take on responsibility for setting the reliability standard, which is currently set by the Reliability Panel;
- shift the reliability standard and settings into a schedule to the rules and allow the AEMC to determine the reliability standard and settings through a process that is separate from the rule change process;
- require the AEMC to develop guidelines it must follow in reviewing and setting the reliability standard and settings;
- clarify that AEMO is responsible for making all reliability operational decisions and reviewing/amending processes to assess the adequacy of generation reserves to meet the reliability standard; and
- require AEMO to develop, consult on, and publish reliability standard implementation guidelines and reliability adequacy parameters, which will guide implementation of the reliability standard.

Background

The reliability standard and reliability settings

Reliability is a long term issue regarding the maintenance of adequate levels of generation capacity to meet consumers' energy demand. The reliability standard defines a targeted maximum of unmet energy demand. In setting this standard, regard is had to the value of supply and the increase in costs necessary to meet higher reliability standards.

The reliability settings, such as the market price cap and the cumulative price threshold, are important regulatory mechanisms that are designed to provide price signals to incentivise investment in an efficient level of generation investment to meet the reliability standard. The reliability settings also provide a mechanism to limit financial risk for market participants and consumers.

Submissions to the consultation paper are due on 23 October.

The reliability standard and reliability settings (continued)

Currently the reliability standard and reliability settings are reviewed by the Reliability Panel every four years. Based on its review, the Panel can determine the reliability standard. However, if it considers changes to the reliability settings are required it must submit a rule change request to the AEMC. The reliability settings are then assessed again under the rule change process and determined by the AEMC.

AEMO currently makes reliability operational decisions, including assessing whether there is sufficient generation reserves to meet the reliability standard. If a shortfall of reserves is forecast, AEMO has the power to procure additional generation reserves under the reliability and emergency reserve trader mechanism.

Background to the rule change request

This rule change request arises primarily out of the AEMC's 2010 *Review of the Effectiveness of NEM Security and Reliability Arrangements in light of Extreme Weather Event* (Review).

This Review found that there were areas in the governance framework of the reliability standard and settings that could be improved to maintain consumer expectations for the quality of electricity supply in a future in which the frequency/severity of extreme weather events could increase.

The recommended changes to the governance framework, which have subsequently been submitted as this rule change request, were intended to reduce complexity by having a consistent process for determining reliability parameters by a single decision-making body. The changes were also intended to ensure appropriate alignment between the reliability standard and the reliability settings.

Consultation process

The consultation paper has been prepared to facilitate public consultation and assist stakeholders in providing submissions on the rule change request.

The consultation paper should be read in conjunction with the rule change request, which is available on the AEMC website.

Submissions are due by **23 October 2014**.

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