



## Draft guidelines for reliability standard and settings reviews

**The Reliability Panel (Panel) invites submission on the draft guidelines for future reviews of the reliability standard and settings (reviews). The draft guidelines propose a set of principles and assumptions to be applied by the Panel when conducting future reviews. The next review will commence in January 2017.**

### Background

Every four years, the Panel reviews the reliability standard (standard) and reliability settings (settings) that apply to the National Electricity Market (NEM).

- The standard is the maximum expected unserved energy (USE), and is currently set at 0.002% of the total energy demanded in a region in a financial year.
- The settings are:
  - The market price cap (MPC), which is the maximum price that can be reached in any dispatch interval and in any trading interval; currently set at \$14,000/MWh.
  - The market floor price (MFP), which is the minimum price that can be reached in any dispatch interval and any trading interval; currently set at -\$1000/MWh.
  - The cumulative price threshold (CPT), which is the maximum total energy price that can be reached in a time period of 336 trading intervals, and the maximum total frequency control ancillary services (FCAS) price in a period of 2160 dispatch intervals, before an administered price period (APP) commences and the administered price cap (APC) is applied to market prices. It is currently set at \$210,000 for the energy market, and at six times that for FCAS markets.
  - The APC, which is the maximum settlement price that applies during an APP; currently set at \$300/MWh.

As part of the 2014 review of the standard and settings, the Panel recommended that the AEMC and/or the Panel develop a methodology for future reviews, and that this methodology consider how the outcomes of any market modelling should be treated.

### Purpose of the guidelines

In response to the Panel's recommendation in 2014, the Panel has developed these draft guidelines. The guidelines provide the market with useful and transparent information about how the Panel intends to undertake each review. The guidelines themselves do not determine the values of the standard and settings. These will be determined by the Panel in each review. Rather, the guidelines set out the principles and assumptions that the Panel is to apply in undertaking each review.

The draft guidelines:

- establish the assessment framework the Panel will apply in each review;
- identify an approach to assessing each of the standard and settings; and
- outline an approach to the modelling that the Panel will use to inform each review.

### Assessment framework for future reviews

The guidelines set out the assessment framework that the Panel will apply in future reviews. As part of this framework, the Panel will seek to support the achievement of the National Electricity Objective (NEO) by balancing the following principles:

- allowing for efficient price signals while managing price risk;
- setting a level of reliability consistent with the value placed on it by customers; and
- providing a stable and predictable regulatory framework that is, nevertheless, capable of adjusting to market circumstances.

## Approach to assessing the reliability standard and settings

To facilitate the objectives of the assessment framework, the draft guidelines set out the **form** and **level** of each of the standard and settings, and for each of them:

- A definition of their purpose.
- The approach the Panel will take in each review, including whether they are:
  - **open**, meaning that the form and/or level of the component is open for assessment in each review;
  - **subject to a materiality assessment**, meaning that the form and/or level of the component will remain the same as in the previous review, unless the Panel considers there is a material benefit in reassessing it; or
  - **closed**, meaning that the form and/or level of the component will not be reassessed in future reviews.
- Depending on whether the component is open or subject to a materiality assessment, some guidance on the principles the Panel will apply in making its assessment of the component during any review.

The table below summarises the approach the Panel will take to the standard and settings:

	Reliability Standard	MPC	CPT	MFP	APC
<b>Form</b>	Closed	Closed	Closed	Closed	Closed
<b>Level</b>	Materiality assessment	Open	Open	Materiality assessment	Materiality assessment
<b>Application of indexation</b>	N/A	Closed (indexed)	Closed (indexed)	Closed (not indexed)	Closed (not indexed)
<b>Form of indexation</b>	N/A	Materiality assessment	Materiality assessment	N/A	N/A

The key components that the Panel will need to reassess at the next review are the MPC and the CPT.

## Approach to modelling

The guidelines also set out the broad approach the Panel intends to take to modelling in future reviews. This includes:

- considering the impact of the MPC and CPT on capacity retention and retirement decisions, as well as investment in new capacity;
- a technology-neutral approach that builds on the approaches used in previous reviews but more accurately reflects market outcomes; and
- more sophisticated analysis of interactions between different input variables, including the relationship between weather conditions, demand and intermittent generation dispatch.

## Consultation process

The draft guidelines, and accompanying draft determination that sets out the Panel's analysis to inform the contents of the draft guidelines, are available on the AEMC's website. Stakeholders are invited to make submissions both by **3 November 2016**.

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