

Governance and implementation of the reliability standard and settings

The AEMC has made a draft determination and draft rule in relation to a rule change request from the COAG Energy Council. The draft rule increases transparency and strengthens the governance arrangements for the reliability standard and settings, which are key to securing the reliable supply of electricity in the National Electricity Market. It also enables the reliability standard to be implemented in a more efficient, flexible manner.

What did we decide?

In the draft determination, we decided to make a draft more preferable rule that:

- incorporates the reliability standard into the National Electricity Rules;
- requires the Reliability Panel to develop reliability standard and settings guidelines that will set out the principles and assumptions it will make when conducting reliability reviews; and
- requires AEMO to develop and publish reliability standard implementation guidelines, which will guide the implementation of the reliability standard.

Under this approach, the Reliability Panel would continue to submit rule change requests to the AEMC where it considers a change to the reliability standard or settings is needed.

Although any person may submit a rule change request to the AEMC to change the reliability standard or settings under the draft rule, the Commission considers the Reliability Panel is particularly well-placed to make such requests.

This rule change has been made in response to a rule change request from the COAG Energy Council that identified a number of issues relating to accountability and transparency of decision making with respect to the governance arrangements for and implementation of the reliability standard and settings.

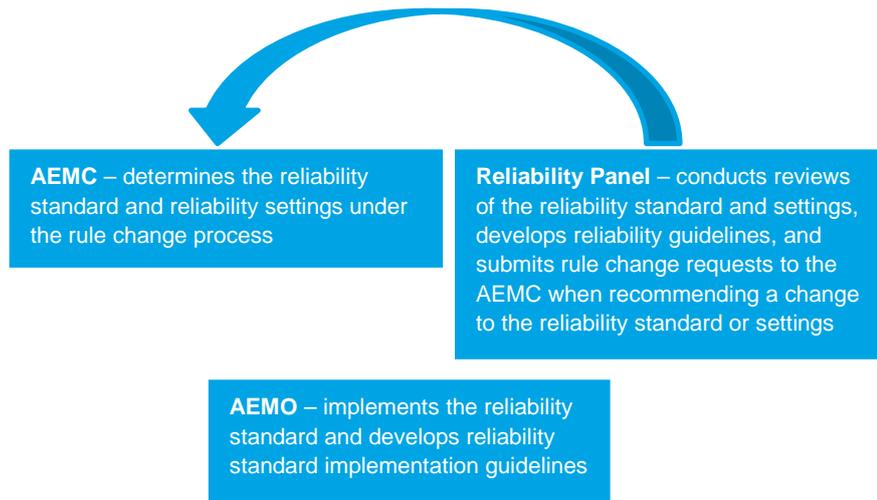
The Commission considers the current governance arrangements lack consistency of process across the reliability parameters and that there is currently a lack of transparency about how reliability is assessed by the Australian Energy Market Operator (AEMO).

The draft rule strengthens good governance in relation to the arrangements for the reliability standard and settings by providing a single, consistent process under which the reliability standard and settings are determined.

It also provides AEMO with more flexibility in the way in which it implements the reliability standard to enable more efficient and accurate reliability assessments.

This is achieved through the development of reliability standard implementation guidelines, which will act as parameters to guide and implement the reliability standard.

The below diagram illustrates the relevant roles of the entities involved in reviewing, determining, and implementing the reliability standard and, where relevant, the settings.



The ongoing role of the Reliability Panel

Under the draft rule, the Reliability Panel will continue to review the reliability standard and settings as part of its current four-yearly review process.

The Reliability Panel may also make a rule change request to change the reliability standard or the reliability settings where such a change is recommended as part of a reliability review.

The Reliability Panel will also be tasked with developing reliability guidelines, setting out the principles and assumptions it will make when conducting these reviews.

The Commission considers these arrangements should reinforce the Reliability Panel's ongoing contribution to assessing and monitoring reliability in the National Electricity Market.

What are the reliability standard and reliability settings?

The reliability standard, expressed as a probability of unserved energy, is a measure of the adequacy of electricity generating systems and interconnectors to meet the demand of consumers, and is used to evaluate whether there is sufficient investment in generator capacity to meet consumer demand.

Setting the reliability standard involves balancing the value that consumers place on the supply of reliable electricity with the costs involved in delivering this level of reliability.

The reliability settings are the price mechanisms under the National Electricity Rules that work to incentivise sufficient generation capacity and demand-side response to deliver the reliability standard. The reliability settings also provide a mechanism to limit financial risk for market participants.

The reliability settings include a market price cap, a cumulative price threshold, a market floor price, an administered price cap, and an administered floor price.

What is the rule change request about?

The COAG Energy Council submitted a rule change request that proposed changes to the National Electricity Rules to:

- remove the Reliability Panel's responsibility to review and determine the reliability standard, and require the AEMC to take on these roles;
- give the AEMC the power to determine the reliability settings without the need for a rule change request and require the AEMC to develop guidelines it must follow in reviewing and determining the reliability standard and settings; and
- require AEMO to develop reliability standard implementation guidelines and reliability adequacy requirements to act as parameters to implement the reliability standard.

The AEMC is seeking submissions on a draft determination and draft rule relating to the governance arrangements for and implementation of the reliability standard and settings.

Submissions

The AEMC invites submissions on the draft rule determination and draft rule by Thursday, 5 February 2015.

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