



AEMC Reliability Panel

Comprehensive reliability review

Terms of reference (amended on 22 June 2007)

Introduction

In accordance with the National Electricity Rules (Rules) cl. 8.8.3(b) and (c), the AEMC requests the Reliability Panel to undertake, in a comprehensive and integrated process, the reviews required by the Rules in relation to the following key National Electricity Market (NEM) standards and parameters:

- the NEM reliability standard;
- the Tasmanian reliability and frequency standards;
- the level of Value of Lost Load (VoLL), market floor price and cumulative price threshold (CPT); and
- whether the reliability safety net should be allowed to expire or alternative arrangements put in place.

The AEMC strongly supports the view of the Panel, as customer and industry representatives, that the subject matter of those reviews are closely inter-related and that it is appropriate that they be considered together. This more comprehensive approach will enable the Panel to address the clear need to provide NEM stakeholders with greater medium-term certainty in relation to these fundamental market signals.

The AEMC advises the panel of the terms of reference set out below including a requirement that the Panel complete its reviews and provide its report to the AEMC by 31 March 2007.

Scope

NEM reliability standard

In accordance with Rules cl. 8.8.1(2), the Panel must review and, on the advice of NEMMCO, determine the NEM reliability standards. The reliability standard is the relationship between the minimum acceptable level of bulk electricity supply measured against the total demand of electricity customers. The standard was set at .002% unserved energy (USE) by the Panel at market start in 1998 and it is appropriate to review that standard now.

The Panel is requested to examine:

1. the appropriateness of the standard including consideration of:
 - a. the effectiveness of equivalent standards internationally;
 - b. the effectiveness of the standard domestically;
 - c. the appropriate form, level and degree of precision for the standard in the future; and
 - d. the scope of the standard in terms of the boundary with system security events and the boundaries of application of the standard across electricity infrastructure;
2. the interpretation of the standard into minimum reserve requirements including consideration of whether the contingency, short term and medium term capacity reserve standards should be explicitly defined; and
3. the application of minimum reserve levels in the market.

Tasmanian reliability and frequency standards

The Rules require that the Panel determine the Tasmanian reliability and frequency standards on the advice of NEMMCO and that, in making that determination, take into account the following principles:

- the Panel must have regard to the existing Tasmanian standards;
- the Panel must consider the costs and benefits of any changes;
- the Panel must consider the size and characteristics of the Tasmanian power system;
- the standards may differ from the mainland standards; and
- the standards must be less stringent for islands in Tasmania (cl. 9.49.4).

The Tasmanian Reliability and Network Planning Panel (RNPP) is currently reviewing the Tasmanian capacity reserve and frequency standards. The RNPP released a position paper in August 2005 and received a number of submissions in response. It is expected to make its decision by the end of February 2006.

The Panel is requested to:

4. review the RNPP's position paper and submissions received in response as part of reaching its own determination by no later than 30 April 2006; and
5. take into consideration that determination when undertaking the main body of the comprehensive integrated review.

VoLL, market floor price and CPT

The level of VoLL, the market floor price and the CPT arrangements provide the key price envelope within which the market must deliver to the NEM reliability standard. As established, these parameters provide the key signals for supply and demand-side investment. The Rules currently require the Panel to review the parameters by 30 April each year and that, in setting VoLL, do so at a level which the Panel considers will:

- allow the reliability standard to be met without the use of NEMMCO's intervention powers (to dispatch contracted reserves or direct Registered Participants);
- not create risks which threaten the overall integrity of the market; and
- take into account any other matters the Panel considers relevant.

The Panel is requested to:

6. complete its next review of VoLL, the market floor price and CPT by 30 April 2006 (VoLL 2006 review);
7. undertake the 30 April 2007 review of those parameters (VoLL 2007 review) as part of the main body of the comprehensive reliability review;
8. in undertaking the VoLL 2007 review:
 - consider whether VoLL, the market floor price and CPT are the most appropriate mechanisms for providing adequate investment signals and managing price volatility;
 - if the Panel considers that they remain appropriate mechanisms, determine the values of those parameters appropriate for the future medium-term including how often they should be assessed in the future;
 - if the Panel considers that they are no longer appropriate, consider appropriate alternative mechanisms.

Reliability safety net

The reliability safety net comprises the ability of NEMMCO to take actions to address any potential shortfalls by the market to deliver against the NEM reliability standard. At present, the Rules put a sunset date of 30 June 2006 on NEMMCO's powers in this regard and require the Panel to, by that date, review whether the reliability safety net should be allowed to expire or alternative arrangements be put in place.

The Panel is requested to:

9. consider as a priority how the Panel can meet its obligation under the Rules to address the issue by 30 June 2006 while also addressing the matter as part of the comprehensive review.

Process

Consultation

The comprehensive review is likely to have important implications for NEM stakeholders. Consistent with its philosophy of engaging with those parties, the AEMC requests the Panel to plan to involve stakeholders by seeking submissions and holding forums on the main review issues paper and on each of its draft decisions.

In giving notice to Registered Participants of the Tasmanian reliability and frequency reviews, as required by Rules 8.8.3(d), the Panel is directed that the notice must be given at least four weeks prior to the meeting referred to in Rules 8.8.3(f).

The Panel is also directed that its report on the Tasmanian reliability and frequency reviews must be provided to the AEMC no later than eight weeks after the meeting referred to in Rules 8.8.3(f).

Resourcing, planning and communication

The Panel is requested to:

- utilise a lead consultant engaged and provided by the AEMC to assist in the preparation of scoping and issues papers, draft and final review documents, the undertaking of research and analysis and carriage of the review generally;
- provide the AEMC with a detailed project plan and budget by 24 February 2006; and
- brief the AEMC on progress in relation to the comprehensive reliability review from time to time as appropriate.

Addendum to Terms of Reference – 21 June 2007

The AEMC requests the Reliability Panel to include an additional component in the comprehensive reliability review to incorporate the request of the MCE to provide advice on the effectiveness of current market arrangements in managing generation input constraints and energy shortfalls.

The Panel is requested to:

- Provide advice to the AEMC for the MCE by mid-July 2007 on what, if any, improvements can be made to arrangements, including reserve trader, to strengthen the market's ability to manage generator input constraints.

- Extend the timetable of the comprehensive reliability review to include a second interim report which will seek feedback from stakeholders on the above advice before its final report is issued.

Revised Timetable for the Comprehensive Reliability Review

The AEMC requests the Reliability Panel incorporate the following key dates in its work program:

- By mid-July 2007 – advice to the AEMC for the MCE
- By 31 August 2007 – second Interim Report of CRR, including an exposure draft of the Panel's proposed changes (if any) to the reserve trader mechanism.
- By 30 November 2007 – final report of CRR.