

RECEIVED 10 JAN 2013

B12/1624

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

- 8 JAN 2013

Dear Mr Pierce 

I am writing to you on behalf of the Ministerial Council on Energy (MCE), in my capacity as the Chair of the Standing Council on Energy and Resources (SCER), to request advice from the Australian Energy Market Commission (AEMC) on specific matters arising from the *Review of the Effectiveness of NEM Security and Reliability Arrangements in light of Extreme Weather Events* (the Review).

As you are aware, on 8 June 2012, SCER published the MCE's policy response to the Review. In this response, the MCE noted the AEMC's recommendation for an explicit requirement for a Value of Customer Reliability (VCR), based on the residential consumer class, to be considered when determining the levels for the Reliability Standard and Reliability Settings.

The MCE recognised that there are a number of different approaches that could be used for estimating a VCR. The MCE noted that the process adopted in calculating the VCR could result in different outcomes, with different implications for consumers and the market more broadly. Given the complexity of this, the MCE agreed to seek additional advice from the AEMC on linking VCR to the Reliability Standard and Reliability Settings. The attached terms of reference give effect to this agreement and seek advice from the AEMC by 30 June 2013.

Under Section 6 of the *Australian Energy Market Commission Establishment Act 2004 (SA)*, the MCE may request the AEMC to provide advice. In September 2011, the Council of Australian Governments (COAG) created SCER, which includes Ministers responsible for Energy. These Ministers comprise the membership of the legally enduring MCE. SCER Ministers responsible for Energy are entitled to make requests under Section 6.

Should you have any questions, please contact Ms Kristen Palmer, Manager, SCER Secretariat, on (02) 6213 6107.

Yours sincerely


Martin Ferguson

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Request for advice from the Australian Energy Market Commission on linking the Reliability Standard and Reliability Settings with the Value of Customer Reliability

Ministerial Council on Energy (MCE) direction to the Australian Energy Market Commission (AEMC)

Pursuant to section 6(b) of the *Australian Energy Market Commission Establishment Act SA (2004)*, the MCE asks the AEMC to:

- Briefly describe how the Reliability Standard and Reliability Settings (especially the role of the Market Price Cap (MPC) in the operation of the wholesale market) support, at a high level, the National Electricity Objective (NEO).
- Provide a table describing the different methodologies by which the AEMC might amend the Reliability Standard and Reliability Settings (principally the MPC) to reflect a VCR.
 - In the table, include an assessment of each methodology's benefits, limits, and suitability in meeting the NEO.
- Show how linking the Reliability Standard and Reliability Settings (especially the MPC) with a Value of Customer Reliability (VCR) may better support the NEO, giving specific focus on how this occurs when the MPC impacts on reliability outcomes for consumer classes with varying VCRs.
- Analyse the expected costs and benefits with linking the Reliability Standard, and the Reliability Settings (specifically the MPC), with a VCR in terms of:
 - the potential impact on consumers, including for:
 - price; and
 - reliability.
 - the potential impacts on generators, retailers and other relevant market participants, including for:
 - impacts on investment signals; and
 - the extent to which linking the MPC to a VCR could duplicate the signals provided by the Reliability Standard or other existing market settings.
- Based on the AEMC's analysis of the above, outline a preferred approach including any implementation considerations.

Relevant considerations

In developing this advice the AEMC must have regard to:

- the work being done by the Australian Market Operator (AEMO) in establishing national and regional VCR levels; and
- the processes and outcomes associated with other related work.

Consultation

In providing this advice, the AEMC must consult with:

- AEMO;
- the Australian Energy Regulator;
- the Reliability Panel; and
- each National Energy Market jurisdiction.

Timeframe

The MCE requires that the AEMC:

- if considered appropriate by the AEMC, hold one public forum on approaches; and
- provide a report setting out its advice and recommendations by 30 June 2013.