



**Reliability standard and settings review 2014**  
**AEMC Terms of Reference to the Reliability Panel**  
**8 April 2013**

## **Introduction**

The reliability standard and the reliability settings in the National Electricity Market (NEM) are important mechanisms that are in place to encourage sufficient investment in generation capacity.

The reliability standard applies to generation and inter-regional transmission capacity to capture the benefits of generation from across regional boundaries. The current standard is expressed in terms of the maximum unserved energy (USE), and the level of the standard is set at a maximum USE of 0.002 per cent for each region or regions per financial year. The reliability standard is set by the Reliability Panel (Panel) in accordance with the NER.<sup>1</sup>

'Reliability settings' is a collective reference to three price mechanisms under the National Electricity Rules (NER):<sup>2</sup>

- Market price cap (MPC) – the MPC is a cap placed on spot prices in each half-hourly trading interval, and is currently set at \$12,900/MWh for the 2012-2013 financial year.
- Cumulative price threshold (CPT) – the CPT is the threshold governing the imposition of an administered price cap (APC).<sup>3</sup> Where the sum of the spot prices in a region in 336 consecutive trading intervals exceeds the CPT, the APC will be applied in that region. The CPT is currently set at \$193,900 for the 2012-2013 financial year.
- Market floor price – the market floor price is the lowest allowable limit for the spot price. It is currently set at -\$1,000/MWh.

These reliability settings function to:

- establish the parameters governing the price envelope within which energy supply and demand is balanced in the wholesale market;
- provide important price signals to market participants in relation to the delivery of sufficient generation capacity to meet the reliability standard; and
- at the same time, provide a mechanism to limit financial risk for market participants.

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<sup>1</sup> Note that the standards for the reliability of the transmission and distribution networks are set by State governments.

<sup>2</sup> In accordance to requirements under the NER, the MPC and CPT are indexed by the AEMC on an annual basis. The values to apply for the financial year 2013-2014 are: MPC \$13,100/MWh; CPT \$197,100.

<sup>3</sup> In accordance with clause 3.14.2(c)(1A), an APC will also be applied to any dispatch interval where the sum of the ancillary service prices for a market ancillary service in the previous 2016 dispatch intervals exceed six times the CPT.

The Panel has undertaken a number of reviews examining the reliability standard and reliability settings in the past. These include the Panel's Comprehensive Reliability Review in 2007 and the most recent review of the reliability standard and settings which was completed in April 2010.<sup>4</sup>

Clause 3.9.3A(a) of the NER requires the Panel to conduct reviews of the reliability standard and reliability settings once every four years and a review is to be completed by 30 April 2014. The AEMC request the Panel to carry out this review within the bounds of the current market arrangements and in accordance with the rules consultation procedures as set out under clause 3.9.3A(a) and 8.9 of the NER.

### **Scope of this review**

As set out in clause 3.9.3A of the NER, the Panel's review must cover the reliability standard and settings and have regard to how any changes to the standard or settings may impact the NEM.

The Panel's review must review the following:

- (1) the reliability standard;
- (2) the MPC, including the manner of indexing the MPC;
- (3) the CPT, including the manner of indexing the CPT; and
- (4) the market floor price.

In undertaking the review, the Panel must have regard to:

- the potential impact of any proposed change in the reliability standard, MPC, CPT or the market floor price on:
  - spot prices;
  - forward contract prices and contract liquidity;
  - investment in the NEM;
  - the reliability of the power system; and
  - market participants and consumers;
- any value of customer reliability determined by the Australian Energy Market Operator (AEMO) which the Panel considers to be relevant.

The Panel may take into account any other matters the Panel considers relevant. These other matters could include any implications the gas market settings have on the electricity market settings or interactions between the gas and electricity markets, and the impact of renewable energy targets and other relevant policy settings. The Panel is requested to consult with AEMO on the relevant gas market settings and AEMO's participation as a member of the Panel should facilitate this process.

In undertaking this review the Panel will have regard to the National Electricity Objective as set out under the National Electricity Law.

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<sup>4</sup> Information on these reviews is available on the AEMC website.

## **Process and timing**

As required by the NER, the Panel is required to follow the rules consultation procedures in carrying out this review. The AEMC notes that this includes the requirement to publish a draft report and carry out consultation on the draft report. The Panel may also publish an issues paper for consultation at the initiation of the review. The AEMC anticipates that the Panel will hold at least one public meeting during the course of the review. The Panel's final report is to be published and submitted to the AEMC no later than 30 April 2014.