

2018 reliability settings and standard review

Issues Paper

The Reliability Panel has published an issues paper to seek initial stakeholder views to inform the Panel's assessment of the reliability standard and settings to apply from 2020 to 2024. Submissions are due by 12 July 2017.

Background

The reliability standard and reliability settings are a set of parameters that bear on investment in the national electricity market, and thereby the reliability of the power system. They have been a feature of the national electricity market since its inception.

The Panel has a statutory requirement to review the reliability standard and settings every four years. The Panel has commenced the 2018 review and will publish its final report by 30 April 2018.

The Panel will consider whether the current reliability standard and settings remain suitable for expected market conditions from 1 July 2020 to 1 July 2024.

The standard and settings

Reliability is about having sufficient physical capacity in the system to generate and transport electricity to meet consumer demand. This review focuses on the reliability of the power system provided by power generation and interconnection assets.

The reliability standard is an ex-ante planning standard. It feeds into the operational decisions made by AEMO, and also the reliability settings that form part of the framework in which investment decisions to meet consumer demand for electricity are made.¹ The current standard, expressed in terms of the maximum expected unserved energy, is set at a maximum USE of 0.002 per cent of the total energy demanded in each region per financial year.

The **reliability settings** comprise four price mechanisms:

- The **market price cap** which is the maximum market price that can be reached in any dispatch interval and is currently set at \$14,000/MWh (2016-2017).
- The **cumulative price threshold** is the maximum total energy price that can be reached in a time period of 336 trading intervals (one week), and the maximum total frequency control ancillary services price that can be reached in a period of 2160 dispatch intervals, before an administered price period commences and the administered price cap is applied to market prices. The cumulative price threshold is currently set at \$210,000 for the energy market (2016-2017), and at six times the energy market value for frequency control ancillary services markets.
- The **market floor price** is the minimum price that can be reached in any dispatch interval and in any trading interval and is currently set at -\$1,000/MWh.
- The **administered price cap** is the maximum settlement price that applies during an administered price period and is currently set at \$300/MWh.

¹ AEMO operationally applies the reliability standard in the short-term and medium-term Projected Assessments of System Adequacy through Minimum Reserve Levels for each jurisdiction.

Role of the reliability settings

Collectively the reliability settings:

- limit participants' exposure to extreme prices.
- are set so as to allow investment in electricity generation sufficient to satisfy the reliability standard.

Many factors influence investment decisions in the national electricity market. While setting the reliability settings at an appropriate level is a necessary condition for efficient investment, it is not the only factor relevant to whether there is sufficient investment to meet consumer demand for energy. Other factors external to the national electricity market will have a significant impact on investment decisions, particularly any uncertainty regarding emissions policies.

Change in the energy sector

The energy sector is experiencing significant change and this will be relevant to the Panel's review of the standard and settings. Trends of particular relevance include:

- continued retirement of thermal generation
- increasing penetration of intermittent generation
- emergence of new technologies
- increased coupling of gas and electricity prices.

The Panel has explained these trends in the issues paper as well as how the review will consider them. The Panel also recognises the pace of change in the sector and the importance of policy predictability and certainty to the market.

Scope of review

The levels of the market price cap and the cumulative price threshold are automatically reviewed every four years. The Panel will only reassess the level of reliability standard, administered price cap and market floor price if they consider there is likely to be a material benefit in doing so. The approach to the standard and each of the settings is set out below.

	Reliability standard	Market price cap	Cumulative price threshold	Administered price cap	Market floor price
Level	Materiality assessment	Automatically reassessed	Automatically reassessed	Materiality assessment	Materiality assessment
Basis of indexation		Materiality assessment	Materiality assessment		

The Panel must carry out the review in accordance with the requirements set out in the rules and the terms of reference issued by the Commission. It will also be guided by the reliability standard and settings guidelines.

Next Steps

The Panel is now seeking stakeholder input to the review. The issues paper asks questions to help the Panel assess the reliability standard and each reliability setting. The Panel is also seeking comment on the review's modelling approach. Submissions are due by 12 July 2017.

The Panel will then release a draft determination for public comment, scheduled for late 2017, and publish its final report by 30 April 2018. If the Panel considers changes should be made to either the reliability standard or a setting, it must lodge a rule change request with the Commission.

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The Panel is seeking stakeholder submissions to inform the Panel's assessment of the standard and settings. Submissions are due by 12 July 2017.