



Reliability standard and reliability settings review 2014

The Reliability Panel (Panel) is carrying out a review to consider the appropriate reliability standard and reliability settings that should apply from 1 July 2016. ROAM Consulting (ROAM) has been engaged to undertake modelling to assist the Panel with this review. The modelling outcomes will be one of the inputs to the Panel's considerations. ROAM's draft report has been published for stakeholders' review and comment.

Modelling by ROAM Consulting

ROAM's modelling investigates each aspect of the reliability standard and settings to test their impact on the operation of the market. ROAM's modelling includes conceptual assessments of the reliability settings and the reliability standard, as well as assessments of the current market conditions. Modelling of the market floor price was also completed.

Given the uncertainty relating to the modelling inputs, sensitivity analysis was undertaken. This included examining sensitivities for capital cost assumptions, energy growth forecasts, the level of the renewable energy target and the gas price.

To test whether a Market Price Cap (MPC) provides the required investment signal, the model was based on whether a new entrant OCGT generator would be able to operate profitably. This was called the "cap defender" approach.

Cap defender approach

The cap defender generator is a generator that has sold cap contracts in the financial market and is offering its generation at \$300/MWh in the NEM. As it has sold cap contracts, it earns income from these contracts and also through the wholesale market. To avoid losing money on its contracts, the generator also needs to ensure that it generates at a sufficient level in order to cover those contracts.

For comparative purposes, modelling was also undertaken using an "extreme peaker" approach, where the extreme peaker offers its generation at the MPC and does not hold any contracts. The extreme peaker is a more theoretical construct whereas the cap defender approach more closely approximates commercial generator arrangements. (The extreme peaker was the approach used in the modelling for the 2010 review of the reliability standard and settings.)

The methodology used by ROAM is set out in detail in its draft report.

The review

The reliability standard and the reliability settings in the National Electricity Market (NEM) are important mechanisms to encourage sufficient investment in generation capacity in order to maintain an acceptable level of reliability for the NEM.

Under the National Electricity Rules (NER), the Panel is required to carry out a review of the reliability standard and reliability settings once every four years and this current review is to be completed by 30 April 2014. This regular review allows the Panel to consider whether changes should be made to ensure these mechanisms continue to meet the requirements of the market, market participants and consumers.

The purpose of this review is to:

- determine the form and level of the reliability standard that should apply from 1 July 2016; and
- recommend the appropriate value for each of the reliability settings to apply in the NEM from 1 July 2016 to achieve the reliability standard chosen.

The reliability settings are the MPC, the Cumulative Price Threshold (CPT) and the market floor price.

Following the completion of this review, the Panel may set a new reliability standard while any recommended changes to the reliability settings would be submitted to the AEMC as a rule change request for consideration under the National Electricity Law rule change process.

An issues paper was published in May 2013 and a number of submissions were received on the issues paper. The Panel also held a public forum in December where ROAM presented its modelling outcomes.

Next steps

The Panel will publish its draft report in February 2014 and it will be subject to consultation. ROAM's draft report has been published ahead of the Panel's report to provide stakeholders with additional time to review the modelling outcomes. Should stakeholders wish to provide written submissions on ROAM's report prior to the Panel's draft report being published, please do so by 16 January 2014. Alternatively, stakeholders may wish to provide comments on ROAM's report as a part of their submissions on the Panel's draft report next year.

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Written submissions
on ROAM's report
are welcome.

The Panel's draft
report will be
published in
February 2014.