

Australian Energy Market Commission

AEMC Reliability Panel

Review of VoLL 2009

Draft Report

6 March 2009

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About the AEMC

The Council of Australian Governments, through its Ministerial Council on Energy, established the Australian Energy Market Commission (AEMC) in July 2005 to be the Rule maker for national energy markets. The AEMC is currently responsible for Rules and policy advice covering the National Electricity Market and elements of the natural gas markets. It is a statutory authority. Our key responsibilities are to consider Rule change proposals, conduct energy market reviews and provide policy advice to the Ministerial Council on Energy as requested, or on AEMC initiative.

About the AEMC Reliability Panel

The Panel is a specialist body within the AEMC and comprises industry and consumer representatives. It is responsible for monitoring, reviewing and reporting on the safety, security and reliability of the national electricity system and advising the AEMC in respect of such matters. The Panel's responsibilities are specified in section 38 of the NEL.

Disclaimer

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Reliability Panel Members

Chairman

Ian C Woodward, Commissioner, Australian Energy Market Commission

Other AEMC Reliability Panel Members

Brian Spalding, CEO, NEMMCO

David Swift, Chief Executive, Electricity Supply Industry Planning Council

Gavin Dufty, Manager Policy and Research, St Vincent de Paul Society, Victoria

Gordon Jardine, Chief Executive, Powerlink

Hugh Gleeson, Chief Executive Officer, United Energy

Mark Grenning, Chief Advisor Energy, Rio Tinto

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1 Introduction

This paper presents the draft report by the Reliability Panel (the Panel) of the 2009 review of the Value of Lost Load (VoLL). Under clauses 3.9.4(c) and 3.9.6(c) of the National Electricity Rules (Rules), the Panel is required to conduct a review by 30 April each year with any changes to take effect from July two years after the determination is made.¹

2 Requirements under the Rules

Under the current version of the Rules, the Panel is required under clauses 3.9.4(c) and 3.9.6(c) of the Rules to review VoLL and the market floor price by 30 April each year.

Clause 3.9.4(c) states that:

- (c) By 30 April each year *the Reliability Panel* must conduct a review in accordance with the *Rules consultation procedures* and publish a report on the value of *VoLL* that it recommends should apply from 1 July in the year commencing 2 years after the year in which the review is conducted. In conducting a review in accordance with this clause 3.9.4(c) *the Reliability Panel* must have regard, in addition to any other Rules obligations, to the potential impact of any proposed increase in *VoLL* on:
 - (1) spot prices;
 - (2) investment in the national electricity market; and
 - (3) the reliability of the power system.

Clauses 3.9.4(c1) and (c2) outline what the Panel must consider in undertaking the Review:

- (c1) The value of *VoLL* recommended by the *Reliability Panel* must be a level which the *Reliability Panel* considers will:
 - (1) allow the standard for reliability established by the *Reliability Panel* as part of the *power system security and reliability standards* to be satisfied without use of *NEMMCO's* powers to intervene under clauses 4.8.6(a) and 4.8.9(a);
 - (2) in conjunction with other provisions of the *Rules*, not create risks which threaten the overall integrity of the *market*; and
 - (3) take into account any other matters the *Reliability Panel* considers relevant.

¹ In certain circumstances, the Panel may change the level of VoLL to take effect one year after its determination – Rules 3.9.4(d). The Panel does not propose to do so here.

- (c2) The *Reliability Panel's* report must set out the conclusions of its review and the recommendation in relation to the level of *VoLL* along with supporting information including:
 - (1) details of all relevant *market* conditions and circumstances on which the recommendation is based; and
 - (2) an assessment of whether the level of *VoLL* together with the operation of the *cumulative price threshold* has achieved the objectives set out in clauses 3.9.4(c1)(1) and (2).

Clause 3.9.6 (c) states that:

- (c) By 30 April each year the *Reliability Panel* must, as part of its review of *VoLL* under clause 3.9.4(c), conduct a review in accordance with the *Rules consultation procedures* and publish a report on the value of the *market floor price* that it recommends should apply from 1 July in the year commencing after the year in which the review is conducted.

Further, clauses 3.9.6 (d) and (e) outline what the Panel must consider in reaching a conclusion:

- (d) The value of the *market floor price* recommended by the *Reliability Panel* must be a level which the *Reliability Panel* considers will:
 - (1) allow the *market* to clear in most circumstances;
 - (2) not create substantial risks which threaten the overall stability and integrity of the *market*; and
 - (3) take into account any other matters the *Reliability Panel* considers relevant.
- (e) The *Reliability Panel's* report must set out the conclusions of its review and the recommendation in relation to the level of the *market floor price*, including details of all relevant *market* conditions and circumstances on which the recommendation is based.

Additionally, clause 3.12.1 (b) as referred to under Part 7 of Chapter 8A states that:

- (b) The *Reliability Panel* must, at the same time as it conducts a review of *VoLL* under clause 3.9.4(c), recommend whether the reliability safety net provided for by the power granted to NEMMCO under this clause 3.12.1 to enter into reserve contracts or non-scheduled reserve contracts can be removed from the Rules prior to 1 July 2008.

3 Current Settings

VoLL is currently set at \$10,000/MWh and the market floor price is set at -\$1,000/MWh. The Cumulative Price Threshold (CPT) is the cap for the cumulative price over a rolling 7-day, 336 trading interval, period and is currently set at \$150,000/MWh.

When the cumulative price exceeds this threshold, administered prices are invoked. The administered prices are set by the AEMC (previously by NECA) and are currently a maximum price of \$300/MWh and a minimum price of -\$300/MWh. The AEMC determined the final schedule that specifies the Administered Price Cap (APC) on 22 May 2008².

4 Context – Comprehensive Reliability Review

The AEMC requested the Panel to undertake, in a comprehensive and integrated process, several reviews relating to a number of key NEM reliability standards and parameters, including VoLL, the market floor price and the and Cumulative Price Threshold (CPT). The Reliability Panel published its Final Report for the Comprehensive Reliability Review (CRR)³ on 21 December 2007.

The CRR contained the following policy recommendations that are relevant to the Panel's VoLL review were to:

- increase the level of VoLL from the existing level of \$10,000/MWh to \$12,500/MWh, effective from 1 July 2010;
- define the CPT in the Rules as 15 times VoLL;
- replace the term "Value of Lost Load (VoLL)" with "Market Price Limit"; and
- replace the current annual review of VoLL with a reliability standards and settings review (i.e. the reliability standard, VoLL, CPT, and the market floor price) which is to take place every two years with two years notice of any changes.

On 16 September 2008 the Panel published an Exposure Draft of a Rule, and associated Rule change proposal, intended to implement the policy recommendations from the CRR for consultation. Following consideration of the submissions received, on 18 December 2008 the Panel submitted its Rule change package "NEM Reliability Settings: VoLL, CPT and Future Reliability Review"⁴ to the AEMC for assessment under "fast track" process contained in

² Further information is available on the AEMC website at <http://www.aemc.gov.au/electricity.php?r=20071105.151356>.

³ The Panel's Final Report of the CRR appears on the AEMC's website at www.aemc.gov.au/electricity.php?r=20051215.142656.

⁴ Further information is available on the AEMC website at www.aemc.gov.au/electricity.php?r=20090122.095406.

section 96A of the National Electricity Law (NEL). The Rule change package provided by the Panel includes an updated of the market modelling in the CRR that also supports that Panel's recommendations in relation to the level of VoLL.

On 22 January 2009, the AEMC published a notice under section 95 of the NEL advising of its intention to commence the Rule change process and fast track the Rule change proposal. The AEMC published its draft determination⁵ in relation to this package on 26 February 2009, and intends to:

- increase the level of the Value of Lost Load (VoLL) from \$10,000/MWh to \$12,500/MWh, with effect from 1 July 2010;
- set the CPT at an absolute level of \$187,500 with effect from 1 July 2010;
- rename "VoLL" to the "Maximum Market Price" and the "Market Floor Price" to the "Minimum Market Price"; and
- establish an integrated review of the reliability standard and settings, which is to take place every two years with two years' notice of any change.

Under the draft Rule, the Panel would be required to complete its first integrated review by 30 April 2010.

5 MCE directed review following the Victorian heat wave

In its Communiqué on 6 February 2009, the Ministerial Council on Energy (MCE) requested the AEMC to undertake a review of energy market frameworks in light of the impact on electricity supplies of the heat wave of 29-31 January 2009.⁶ This review will consider a range of possible reforms, including whether the level of the NEM price cap (VoLL) should be raised to ensure adequate levels of generation to reduce the risk of loss of supply during heat wave events.

6 Reliability Panel review of operationalisation of the reliability standard

The AEMC has provided the Panel with terms of reference for the review of operationalisation of the reliability standard.⁷ As part of this review the Panel will be required to commence a review of the level of VoLL that it recommends

⁵ The AEMC has invited stakeholders to make submissions on the draft Rule determination by no later than 16 April 2009. Further information on the AEMC's draft determination is available on its website at www.aemc.gov.au/electricity.php?r=20090122.095406

⁶ The MCE's Communiqué is available on its website at http://www.ret.gov.au/Documents/mce/_documents/Final%20Communique%206%20February%20200920090206155233.pdf

⁷ The terms of reference for the Panel is available on the AEMC website

should apply from 1 July 2012. The Panel will be required to complete this review by 30 April 2010.

7 Draft report – 2009 VoLL Review

Given that the AEMC is evaluating a Rule change proposal from the Panel to change VoLL, including an update of its analysis of the level of VoLL, and that the Panel will soon commence a further review of VoLL as part of its Reliability Standard and Settings Review, the Panel considers that it has effectively fulfilled its obligations in relation to reviewing the level of VoLL at this time. Therefore, the Panel does not intend to perform an analytical review of VoLL as part of the 30 April 2009 recommendations.

8 Consultation

Interested stakeholders are invited to provide comments on this Draft Report. Submissions should be received by 5 pm on Friday 3 April 2009.

Submissions may be sent electronically to submissions@aemc.gov.au or by mail to:

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