



Reliability standard and reliability settings review 2014

Release of draft report for public consultation

The Reliability Panel (Panel) is reviewing the reliability standard and reliability settings that are to apply from 1 July 2016. The Panel has published a draft report with its draft position on these matters for stakeholder comment.

Purpose of this review

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

Under the National Electricity Rules (NER), the Panel is required to review the reliability standard and reliability settings once every four years. The reliability standard refers to maximum allowable level of electricity at risk of not being supplied to consumers per financial year, whereas the reliability settings encompass the market price cap (MPC), cumulative price threshold (CPT) and market floor price (MFP).

This regular review allows the Panel to consider whether changes should be made to ensure these mechanisms continue to meet the requirements of the NEM, market participants and consumers. The outcomes of this review are intended to take effect from 1 July 2016.

Specifically, the purpose of this review is to:

- determine whether the existing reliability standard is appropriate for the current market arrangements;
- determine the form and level of the reliability standard that should apply from 1 July 2016;
- 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; and
- propose processes for implementing any changes arising from the review.

Following the completion of the review, the Panel may set a new reliability standard, while any recommended changes to the reliability settings would be submitted to the Australian Energy Market Operator (AEMO) for consideration as a rule change request.

Panel's draft decision and recommendations

In developing its draft decision on the reliability standard, and draft recommendations on the reliability settings, the Panel has sought to balance benefits of stability and predictability of the NEM reliability framework against the effects of changes to the reliability standard and the reliability settings, to further promote efficiency in the NEM.

The Panel's draft decision and draft recommendations are:

- **Reliability standard:** no change to the current form, and level, of the reliability standard to apply from 1 July 2016. That is:
 - the form of the reliability standard should remain as an output-based measure expressed in terms of the maximum permissible unserved energy (USE); and
 - the level of the reliability standard should remain at 0.002 per cent of the annual energy consumption for the associated NEM region, or regions, per financial year.
- **Market price cap:** no change to the real value of the MPC to apply from 1 July 2016. The MPC should continue to be indexed by the consumer price index (CPI) annually.

Submissions on
the draft report are
due by 10 April
2014

- **Cumulative price threshold:** no change to the real value of the CPT to apply from 1 July 2016. The CPT should continue to be indexed by the CPI annually. However, the Panel does recommend that the AEMC or the Panel (as appropriate) carry out a review of the form of the CPT mechanism prior to the next reliability standard and reliability settings review, due to commence in 2017.
- **Market floor price:** no change to the current value of the MFP. The MFP should continue to be set at -\$1,000/MWh from 1 July 2016.
- **Indexation:** no change to the current measure of indexation of the MPC and CPT (that is, the value of the MPC and CPT should continue to be adjusted by CPI annually). However, the Panel does recommend that a review of the current indexation measure occurs within two years. In terms of the MFP, the Panel does not consider a change should be made to the current approach of non-indexation (that is, the MFP should continue to be set in nominal terms).
- **Value of customer reliability (VCR):** that the AEMC or the Panel (as appropriate), in consultation with stakeholders, develop a methodology for calculating an appropriate VCR estimate to determine the efficient reliability standard. This work should take place prior to the next reliability standard and reliability settings review, due to commence in 2017.

The Panel has also recommended a review of the methodology for carrying out future reliability standard and reliability settings reviews. This will include consideration of how the outcomes of any market modelling should be treated. This work should take place prior to the next reliability standard and reliability settings review, due to commence around 2017.

The Panel considers that its draft decision and recommendations are likely to maintain certainty and help to continue to deliver efficient operational and investment decisions in the long term.

Process to date

On 9 May 2013, the Panel published an issues paper for the review. 12 submissions were received from stakeholders.

The Panel engaged ROAM Consulting (ROAM) to undertake analytical modelling to inform this review. ROAM presented the outcomes of its modelling at a public forum on 4 December 2013. ROAM's draft report on its modelling analysis was published for comment on 16 December 2013. Five submissions were received.

The Panel's issues paper, ROAM's draft report and stakeholder submissions are available on the AEMC's website.

Public consultation

The Panel invites stakeholder submissions on its draft report **by no later than 10 April 2014**. The Panel will publish its final report in May 2014.

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