

Australian Energy Market Commission

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Our ref: REL0055

6 November 2014

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Commissioner, AEMC
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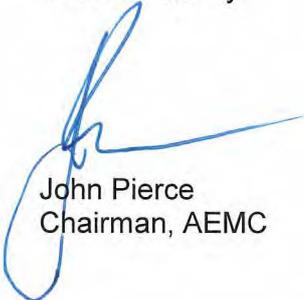
Dear Neville

Annual Market Performance Review – Terms of Reference

In accordance with section 38 of the National Electricity Law and clause 8.8.3 of the National Electricity Rules, I am writing to provide you with the standing terms of reference from the Australian Energy Market Commission to the Reliability Panel (Panel), requesting the Panel to undertake a review of the performance of the National Electricity Market. This review should occur at least once every calendar year and at other such times as the AEMC may request.

The purpose, scope and timing for this review are set out in the enclosed terms of reference.

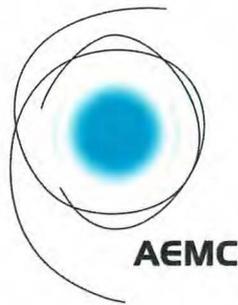
Yours sincerely



John Pierce
Chairman, AEMC

Encl:

AEMC Terms of Reference to the Reliability Panel – Annual Market Performance Review,
6 November 2014



Annual Market Performance Review
AEMC Terms of Reference to the Reliability Panel
6 November 2014

Introduction

These terms of reference are intended to guide the Reliability Panel (the Panel) in its next annual market performance review (AMPR). The Australian Energy Market Commission (AEMC) requests that the Panel consider these to be the standing terms of reference for its annual review of the performance of aspects of the market specified under clause 8.8.3(b) of the National Electricity Rules (NER). For clarity, the market that this review relates to is the National Electricity Market (NEM). The purpose, scope and timing for this review are set out below.

Background

The functions of the Panel are set out in clause 8.8.1 of the NER.

- Under clause 8.8.1(a)(1), the Panel has a role to monitor, review and report on the performance of the market in terms of reliability of the power system.¹
- Under clause 8.8.1(a)(5), the Panel has a role to report to the AEMC and participating jurisdictions on overall power system reliability matters, power system security and reliability standards and the Australian Energy Market Operator's (AEMO) power to issue directions in connection with maintaining or re-establishing the power system in a reliable operating state. The Panel may also make recommendations on changes to the market or the NER and any other matters which it considers necessary.

Consistent with these functions, clause 8.8.3(b) of the NER requires the Panel to conduct a review of the performance of certain aspects of the market, at least once every calendar year and at other such times as the AEMC may request. The Panel must conduct its annual review in terms of:

- reliability of the power system;
- the power system security and reliability standards;
- the system restart standard;
- the guidelines referred to in clause 8.8.1(a)(3);²
- the policies and guidelines referred to in clause 8.8.1(a)(4);³ and

¹ In performing this function, clause 8.8.1(b) prohibits the Panel from monitoring, reviewing or reporting on the performance of the market in terms of reliability of distribution networks. However, the Panel may collate, consider and report information in relation to the reliability of distribution networks as measured against the relevant standards of each participating jurisdiction, in so far as the reliability of those networks impacts on overall power system reliability.

² The guidelines referred to in clause 8.8.1(a)(3) govern how AEMO exercises its power to issue directions in connection with maintaining or re-establishing the power system in a reliable operating state.

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- the guidelines referred to in clause 8.8.1(a)(9).⁴

The Panel must conduct this review in accordance with the process outlined in clause 8.8.3 of the NER.

Purpose of the review

The AMPR provides the Panel with the opportunity to consider specific events that have occurred in the NEM over the previous financial year, and to assess the performance of the power system against various reliability, security and safety measures.

The AMPR report, required as part of the process outlined in clause 8.8.3 of the NER, allows the Panel to communicate the findings of its review, including its observations and commentary on the reliability, security and safety performance of the power system.

The report also provides an opportunity for the Panel to consolidate key information related to the performance of the power system in a single publication for the purpose of informing stakeholders. Among other things, this may assist governments, policy makers and market institutions to monitor the performance of the power system, and to identify the likely need for improvements to the various measures available for delivering reliability, security and safety.

Scope of the review

The AEMC requests that the Panel review the performance of the market in terms of reliability, security and safety of the power system. The Panel should have regard to the following matters when conducting its review:

- *Overall power system performance*

To provide a comprehensive overview of the performance of the power system, and where relevant information is available, the Panel should consider performance in terms of reliability and security, and from the perspective of the transmission and distribution sectors, in addition to the generation sector.

The Panel's review of overall power system performance should include consideration of the impact on end-use customers. For example, customer impact could be measured in terms of the length of time that energy was not supplied to customers due to an incident occurring on the power system.

The Panel should also consider significant power system incidents ("reviewable operating incidents") which have occurred in the previous year. Where possible, consideration should be given to the cause of the incident (a reliability or security event), the impact of the incident (on reliability or security) and the sector of origin (generation, transmission or distribution).

- *Reliability performance of the power system*

The Panel should review performance against the reliability standard for generation and bulk transmission. This would require consideration of actual observed levels of maximum expected unserved energy (USE) over the previous financial year. Consideration should also be given to actual and forecast supply and demand conditions. This may assist the Panel to form a view on whether any underlying changes to reliability performance have, or are expected to have, occurred.

The Panel should also consider AEMO's use of the reliability safety net mechanisms over the previous financial year. This includes incidents of, and reasons for, the use of directions and the Reliability and Emergency Reserve Trader (RERT) mechanism.

- *Security performance of the power system*

The Panel should review performance of the power system against the relevant technical standards. In particular, the Panel should have regard to: frequency operating standards; voltage limits; interconnector secure line rating limits; system stability; and any other factors that the Panel may consider relevant.

³ The policies and guidelines referred to in clause 8.8.1(a)(4) govern how AEMO exercises its power to enter into contracts for the provision of reserves.

⁴ The guidelines referred to in clause 8.8.1(a)(9) identify, or provide for the identification of, operating incidents and other incidents that are of significance for the purposes of the definition of "Reviewable operating incident" in clause 4.8.15.

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- *Safety performance of the power system*

Safety of the power system is closely linked to the security of the power system and relates primarily to the operation of assets and equipment within their technical limits. Therefore, the Panel should limit its consideration of this matter to maintaining power system security within the relevant standards and technical limits.

The Panel may also wish to consider the following matters when conducting its review:

- A comparison of power system performance against the previous year, and the reasons for any variations.
- A comparison of power system performance between regions, and reasons for any variations.
- The degree of accuracy in forecast and actual data, and reasons for any variations.
- Mechanisms in place for promoting power system performance, and whether they are effective.

Process and deliverables

The Panel must carry out its AMPR in accordance with the following process:

- Give notice to all registered participants of commencement of this review, publish a draft report and invite submissions for a period of at least six weeks.
- At the time of publishing the draft report, notify stakeholders that they may request a public meeting on the draft report within five business days of the draft report being published.
- If stakeholders have requested a public meeting, notify stakeholders that a public meeting will be held. At least two weeks' notice of the public meeting must be given.
- Publish a final report and submit this report to the AEMC no later than six weeks after the public meeting.

At the time of notifying stakeholders of the review (at the time the draft report is published), the Panel should publish an indicative timetable for the review on the Panel's website and invite submissions from stakeholders on any relevant issues that should be considered by the Panel during the review.

The Panel should engage with key stakeholders during the AMPR for the purposes of coordinating and gathering all relevant information for preparation of the draft and final reports. Key stakeholders include the following:

- The AEMO.
- The Australian Energy Regulator (AER).
- Transmission network service providers.
- Distribution network service providers.
- Jurisdictional regulatory bodies and governments.

The Panel should also have regard to any relevant reports/material which the AEMC refers to, which may include consultant reports or advice.

The AEMC requests that the Panel complete the review every year from the date of publication of the final report for the previous AMPR.