



Advice on linking the reliability standard and reliability settings with a value of customer reliability

Publication of consultation paper

The Australian Energy Market Commission has released a consultation paper as the first step to developing advice to SCER on linking the national electricity market reliability standard and reliability settings in the wholesale market with a value of customer reliability. Responses to the consultation paper will be used to further inform and enhance the AEMC's understanding of the key issues relevant to this advice.

Purpose of this advice

The purpose of this advice is to explore the link between the NEM's reliability standard and reliability settings and the value that customers place on reliable electricity supply. In particular, this advice will identify and assess possible approaches to linking the reliability standard and settings (specifically the market price cap) with a value of customer reliability (VCR). As requested by the Standing Council on Energy and Resources (SCER), the aim is to identify a preferred approach which has the potential to deliver efficient market outcomes that are at least consistent with those delivered by the NEM's current reliability standard and settings.

Request for advice

SCER requested this advice in response to the AEMC's review of the effectiveness of national electricity market (NEM) security and reliability arrangements in light of extreme weather events (extreme weather review). The final report for this review was published in May 2010.

In that review, the AEMC made a number of recommendations, including that a new requirement be included in the National Electricity Rules for a VCR, based on the residential consumer class, to be considered when determining the levels for the NEM reliability standard and settings.

In June 2012, SCER provided a response to the AEMC's final report. While the majority of recommendations were endorsed, SCER requested additional advice on the matter of setting the reliability standard and settings with reference to an agreed VCR.

The AEMC received the terms of reference from SCER for this advice in January 2013.

The AEMC's approach to the advice

The AEMC intends to adopt the following approach to develop its advice:

- Having regard to the national electricity objective (NEO), identify an assessment framework to guide the evaluation of possible approaches to linking the reliability standard and reliability settings with VCR.
- Explore the link between the reliability standard and reliability settings, and VCR. This will include discussion around why reliability mechanisms are needed in energy-only markets.
- Identify possible approaches to linking the reliability standard and reliability settings with VCR.
- Using the assessment framework, evaluate each of the approaches identified to determine whether they are likely to satisfy the NEO.
- As required by the terms of reference, identify a preferred approach.

Submissions on the consultation paper are due on 26 November 2013.

The consultation paper identifies four possible approaches to linking the reliability standard and settings with VCR. Two of the options were first put forward by the AEMC in its extreme weather review in 2010. The other two options have been developed by the AEMC for the current review after considering arrangements in other markets around the world. A brief explanation of each option is provided in Chapter 5 of the consultation paper.

Having regard to the NEO, the AEMC will consider the extent to which the alternative approaches are appropriate in delivering efficient market outcomes that are at least consistent with those delivered by the NEM's current reliability standard and settings. As requested by SCER, the AEMC will identify a preferred approach to linking the reliability standard and settings with VCR.

The AEMC's recommended approach will be contained in the final report provided to SCER in December 2013.

Stakeholder consultation

SCER has requested the AEMC consult with AEMO, the AER, the Reliability Panel and jurisdictions during the preparation of the advice. Where appropriate, the AEMC may also consider consultation with key stakeholders in the preparation of the advice.

The purpose of the consultation paper is to invite stakeholder views on various issues associated with linking the NEM reliability standard and settings with VCR. Responses to this paper will further inform and enhance the AEMC's understanding of these issues.

A number of questions for stakeholder consideration are set out in Chapter 6. Stakeholders are invited to make submissions on the questions and any other issues they consider relevant.

Next steps

Submissions on this consultation paper close on 26 November 2013.

As required by SCER's terms of reference, following the consideration of written submissions and issues raised by stakeholders, the AEMC will provide a final report setting out its advice and recommendations to jurisdictions and jurisdictional regulators by 31 December 2013. This report will also be published on the AEMC's website.

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