



## Fact sheet: the reliability settings

This fact sheet provides an explanation of the reliability settings that apply in the National Electricity Market (NEM).

### Reliability and the reliability settings

A reliability standard for generation and bulk transmission sectors applies in the NEM where the standard is set in terms of the maximum expected unserved energy (USE), which refers to the amount of electricity that is demanded by customers but not able to be supplied. The current reliability standard is 0.002 per cent USE, which means that out of 100,000MWh of demand, no more than 2MWh of outage would be allowed. (For additional information on the reliability standard please refer to the 'reliability standard' fact sheet.)

The reliability settings are the price mechanisms in the NEM that provide the price signals such that investment occurs to achieve the reliability standard. The reliability settings can also assist market participants to manage their financial risks.

### What are the reliability settings

The reliability settings are the three price mechanisms under the National Electricity Rules (rules): the market price cap (MPC), the cumulative price threshold (CPT), and the market floor price.

The reliability settings form the key price envelope within which the wholesale spot market seeks to balance supply and demand, and deliver capacity to meet the reliability standard with the aim of avoiding unreasonable risks for market participants.

The values of the MPC, CPT and the market floor price are set out in the rules. The Australian Energy Market Commission (AEMC) indexes the MPC and the CPT annually by applying the consumer price index (CPI) in accordance with the rules. The updated values of the MPC and the CPT for each financial year can be found on the AEMC website in the 'schedule of reliability settings': <http://www.aemc.gov.au/electricity/guidelines-and-standards.html>.

### Market price cap

The MPC is a cap placed on spot prices in each half-hourly trading interval, and is currently set at \$12,900/MWh for the 2012-2013 financial year and increasing to \$13,100/MWh for 2013-2014.

The MPC and the market floor price define the price envelope within which the wholesale electricity pool is dispatched and settled. The level of the MPC provides incentives for supply- and demand-side investment to deliver the reliability standard.

### Cumulative price threshold

The CPT is the threshold governing the imposition of an administered price cap (APC). Where the sum of the spot prices in a region in 336 consecutive trading intervals exceeds the CPT, the APC will be applied in that region. The APC is currently \$300/MWh for all regions of the NEM, for all time periods. The CPT is currently set at \$193,900 for the 2012-2013 financial year and increasing to \$197,100 for 2013-2014.

The CPT is an explicit risk management mechanism designed to limit participants' exposure to protracted levels of high prices in the wholesale spot market.

### Market floor price

The market floor price is the lowest allowable limit for the spot price. It is currently set at -\$1,000/MWh in the rules (and not indexed).

## Function of the reliability settings

The reliability settings function to:

- establish the parameters governing the price envelope within which energy supply and demand is balanced in the wholesale market;
- provide important price signals to market participants in relation to the delivery of sufficient generation capacity to meet the reliability standard; and
- at the same time, provide a mechanism to limit financial risk for market participants.

For more information on the inter-relationship between the reliability standard and the reliability settings, please refer to the 'reliability standard' fact sheet.

## Review of the reliability standard and reliability settings

Under the rules, the Reliability Panel (Panel) is required to carry out reviews of the reliability standard and reliability settings once every four years. This regular review allows the Panel to take into account any changes in market arrangements and consider whether the reliability standard and reliability settings remain suitable, or whether changes should be made to ensure these mechanisms continue to meet the requirements of the market, market participants and consumers.

A review of the reliability standard and settings is currently in progress and is to be completed by 30 April 2014. For this review the Panel is considering the reliability standard and reliability settings that should apply from 1 July 2016. Throughout the review process the Panel will consult with stakeholders including seeking submissions on an issues paper and a draft report. At least one public forum will also be held.

The Panel published an issues paper on 9 May 2013, which provides background information and outlines a number of questions for comment and feedback. Submissions on the issues paper are due on 21 June 2013.

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