

Review of the reliability standard and settings guidelines

The Reliability Panel invites stakeholder comment on the Review of the Reliability Standard and Settings Guidelines.

The Reliability Panel has published a consultation paper setting out the matters for consideration for the review of the *reliability standard and settings guidelines* (guidelines). The guidelines were developed in 2016 to support the Panel's broader Review of the Reliability Standard and Settings. Submissions are due by **8 April 2021**.

The reliability standard and settings guidelines

The Reliability Panel is required to conduct a Review of the Reliability Standard and Settings (RSS review) every four years under the National Electricity Rules (NER). The next RSS review must be completed by April 2022. This timely given the ESB's work on P2025 market design, which is due to Energy Ministers by mid 2021. The Panel is working closely to coordinate its work with that of the ESB's. The timing of the RSS review will allow consideration of how the final recommended post 2025 market design will impact on the reliability standards and settings before completion of the review.

In undertaking the RSS review, the NER mandates that the Panel must comply with the *reliability standard and settings guidelines*. These guidelines set out the principles and assumptions the Panel must use when undertaking the *reliability standard and settings reviews*.

The current guidelines were drafted in 2016 and were the initial set of guidelines. These guidelines were developed with the Panel's overarching goal being to provide the market with useful and transparent information about how it intends to conduct each RSS review. The 2016 guidelines:

- Establish the assessment framework to be applied by the Panel when undertaking each review
- Identify an approach to the assessment of each component of the reliability framework, including consideration of which components are to be reassessed in future reviews, and
- Outline a general approach to the modelling that the Panel will use when undertaking each review.

Since the guidelines were first established in December 2016, the National Electricity Market (NEM) has undergone a period of rapid transition. This is expected to continue due in large part to changes in the generation mix and with the significant range of reforms that have been introduced or will be introduced over the next few years.

The Panel considers that it is important that the guidelines are sufficiently broad and continue to be relevant as the market evolves, so that they remain applicable for future reliability standard and settings reviews. Given this, the Panel is of the view that it is timely and appropriate to review and amend the 2016 guidelines so that they are fit for purpose going forward.

Key issues for consultation

The consultation paper sets out the matters for consideration in the review of the guidelines. These include:

- *Assessment principles*. The current guidelines set out the general assessment principles for the panel to consider in regard to meeting the National Electricity Objective (NEO). The Panel considers the general assessment principles in the 2016 guidelines are generally still

appropriate and will be maintained.

- *Assessment approach.* The Panel is seeking stakeholder comments on updating the assessment approach in the current guidelines. The guidelines currently outline whether the Panel can review the form and level of the reliability standard and market settings in its RSS review every four years. The Panel notes that, in light of changes and reforms occurring in the National Electricity Market, it is important that the form and level of the reliability standard and settings are considered holistically and hence the current approach in the guidelines may no longer fit for purpose.
- *Modelling approach.* Modelling, while only one of the inputs, has always been a key tool used by the Panel for each reliability standard and settings review. The current guidelines set out some general principles and the suite of inputs and scenarios that may be used to inform the Panel's modelling of the reliability standard and settings. The Panel considers it is important for the guidelines to include an overarching objective and provide transparency of assumptions. However, the specific requirements of the modelling inputs are best determined in the RSS review itself.

The reliability standard and settings

The reliability standard is expressed as the maximum expected unserved energy (USE) in a region. It is a measure of the extent to which the electricity generation and transmission system is able to meet consumer demand. Setting the reliability standard involves balancing the value that consumers place on the supply of electricity with the investment costs required to deliver this level of reliability.

The reliability settings are price mechanisms that are designed to incentivise investment in sufficient generation capacity and demand-side response to deliver the reliability standard, while providing limits that protect market participants from periods of very high or very low prices, both temporary and on a sustained basis. The reliability settings consist of the:

- Market Price Cap (MPC), which places an upper limit on high dispatch prices in the wholesale market
- Market Floor Price (MFP), which places a lower limit on low dispatch prices in the wholesale market
- Cumulative Price Threshold (CPT). This is the limit of aggregate dispatch prices over the previous seven days (336 trading intervals) that, when surpassed, triggers an administered price period, and
- Administered Price Cap (APC). The prevailing dispatch price that applies during an administered price period.

The form and level of the standard and each of the settings are specified in the Rules. If the Panel recommends an amendment to the standard or settings in a reliability standard and settings review, it is required to submit a rule change request to the AEMC as soon as practicable after the RSS review is completed.

Next steps

The Reliability Panel is seeking stakeholder input into the review of the guidelines. The consultation paper sets out a number of questions for stakeholder comment. Responses will inform the Panel's amendments to the reliability standard and settings guidelines. Submissions are due by 8 April 2021.

The Panel is expected to publish its final report on the review of the guidelines alongside the updated guidelines by mid May 2021.

For information contact:

Senior Advisor, **Lisa Shrimpton** 02 8296 7876

Media: Media and Content Manager, Kellie Bisset 0438 490 041

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