

2022 Reliability Standard and Settings Review

2022 Reliability Standard and Settings Review Issues Paper Published

The Reliability Panel (Panel) has published an Issues Paper for the 2022 review of the reliability standard and reliability settings (2022 RSS review). The 2022 RSS review Issues Paper outlines the Panel's assessment approach, and the initial set of issues it proposes to consider for the review. It is the first step in the extensive consultation process that will be undertaken over the course of the RSS review. Stakeholder submissions to the Issues Paper are due on 3 March 2022.

Context for the review

The reliability standard and settings are key components of the NEM's reliability framework. These elements aim to encourage sufficient investment in generation or demand response capacity to meet consumer demand for energy, while protecting market participants from potential financial risks that threaten the overall stability and integrity of the market.

The Panel has a statutory requirement to review the reliability standard and settings every four years. In accordance with the National Electricity Rules (NER), The Panel is required to consider whether the current reliability standard and settings remain suitable for expected market conditions from 1 July 2024 to 1 July 2028.¹

Related rule change request

The AEMC is considering a rule change request submitted by Kerry Schott AO that seeks to extend the time the Panel has to undertake the review, and hence provide the final report for the 2022 RSS review. On 23 December 2021, the Commission made a draft determination² to make a more preferable draft rule that requires the Panel to provide its final report with any recommendations for change to the standard and settings to the Commission by 30 August 2022. To accommodate the move to the 30 August 2022, the draft rule also proposes to remove the financial year 2024 from consideration in the review. The standards and settings review would therefore be for the period 1 July 2025 to 30 June 2028.

Scope of the review

This review focuses on the reliability of the large-scale generation and inter-regional transmission system, specifically the reliability provided by power generation and interconnection assets (interconnectors) and is limited to the key parameters that affect reliability in the market—the reliability standard and the four reliability settings.³

The reliability standard defines an efficient level of reliability, expressed as the level of unserved energy (USE), that represents an efficient economic trade-off between reliability and affordability based on what consumers value. The current reliability standard for the

¹ The AEMC rule change on extension of time and reduction of scope is considering changing the period relevant to the standard and settings determined in the 2022 RSS review. On 23 December 2021, the AEMC published a draft determination to change the period for the Panel's 2022 RSS review to apply from 1 July 2025 to 30 June 2028, rather than commence on 1 July 2024. This is to accommodate the draft determination proposal to extend the time the Panel has to submit the final report from 30 April 2022 to 31 August 2022.

² AEMC, *Extension of time and reduction in scope of the 2022 reliability standard and settings review*, Draft rule determination, page 3.

³ The Interim Reliability Measure is out of scope.

NEM is set at a maximum expected USE of 0.002% of the total energy demanded in that region for a given financial year. The reliability standard is operationalised by AEMO, including informing the market that the reliability standard is not being met.⁴

The market price settings are set to achieve market outcomes consistent with the reliability standard by defining a price envelope that provides sufficient revenue to support investment while also limiting the potential for high, low, and cumulative price impacts. The settings are:

- Market Price Cap (MPC)⁵
- Market Floor Price (MFP),⁶
- Cumulative Price Threshold (CPT)⁷, and
- Administered Price Cap (APC)⁸

The 2022 RSS Review will assess both the form and the level of the reliability standard and settings.

The 2022 Review will be undertaken with the physical power system undergoing a period of material and rapid change. Retiring thermal generation is being replaced by storage combined with weather dependent intermittent generation. The entry of large scale and small scale storage, combined with high penetrations of weather dependent generation may see a shift in the profile of risks to reliability seen in the NEM as this transition occurs.⁹ These changes are also altering market dynamics and price distributions with increasing intra day price variability and incidences of high and low wholesale prices. These changes have been happening faster than expected, many of which are likely to continue over the next two decades¹⁰. The Panel will take these changes into account when conducting the 2022 RSS Review.

The Panel notes that there is a work program underway related to the final package of reforms for the Post-2025 NEM. This includes the work to further design a capacity mechanism in accordance with the direction from National Cabinet.¹¹ The merits and design of the capacity mechanism are out of scope of the Panel's 2022 RSS review. The Panel will collaborate with the ESB so that processes can align and dove-tail where possible.

The Panel must carry out the review in accordance with the requirements set out in the Rules and the terms of reference issued by the Commission. It will also be guided by the 2021 reliability standard and settings guidelines.

Modelling for the review

Detailed modelling of the electricity market will inform the 2022 RSS review. The Issues Paper outlines the Panel's high level approach to modelling for the RSS review and identifies a set of specific issues and considerations in relation to modelling reliability in the context of a changing NEM. The Panel seeks stakeholder feedback on these and will publish the details that underpin the modelling and seek throughout the course of this RSS review.

Key dates

The Panel is now seeking stakeholder input to the 2022 RSS review. The issues paper asks a series of questions for stakeholders to consider and invites comments from interested parties in response by Thursday 3 March 2022. The key dates for the 2022

⁴ The interim reliability measure will be out of scope for the 2021 RSS review. The AEMC notes that it is required to undertake a review of the interim reliability measure by 1 July 2023.¹²

⁵ NER clause 3.9.4.

⁶ NER clause 3.9.6.

⁷ NER clause 3.14.1.A

⁸ NER clause 3.14.1.

⁹ AEMO, draft 2022 ISP, p. 9 – 10.

¹⁰ Energy Security Board, *Post-2025 Market Design Directions Paper*, January 2021

¹¹ Details on the final reforms package and corresponding ESB recommendations is available at: <https://esb-post2025-market-design.aemc.gov.au/final-advice-july-2021>.

review are provided below in accordance with the existing rules requirements. Given the current related rule change request, any changes to future dates will be updated in accordance with the final determination and final rule. The starred dates in the table below are those subject to change depending on the final determination in the extension of time and reduction in scope of the 2022 reliability standard and settings review.¹²

Table 1: Indicative review timetable

Issues Paper published	27 January 2022
Stakeholders submissions on Issues Paper due	3 March 2022
Stakeholder meetings and engagement on the Issues Paper	February/March 2022
Public forum on the Issues Paper	March 2022
Draft Report published	* March 2022
Stakeholder submissions on Draft Report due and engagement	* April 2022
Final Report published	* 30 April 2022

For information contact:

Acting Director, **Lisa Shrimpton** 02 8296 7876

Senior Adviser, **Graham Mills** 02 8296 0636

Media enquiries: media@aemc.gov.au

27 January 2022

¹² For more information see: <https://www.aemc.gov.au/rule-changes/extension-time-and-reduction-scope-2022-reliability-standard-and-settings-review>