

# Review of the form of the reliability standard and administered price cap — Directions Paper

## The Reliability Panel has released the findings from its simulation of the changing characteristics of reliability as the national electricity market transitions

The national electricity market (NEM) is undergoing a significant transition. The characteristics and behaviours of the new system need to be understood so that system reliability can be maintained at a level that consumers value. Since the publication of the Issues Paper, the Reliability Panel (the Panel) has been modelling the potential changes to the characteristics of unserved energy as the NEM transitions.

## The Panel has found four key insights from its modelling and analysis

The Panel's approach was to take a model of the NEM based on the Australian Energy Market Operator's (AEMO's) Electricity Statement of Opportunities (ESOO) and Integrated System Plan (ISP) and remove capacity so that the model is more likely to produce unserved energy events. This deliberately under-resourced system model has materially less generation than is forecast in planning documents such as the ISP. This was done to create a larger data set from which to study the possible characteristics of unserved energy in the future. It should be noted that the model is an extreme scenario that was used for providing a more useful sample size.

The Panel's simulation modelling has generated four key insights regarding the changing characteristics of reliability as the system transitions. These include:

- if USE events do occur, they may be longer and/or deeper
- unserved energy may shift from mainly being in summer to winter
- USE events may be driven increasingly by weather
- events may spread across the day rather than just appearing in the evening peak.

The Panel's findings demonstrate the continuing importance of the reliability framework in the future. The NEM will need reliability settings that deliver the required mix of flexible capacity (including firm sources and short and long-duration storage) to manage variable renewable energy (VRE) resource availability periods driven by weather conditions.

## Understanding how customers value the changing nature of reliability is a key part of the Review

This Review is specifically considering the form of the reliability standard, and not the level to which it is set. Changing the form of the reliability standard needs to consider the changing supply and demand conditions and the needs of the future power system alongside the value customers place on reliability and their preferences for the treatment of risk and uncertainty.

If the risk profile of reliability is changing then understanding how customers value this change will frame the need for a change in the form of the standard. This will be the foundation on which the form of the standard can be developed and tested.

The Australian Energy Regulator's (AER's) values of customer reliability (VCR) provides a well-established method for understanding how customers value reliability. The Panel is working closely with the AER as it develops its approach for the upcoming 2024 VCR.

## There are several processes that need to come together before any new standard can be implemented

In this Review, the Panel may decide to recommend a change in the form of the reliability standard to reflect different types of reliability risk that may emerge. However, there are several processes that need to be completed to ensure that any new standards or settings reflect the value customers place on reliability. These include:

1. The current Review to be completed by **mid-2024**.
2. The AER's VCR work, which is due to be completed by the **end of 2024**.
3. The Panel will need to submit a rule change request to the AEMC if it recommends any changes to the form. The AEMC will then decide on the form using the insights from the VCR work and the Panel's recommendation. This work would be completed in **early 2025**.
4. The Panel will then need to carry out the 2026 Reliability Standard and Settings Review (RSSR). As with the current standard, the Panel would seek to balance reliability against cost. The RSSR project must be completed by **30 April 2026**.
5. The Panel would then submit a rule change to give effect to its recommendations. This would need to be completed by the end of 2026.

## The Panel has shortlisted options for the form of the administered price cap

The Panel is proposing to shortlist two options for the form of the administered price cap (APC) for further consideration and stakeholder feedback. The two options are retaining the current form of the APC and indexing the APC to the Consumer Price Index (CPI).

## We are seeking stakeholder feedback on the key findings and insights

Stakeholder feedback on this Directions Paper will be instrumental in laying a strong foundation for the Panel's decision-making in the next stage of the Review. The Panel invites stakeholder feedback in response to this Directions Paper by **19 January 2024**.

After the Directions Paper, the Panel will publish a Draft Report for the Review in **April 2024**. This report will set out the Panel's draft recommendations for this Review based on the findings and evidence outlined in this Directions Paper and stakeholder feedback.

## The Panel is reviewing the form of the reliability standard and the APC

The Panel commenced this Review in March 2023 to:

- determine if the current form adequately reflects the changing reliability risk profile, or if alternatives need to be considered
- review the potential need for a new, more flexible and fit-for-purpose form of the APC.

The Directions Paper presents the key findings and insights gained from the Panel's work:

- the results from the simulation modelling carried out to better understand the changing nature of the reliability risk and its implications for the form of the reliability standard
- the Panel's initial consideration of the value of customer reliability and any changes that may result from the different risks and reliability characteristics
- shortlisted options for the form of the APC.

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