



BRIEFING

Reliability Settings from 1 July 2012

Draft Rule Determination 24 March 2011

The AEMC's draft Rule determination

The AEMC has made a draft Rule that will:

1. index the market price cap (MPC) and the cumulative price threshold (CPT) by the Consumer Price Index on an annual basis; and
2. change the current review requirements from a two yearly to a four yearly review of the Reliability Standard, the Reliability Settings and the appropriateness of indexation.

These changes are intended to maintain the real dollar values of the MPC and CPT over time. This will also deliver an appropriate balance between providing certainty to investors and other market participants, and the need for a regular review to monitor overall reliability performance of the National Electricity Market (NEM). More simply, the intention is to ensure that electricity supply continues to meet current and future levels of consumer demand.

Background

In the context of the NEM, reliability is a measure of the adequacy of the electricity system in generating and transporting sufficient electricity supply to meet all consumer demand. Balancing supply and demand to meet reliability (and other) requirements in the longer term is significantly affected by a variety of regulatory, market and pricing mechanisms, such as the MPC and CPT.

The MPC sets the upper limit to which generators can price their supply into the market and is currently set at \$12,500/MWh. The CPT is a pricing mechanism that is triggered once a particular threshold of sustained high prices is reached and acts to dampen them via the imposition of an administered price cap, thereby limiting the financial exposure of market participants. It is currently set at \$187,500.

Current situation

The Reliability Panel is an industry group which is responsible for monitoring, reviewing and reporting on the safety, security and reliability of the national electricity system.

At present the Reliability Panel is required under the National Electricity Rules to review the Reliability Standard Reliability Settings on a two yearly basis. This includes (amongst other things) a requirement to review and reset the values of the MPC and CPT to ensure that the real dollar values continue to be appropriately set to provide an incentive to investment while minimising financial risk to the market. Any changes that require an amendment to the Rules, including changes to the dollar values of the MPC and CPT, must then be submitted to the AEMC for consideration and final decision.

Reliability Panel issues and recommendations

Following its most recent Reliability review, the Reliability Panel was of the opinion the real dollar values of the MPC and CPT should be maintained over time, but that the current process for reviewing and resetting the Reliability Standard and Settings created uncertainty for investors.

The Reliability Panel therefore recommended that the requirement to undertake this review be removed and that the MPC and CPT be indexed on an annual basis.

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