



AEMC Reliability Panel

Comprehensive reliability review

Statement of process

The AEMC Reliability Panel has been requested by the AEMC to undertake in a comprehensive and integrated process several reviews relating to key high level National Electricity Market (NEM) standards and parameters. These are set out below.

The purpose of this statement is to inform stakeholders about the broad scope, process and consultation steps involved in completing the comprehensive review.

The AEMC strongly supports the view of the Reliability Panel, as industry representatives, that the standards and parameters are closely inter-related and that it is appropriate that they be considered together. This more comprehensive approach will enable the Panel to address the clear need to provide NEM stakeholders with greater medium-term certainty in relation to these fundamental market signals.

With the exception of the NEM reliability standard, the National Electricity Rules (the Rules) impose timeframes by which the Panel must complete its reviews of each standard or parameter. The standards and parameters and the existing dates by which the Panel must conclude its review of each are as follows:

- the NEM reliability standard;
- the Tasmanian reliability and frequency standards (29 May 2006);
- the level of Value of Lost Load (VoLL), market floor price and cumulative price threshold (CPT) (30 April each year); and
- whether the reliability safety net should be allowed to expire or alternative arrangements put in place (30 June 2006).

Subject matter

The NEM reliability standard sets the minimum acceptable level of bulk electricity supply measured against the total demand of electricity customers. In its current form, this is defined in terms of the proportion of aggregate customer energy

needs that may remain unserved by the market. The standard was set by the Panel at NEM start in 1998 and it is appropriate to review its operation now.

Related to this is the fact that Tasmania has recently joined the NEM with Basslink scheduled to be commissioned by the end of April 2006. Accordingly, the Panel is required to set reliability and frequency standards for that jurisdiction that take into account the characteristics of its electricity system operating as an integrated part of the national market.

The level of VoLL, the market floor price and the CPT arrangements provide the key price envelope within which the market must deliver to the NEM reliability standard. As established, these mechanisms have provided the key signals for supply and demand-side investment since market start.

The reliability safety net comprises the ability of NEMMCO, the market operator, to take actions to address any potential shortfalls by the market to deliver against the NEM reliability standard. At present, the Rules put a sunset date of 30 June 2006 on NEMMCO's powers in this regard.

Process

The AEMC has requested the Panel to complete its report by 31 March 2007.

In accordance with the Rules, and to align with the timeframes for the overall review, the Panel plans to make its determination on the Tasmanian reliability and frequency standards by 30 April 2006.

The Panel is required under the Rules to review VoLL, the market floor price and the CPT by 30 April each year. As the comprehensive review is expected to take 15 months to complete, it will include two such reviews: one by 30 April 2006 (the VoLL 2006 review) and one by 30 April 2007 (the VoLL 2007 review). Each review must follow the consultation procedures set out in clause 8.9 of the Rules.

In order to maximise the benefits to be obtained from the comprehensive review approach, the Panel intends to address the issues associated with setting a medium-term VoLL, market floor price and CPT as part of its VoLL 2007 review. Accordingly, stakeholders may wish to consider addressing those and any other relevant issues in the submissions that they make as part of the VoLL 2007 review rather than the VoLL 2006 review. The Panel expects to call for written submissions in respect of the VoLL 2007 review by mid-2006.

The Panel intends to lodge a Rule change proposal with the AEMC to extend the current 30 June 2006 sunset date for the reliability safety net by 24 months. This is on the basis that the appropriateness of the safety net cannot be considered in isolation from the other comprehensive review parameters and that

time will be required after the conclusion of the review for the AEMC to approve and the market to implement any resulting changes.

With the Tasmanian and VoLL 2006 reviews completed by 30 April 2006 and the reliability safety net extension Rule change in place, the main body of the comprehensive review will comprise the reliability standard, the VoLL 2007 and the reliability safety net reviews.

The comprehensive review will have important implications for NEM stakeholders. Consistent with the AEMC's philosophy of engaging with those parties, the Panel plans to involve stakeholders by seeking submissions and holding forums on the main review issues paper and on each of its draft decisions.

The Panel will set out the steps it intends to follow in relation to the Tasmanian reliability and frequency standards and VoLL 2006 reviews in a notice to be published by 24 December 2005.

The Panel will set out the steps it intends to follow in relation to the main review as part of the main review issues paper to be published on 24 February 2005.

Further information

For further information in relation to the Panel's comprehensive reliability review, please contact Anthony Englund, Reliability Panel Secretary at the AEMC on (02) 8296 7800 or anthony.englund@aemc.gov.au.