

L Proposed Rule for Reliability Standard and Reliability Settings

This Appendix provides a proposed Rule for the implementation of the recommended approach to the governance arrangements (as discussed in Chapter 7) and the processes for determining the reliability standard and reliability settings (as discussed in Chapter 8).

The intention is for the MCE to consider the proposed Rule and submit it to the Commission as a Rule change proposal. If this were done, the proposed Rule would be subject to consultation under the Rule change process under the National Electricity Law. This would facilitate further consideration of the design of the arrangements and any implementation issues.

The expectation is for the proposed Rule to commence when the Rule is made. The proposed Rule sets out amendments to Chapters 3, 8 and 10 of the Rules. In brief, the amendments to Chapter 3 of the Rules would implement the arrangements and processes for the AEMC to review and determine the Reliability Standard and the Reliability Settings. The amendments to Chapter 8 of the Rules would clarify that the Reliability Panel is no longer responsible for determining and publishing the Reliability Standard. The amendments to Chapter 10 of the Rules would introduce new definitions and amend existing definitions in the Rules.

For clarity, proposed new wording for the Rules is underlined. Italicised words are references to existing defined terms or proposed new defined terms in Chapter 10 of the Rules.

Comments (in boxed text) are provided at certain points in the proposed Rule to provide additional guidance to the reader. It should be noted that these comments are not intended to be included in the Rules.

Amendment of National Electricity Rules

The National Electricity Rules are amended as set out in Schedule 1.

Schedule 1 Amendments of the National Electricity Rules – Chapters 3, 5, 8 and 10

[1] Clause 3.9.3A Reliability standard and reliability settings review

Omit clause 3.9.3A in its entirety, including the heading, and substitute:

3.9.3A Reliability standard and reliability settings schedule

- (a) The *reliability standard and reliability settings schedule* is a schedule which sets out the *reliability standard, reliability settings and annual index for the reliability settings*.

The intention is for the reliability standard, reliability settings (that is, the market price cap, market floor price, cumulative price threshold and administered price cap) and annual index for the reliability settings to be published in the reliability standard and reliability settings schedule.

Currently,

- the reliability standard is published in a schedule on the Reliability Panel's website;
- the administered price cap is published in a schedule on the AEMC's website; and
- the market price cap, market floor price and cumulative price threshold is published in the National Electricity Rules.

- (b) The AEMC must publish the first *reliability standard and reliability settings schedule* by [insert commencement date of amending rule] and there must be a *reliability standard and reliability settings schedule* available at all times after this date.
- (c) The first *reliability standard and reliability settings schedule* must include the *reliability standard, reliability settings and annual index for the reliability settings* that applied immediately before [insert commencement date of amending rule].
- (d) After the first *reliability standard and reliability settings schedule* is published under paragraph (b), the AEMC must conduct a review in accordance with clauses 3.9.3B and 3.9.3C before it may amend the *reliability standard and reliability settings schedule*.

The intention is to ensure that, from the date this proposed rule commences operation, the reliability standard, reliability settings and annual index for the reliability settings which applied immediately before the commencement date of the proposed rule continues to apply until the AEMC amends the reliability standard, reliability settings or annual index for the reliability settings in accordance with this proposed rule.

3.9.3B Reliability standard review

- (a) By 30 April of each fifth year, commencing [insert year - the date of the first reliability standard review must be after the commencement date of the amending rule], the AEMC must:

The intention is for the AEMC to elect whether to conduct the reliability standard review first, the reliability settings review first or both reviews at the same time, provided both reviews are completed by 30 April of the same year.

- (1) conduct a *reliability standard review*, which is a review of the *reliability standard*, in consultation with the *Reliability Panel*, *Registered Participants* and such other persons as the AEMC thinks appropriate, in accordance with the *Rules consultation procedures* and paragraphs (b) and (c); and
- (2) publish a report on:
- (i) whether it considers the *market price cap* is consistent with the *value of customer reliability*;
- (ii) whether it considers the *market price cap* is inconsistent with the *value of customer reliability* because:
- (A) the *market price cap* does not satisfy clause 3.9.3C(f);
- (B) the *value of customer reliability* does not adequately reflect the value customers will be willing to pay in the short term to maintain continuity of *supply*; or
- (C) the *reliability standard* does not adequately reflect the value customers place on *reliability*; and

The intention is to identify the reasons why the market price cap may be inconsistent with the value of customer reliability. The reasons are:

- 1) the market price cap does not satisfy clause 3.9.3C(f).

If this is the case, the intention is for the market price cap to be amended under the reliability settings review process to satisfy clause 3.9.3(f);

- 2) the value of customer reliability does not adequately reflect the value

customers will be willing to pay in the short term to maintain continuity of supply.

Under this proposed rule, the intention is for AEMO to publish a value of customer reliability at least a year before the AEMC must complete the reliability standard review and reliability settings review. This should minimise the risk that the value of customer reliability does not adequately reflect the value customers will be willing to pay in the short term to maintain continuity of supply; and

- 3) the reliability standard does not adequately reflect the value customers place on reliability.

If this is the case, the intention is for the reliability standard to be amended under the reliability standard review process to ensure the reliability standard adequately reflects the value customers place on reliability.

This intention is clarified in clause 3.9.3B(b) of this proposed rule.

(iii) the *reliability standard* it recommends should apply for the next 5 year period from 1 July in the year commencing 2 years after the year in which the *reliability standard review* is completed.

(b) The *reliability standard* recommended by the AEMC in the *reliability standard review* must adequately reflect the value customers place on *reliability*.

(c) During a *reliability standard review*, if the AEMC intends to recommend that there should be a new *reliability standard* for the next 5 year period from 1 July in the year commencing 2 years after the year in which the *reliability standard review* is completed, the *reliability standard* must be determined in accordance with the *reliability standard guidelines*.

The intention is to clarify that if the AEMC intends to recommend a new reliability standard, the reliability standard must be determined in accordance with the reliability standard guidelines under clause 3.9.3F of this proposed rule.

(d) After a *reliability standard review*, if the AEMC recommends that there should be a new *reliability standard* for the next 5 year period from 1 July in the year commencing 2 years after the year in which the *reliability standard review* is completed, it must amend the *reliability standard and reliability settings schedule* to include the new *reliability standard* as soon as practicable.

The intention is to clarify that if the AEMC recommends a new reliability standard after the completion of the reliability standard review, it must amend the reliability standard and reliability settings schedule to reflect the new reliability standard as soon as practicable after the completion of the reliability standard review.

3.9.3C Reliability settings review

- (a) By 30 April of each fifth year commencing [insert year - this year must be the same as the year the reliability standard review is completed], the AEMC must:
- (1) conduct a *reliability settings review*, which is a review of the *reliability settings and annual index for the reliability settings*, in consultation with the *Reliability Panel, Registered Participants* and such other persons as the AEMC thinks appropriate, in accordance with the *Rules consultation procedures* and paragraphs (b), (e) to (h), (j) and (k); and
 - (2) publish a report on the *reliability settings and annual index for the reliability settings* it recommends should apply for the next 5 year period from 1 July in the year commencing 2 years after the year in which the *reliability settings review* is completed.
- (b) During a *reliability settings review*, if the AEMC intends to recommend that there should be any new *reliability settings or annual index for the reliability settings* for the next 5 year period from 1 July in the year commencing 2 years after the year in which the *reliability settings review* is completed, the new *reliability settings or annual index for the reliability settings* (as the case may be) must be determined in accordance with the *reliability settings guidelines*.
- (c) After a *reliability settings review*, if the AEMC recommends that there should be any new *reliability settings or annual index for the reliability settings* for the next 5 year period from 1 July in the year commencing 2 years after the year in which the *reliability settings review* is completed, it must amend the *reliability standard and reliability settings schedule* to include the new *reliability settings or annual index for the reliability settings* (as the case may be) as soon as practicable.

Market Price Cap

- (d) The *market price cap* is a price cap on *regional reference prices* which is to be applied to *dispatch prices*, with the level of the price cap being published in the *reliability standard and reliability settings schedule*.
- (e) In conducting a *reliability settings review* of the *market price cap*, the AEMC must have regard to the potential impact of any proposed increase in the *market price cap* on:
- (1) *spot prices*;
 - (2) investment in the *National Electricity Market*; and

- (3) the reliability of the power system.
- (f) The market price cap recommended by the AEMC in the reliability settings review must be a level which the AEMC considers will:
- (1) allow the reliability standard to be satisfied without use of AEMO's powers to intervene under clauses 3.20.7(a) and 4.8.9(a);
 - (2) in conjunction with other provisions of the Rules, not create risks which threaten the overall integrity of the market; and
 - (3) take into account any other matters the AEMC considers relevant.
- (g) A report on the market price cap the AEMC recommends should apply for the next 5 year period from 1 July in the year commencing 2 years after the year in which the reliability settings review is completed, must include:
- (1) details of all relevant market conditions and circumstances on which the recommendation is based; and
 - (2) an assessment of whether the level of the market price cap together with the operation of the cumulative price threshold has achieved the objectives set out in paragraphs (f)(1) and (f)(2).
- (h) The AEMC may only recommend a change to the market price cap in the reliability settings review from 1 July in the year commencing 2 years after the year in which the reliability settings review is completed, where:
- (1) in the AEMC's opinion, there is a reasonable probability that the relevant market conditions and circumstances on which the recommendation for that year are based as stated in the report under paragraph (g) will eventuate; and
 - (2) the AEMC has given due consideration to the impact of the change to the market price cap on Market Participants and, in the event of a recommended decrease in the market price cap, any alternative arrangements considered necessary to ensure that the reliability standard is maintained.

The market price cap provisions currently set out in clause 3.9.4 and Chapter 10 of the National Electricity Rules have been moved here.

The intention is for the AEMC to conduct a review of the market price cap rather than the Reliability Panel as currently set out in the National Electricity Rules.

Market Floor Price

- (i) The market floor price is a price floor on regional reference prices which is to be applied to dispatch prices, with the level of the price floor being published in the reliability standard and reliability settings schedule.
- (j) The market floor price recommended by the AEMC in a reliability settings review must be a level which the AEMC considers will:
 - (1) allow the market to clear in most circumstances;
 - (2) not create substantial risks which threaten the overall stability and integrity of the market; and
 - (3) take into account any other matters the AEMC considers relevant.
- (k) A report on the market floor price the AEMC recommends should apply for the next 5 year period from 1 July in the year commencing 2 years after the year in which the reliability settings review is completed, must include details of all relevant market conditions and circumstances on which the recommendation is based.

The market floor price provisions currently set out in clause 3.9.6 and Chapter 10 of the National Electricity Rules have been moved here.

The intention is for the AEMC to conduct a review of the market floor price rather than the Reliability Panel as currently set out in the National Electricity Rules.

Administered Price Cap

- (l) The administered price cap is a price cap to apply to a dispatch price, regional reference price or ancillary service price, with the levels of the price cap being published in the reliability standard and reliability settings schedule, and the circumstances under which it can be invoked by AEMO being determined as set out in clause 3.14.2.

The administered price cap provisions currently set out in Chapter 10 of the National Electricity Rules have been moved here.

Administered Floor Price

- (m) The administered floor price is a price floor to apply to a regional reference price, with the level of the price floor for each region being the negative of the value of the administered price cap for that region, and the circumstances under which it can be invoked by AEMO being determined as set out in clause 3.14.2.

The administered floor price provisions currently set out in clause 3.14.1(b) and Chapter 10 of the National Electricity Rules have been moved here.

Cumulative Price Threshold

- (n) The cumulative price threshold is a threshold for imposition of an administered price cap, with the level of the threshold being published in the reliability standard and reliability settings schedule.

The cumulative price threshold provisions currently set out in clause 3.14.1(c) and Chapter 10 of the National Electricity Rules have been moved here.

3.9.3D Urgent reliability standard review and reliability settings review

- (a) Despite clauses 3.9.3B(a) and 3.9.3C(a), the AEMC may conduct a reliability standard review and reliability settings review within 5 years after the last reliability standard review or reliability settings review (as the case may be) is completed, where, in its reasonable opinion, if a reliability standard review or reliability settings review is not conducted as a matter of urgency, it may imminently prejudice or threaten:
- (1) the effective operation or administration of the wholesale exchange operated and administered by AEMO; or
 - (2) the safety, security or reliability of the national electricity system.
- (b) If a review is conducted under paragraph (a), the AEMC must conduct a reliability standard review and reliability settings review.

3.9.3E Value of customer reliability

- (a) The value of customer reliability represents the value customers will be willing to pay in the short term to maintain continuity of supply.

Value of customer reliability guidelines

- (b) AEMO must develop and amend value of customer reliability guidelines, which are guidelines setting out:
- (1) the methodology used to determine the value of customer reliability:
 - (i) for each class of customer in each region;
 - (ii) for all customers in each region;
 - (iii) for all customers in all the regions; and

(2) the classes of customer to which subparagraph (1) applies, provided residential customers are included as a class of customer,

in consultation with the *Reliability Panel, Registered Participants* and such other persons as *AEMO* thinks appropriate, in accordance with the *Rules consultation procedures*.

(c) *AEMO* must publish the first *value of customer reliability guidelines* by 30 April [insert year - the year of the first guidelines must be a year earlier than the year the reliability standard review is completed] and there must be *value of customer reliability guidelines* available at all times after this date.

Value of customer reliability

(d) *AEMO* must determine the *value of customer reliability* for each category described in paragraph (b)(1) in accordance with the *value of customer reliability guidelines* or the amended *value of customer reliability guidelines* (as the case may be), and publish them:

(1) as soon as practicable after the first *value of customer reliability guidelines* are published under paragraph (c); and

(2) thereafter, by 30 April of each fifth year after the first *value of customer reliability guidelines* are published under paragraph (c).

3.9.3F Reliability standard guidelines

(a) The *AEMC* must develop and amend *reliability standard guidelines*, which are guidelines setting out the methodology used to determine the *reliability standard*, in accordance with the *Transmission consultation procedures*.

(b) The *AEMC* must publish the first *reliability standard guidelines* by 30 April [insert year - this year should be the same as the year the first value of customer guidelines are published] and there must be guidelines available at all times after this date.

3.9.3G Reliability settings guidelines

(a) The *AEMC* must develop and amend *reliability settings guidelines*, which are guidelines setting out the methodology and assumptions used to determine the *reliability settings* and *annual index for the reliability settings*, in accordance with the *Transmission consultation procedures*.

(b) The *AEMC* must publish the first *reliability settings guidelines* by 30 April [insert year - this year should be the same as the year the

first value of customer guidelines are published] and there must be guidelines available at all times after this date.

3.9.3H Minimum reserve levels

- (a) The *minimum reserve level* is the *reserve margin* expected to be required to meet the *reliability standard*.

Minimum reserve levels guidelines

- (b) AEMO must develop and amend *minimum reserve levels guidelines*, which are guidelines setting out the methodology used to determine the *minimum reserve level* for each *region*, in consultation with the *Reliability Panel*, *Registered Participants* and such other persons as AEMO thinks appropriate, in accordance with the *Rules consultation procedures*.
- (c) AEMO must publish the first *minimum reserve levels guidelines* by [insert date - this date must be after the commencement date of the amending rule] and there must be *minimum reserve levels guidelines* available at all times after this date.

Minimum reserve levels

- (d) As soon as practicable after the first *minimum reserve levels guidelines* are published under paragraph (c), AEMO must determine the *minimum reserve level* for each *region* in accordance with the *minimum reserve levels guidelines*, and publish them.
- (e) If the *minimum reserve levels guidelines* are amended under paragraph (b), AEMO must, as soon as practicable after their date of publication, determine the new *minimum reserve levels* for each *region* in accordance with the amended *minimum reserve levels guidelines*, and publish them.

[2] Clause 3.9.4 Market Price Cap

Omit clause 3.9.4 in its entirety, including the heading, and substitute "[Deleted]".

[3] Clause 3.9.6 Market Floor Price

Omit clause 3.9.6 in its entirety, including the heading, and substitute "[Deleted]".

[4] Clause 3.14.1 Cumulative Price Threshold and Administered Price Cap

Omit clause 3.14.1 in its entirety, including the heading, and substitute "[Deleted]".

[5] Clause 3.20.3 Reserve contracts

Omit clause 3.20.3(b) and substitute:

AEMO may determine to enter into *reserve contracts* to ensure that the reliability of *supply* in a *region* or *regions* meets the relevant *power system security and reliability standards* established by the ~~Reliability Panel~~ for the *region* and, where practicable, to maintain *power system security*.

This is an editorial change to reflect the intention for the reliability standard, which is a subset of the power system security and reliability standards, to be determined and published by the AEMC, rather than the Reliability Panel as currently set out under the National Electricity Rules.

[6] Clause 5.6A.2 Publication of NTNDP

Omit clause 5.6A.2(b) and substitute:

In preparing the *NTNDP* that is to be *published* under paragraph (a), *AEMO* must:

- (1) take into account the submissions made in response to the invitation referred to in clause 5.6A.1(b); and
- (2) consider the following matters:
 - (i) the quantity of electricity that flowed, the periods in which the electricity flowed, and *constraints* on the *national transmission flow paths* over the previous year;
 - (ii) the forecast quantity of electricity that is expected to flow, the periods in which the electricity is expected to flow, and the magnitude and significance of future *network losses* and *constraints*, on the current and potential *national transmission flow paths* over the year in which the *NTNDP* is to apply or some other period to which a scenario that is used for the purposes of the *NTNDP* applies;
 - (iii) the projected capabilities of the *national transmission grid*, and the *network control ancillary services* required to support the existing and future capabilities of the *national transmission grid*, under each of the scenarios that is being used for the purposes of the *NTNDP*;
 - (iv) relevant intra-jurisdictional developments and any incremental works that may be needed to co-ordinate *national transmission flow path* planning with intra-jurisdictional planning;

- (v) such other matters as *AEMO*, in consultation with the *participating jurisdictions*, considers appropriate; and
- (3) have regard to the following documents:
- (i) the most recent *Annual Planning Reports* that have been *published*;
 - (ii) the most recent *statement of opportunities* that has been *published*;
 - (iii) the most recent gas statement of opportunities published under the National Gas Law;
 - (iv) the current revenue determination for each *Transmission Network Service Provider*;
 - (iv) any other documents that *AEMO* considers relevant; and
- (4) have regard to the *value of customer reliability*.

The intention is for AEMO to have regard to the value of customer reliability, published by AEMO under clause 3.9.3E of this proposed rule, in its preparation of the national transmission network development plan.

[7] Clause 8.8.1 Purpose of Reliability Panel

Omit clause 8.8.1(a)(2) and substitute:

review and, on the advice of *AEMO*, determine the *power system security and reliability standards*, other than the *reliability standards*;

As noted earlier, this is an editorial change to reflect the intention for the reliability standard, which is a subset of the power system security and reliability standards, to be determined and published by the AEMC, rather than the Reliability Panel as currently set out under the National Electricity Rules.

[8] Clause 8.8.3 Reliability review process

Omit clause 8.8.3(b) and substitute:

At least once each calendar year and at such other times as the *AEMC* may request, the *Reliability Panel* must conduct a review of the performance of the *market* in terms of *reliability* of the *power system*, the *power system security and reliability standards*, other than the *reliability standards*, the *system restart standard*, the guidelines referred to in clause 8.8.1(a)(3), the policies and guidelines referred to in clause 8.8.1(a)(4) and the guidelines referred to in clause 8.8.1(a)(9) in accordance with this clause 8.8.3.

[9] Clause 8.11.4 Planning criteria

Omit clause 8.11.4(b) and substitute:

In preparing tThe planning criteria that must be *published* under paragraph (a), *AEMO*:

- (1) must outline the principles on which *AEMO*it will carry out a cost benefit analysis of a proposed *augmentation* under section 50F of the *National Electricity Law*; and
- (2) must describe how *AEMO*it proposes to apply a probabilistic approach in determining the benefit of a proposed *augmentation*; and
- (3) must describe the kind of circumstances in which a probabilistic approach will be regarded as inappropriate; and
- (4) must have regard to the *value of customer reliability*; and
- (5) may deal with any other aspect of planning inherent in, or related to, *AEMO*'sits *declared network functions*.

The intention is for AEMO to have regard to the value of customer reliability, published by AEMO under clause 3.9.3E of this proposed rule, in its preparation of the planning criteria that it proposes to use in performing its declared network functions.

AEMO's declared network functions is currently defined in section 50C(1) of the National Electricity Law.

Currently, AEMO is authorised to exercise its declared network functions in relation to the declared transmission system of Victoria.

[10] Chapter 10 Amended definitions

In Chapter 10, omit the following definitions and substitute:

administered floor price

Has the meaning given in clause 3.9.3C(m).

administered price cap

Has the meaning given in clause 3.9.3C(l).

cumulative price threshold

Has the meaning given in clause 3.9.3C(n).

market floor price

Has the meaning given in clause 3.9.3C(i).

market price cap

Has the meaning given in clause 3.9.3C(d).

reliability standard

The standard set out in the *reliability standard and reliability settings schedule* published by the AEMC under clause 3.9.3A. For the avoidance of doubt, this standard is a subset of the *power system security and reliability standards*.

[11] Chapter 10 New definitions

In Chapter 10, insert the following new definitions in alphabetical order:

annual index for the reliability settings

An index to be applied to the *reliability settings* on 1 July of each year.

minimum reserve levels

Has the meaning given in clause 3.9.3H(a).

minimum reserve levels guidelines

Has the meaning given in clause 3.9.3H(b).

reliability settings

The *administered price cap* for each *region*, the *cumulative price threshold*, the *market price cap* and the *market floor price*.

reliability settings guidelines

Has the meaning given in clause 3.9.3G(a).

reliability settings review

Has the meaning given in clause 3.9.3C(a).

reliability standard and reliability settings schedule

Has the meaning given in clause 3.9.3A(a).

reliability standard guidelines

Has the meaning given in clause 3.9.3F(a).

reliability standard review

Has the meaning given in clause 3.9.3B(a).

value of customer reliability

Has the meaning given in clause 3.9.3E(a).

value of customer reliability guidelines

Has the meaning given in clause 3.9.3E(b).