AEMC

INFORMATION

Advice on linking the reliability standard and reliability settings with a value of customer reliability

Publication of final report

The Australian Energy Market Commission has published its final advice to Standing Council on Energy and Resources on linking the reliability standard and reliability settings in the wholesale electricity market with a value of customer reliability. The preferred approach provides for the level of supply reliability to customers from the generation and bulk-transmission sectors of the national electricity market to be set to broadly reflect the value that customers place on receiving a reliable supply of electricity.

Purpose of this advice

The Standing Council on Energy and Resources (SCER) requested the Australian Energy Market Commission (AEMC) to provide advice on linking the reliability standard and reliability settings in the wholesale electricity market with a value of customer reliability (VCR). This request was made in response to the AEMC's review of the effectiveness of national electricity market (NEM) security and reliability arrangements in light of extreme weather events. The final report for that review was published in May 2010.

The purpose of this advice was to explore possible approaches to delivering reliable supply to end-use customers from the wholesale electricity market, taking into account the value that those customers place on receiving a reliable supply of electricity.

The final report and its recommendations reflect discussions with the Australian Energy Regulator (AER) and the Australian Energy Market Operator (AEMO), as well as submissions received on the consultation paper.

Recommendation

The Commission's recommended approach is similar to the current process for determining the wholesale electricity market reliability standard and reliability settings. The key difference is the inclusion of a requirement for a VCR, estimated for the customers most affected by a supply shortfall, to be used as a cross-check on the reliability standard.

The link between the reliability standard, MPC and VCR under the Commission's preferred approach is shown in Figure 1.

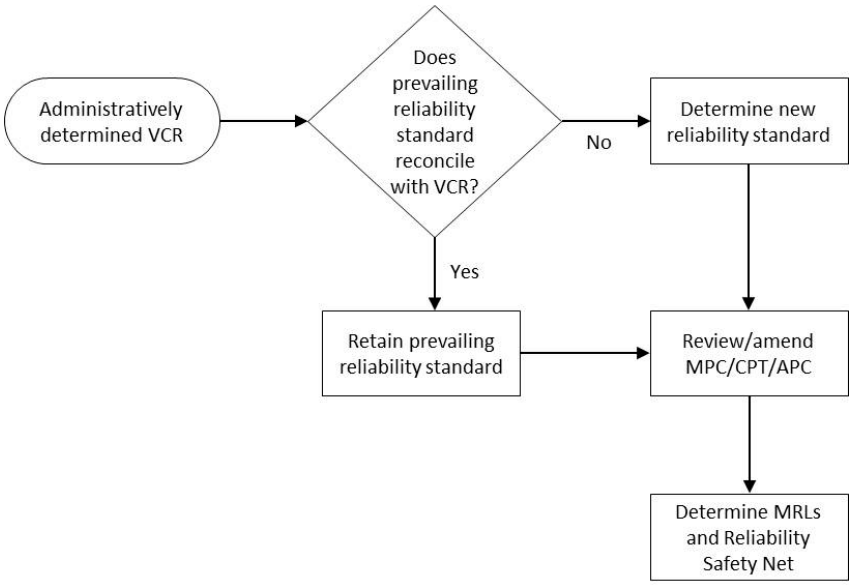
This approach consists of the following key stages:

- **Value of customer reliability:** A single, administratively determined VCR representative of the customers most affected by a supply shortfall would be estimated by the appropriate body using a VCR methodology developed in consultation with industry participants. The methodology would be expected to take into account an appropriate range of customer types, demographics and geographic locations across the NEM. This would assist the appropriate body in calculating a single, administrative VCR which is fit for purpose in setting the level of reliability in the generation and bulk-transmission sectors.
- **Reliability standard:** As a first step in reviewing the reliability standard, the Reliability Panel (or other appropriate body) would calculate the VCR implied by the prevailing standard to assess how well it reflects the value that customers place on reliability. This would be achieved by determining the minimum combined costs of generation and USE to meet the reliability standard. In the instance it was found that the prevailing standard no longer reflected customers' reliability expectations, it could be amended as appropriate. The aim would be to determine a reliability standard consistent with minimising total costs to consumers.

Efficient outcomes can be achieved by implementing planning and investment frameworks which provide for customers' preferences, reflected in estimated values of customer reliability, to feed into the decision making process.

- **Reliability settings:** Following the review of the reliability standard, the Reliability Panel would then review the reliability settings. The market price cap (MPC) (and other reliability settings) would be determined by supply-side modelling (as it is under the current methodology for determining the reliability settings). The aim would be to set the level of the market price cap at a level that would be sufficient to deliver investment in new generation to meet the reliability standard.

Figure 1 Summary of recommended approach



The preferred approach provides for the level of supply reliability from the generation and bulk transmission sectors in the NEM to broadly reflect the value that customers place on reliable electricity supply. This will promote efficient market outcomes that are at least consistent with those delivered by the NEM's current reliability standard and settings.

This approach is also consistent with the framework recommended by the AEMC for setting transmission reliability levels in the NEM.

Implementation

Given that the Commission's preferred approach represents a very similar approach to the current process for setting the reliability standard and reliability settings, little change is required to current practice.

Background

SCER requested this advice in response to the AEMC's review of the effectiveness of national electricity market (NEM) security and reliability arrangements in light of extreme weather events (extreme weather review). The final report for this review was published in May 2010.

In June 2012, SCER provided a response to the AEMC's final report. While the majority of recommendations were endorsed, SCER requested additional advice on the matter of setting the reliability standard and settings with reference to an agreed VCR. The AEMC received the terms of reference from SCER for this advice in January 2013.

On 29 October 2013, the AEMC released a consultation paper which sought stakeholder views on various issues associated with linking the NEM reliability standard and settings with VCR. Responses to the consultation paper were used to further inform and enhance the AEMC's understanding of these issues.

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