

RECEIVED

11 MAY 2009

MCE

Ministerial Council on Energy

CHAIR

The Hon Martin Ferguson AM MP


Minister for Resources and Energy

Telephone: (02) 6277 7930 Facsimile: (02) 6273 0434

Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
AUSTRALIA SQUARE NSW 1215

11/5.

28 APR 2009

Dear Dr Tamblyn ,

AEMC REVIEW OF THE EFFECTIVENESS OF NEM SECURITY AND RELIABILITY ARRANGEMENTS IN LIGHT OF EXTREME WEATHER EVENTS

At its 6 February 2009 meeting, the Ministerial Council on Energy (MCE) considered the challenges faced by the National Electricity Market (NEM) in light of extreme weather events.

As reflected in the meeting communiqué, the MCE agreed to direct the Australian Energy Market Commission (AEMC) to conduct a review of the effectiveness of NEM security and reliability arrangements.

I am writing on behalf of the MCE to outline the Terms of Reference for this task.

MCE direction to the AEMC

Section 41 of the National Electricity Law (NEL) enables the MCE to direct the AEMC to review any matter relating to the NEM or any other market for electricity.

Pursuant to section 41 of the NEL, the MCE directs the AEMC to conduct a review of the effectiveness of National Electricity Market (NEM) security and reliability arrangements in light of recent extreme weather events. In identifying options for addressing issues raised by these events, the AEMC shall have regard for the need for actions to be proportionate, as well as the value of stability and predictability in the energy market regime.

The AEMC's review is to provide advice in relation to the generation and transmission elements of the power system. While matters relating to the performance standards of distribution networks are the responsibility of jurisdictions, the MCE appreciates any advice the AEMC can provide to ensure network security and reliability. This review should be consistent with, and draw on, a number of reviews and rule change proposals being progressed by the AEMC and the Reliability Panel.

In the context of extreme weather related events such as droughts, heatwaves, storms, floods and bushfires, the AEMC is directed to:

- examine the current arrangements for maintaining the security and reliability of supply to end users of electricity and provide a risk assessment of the capability of those arrangements to maintain adequate, secure and reliable supplies,
- provide advice on the effectiveness of, and options for cost-effective improvements, to current security and reliability arrangements, and, if appropriate,

MCE Secretariat

GPO Box 9839 CANBERRA ACT 2601
Telephone: (02) 6213 7789 Facsimile: (02) 6213 6689
E-mail: MCE@ret.gov.au
Web Site: www.mce.gov.au

- identify any cost-effective changes to the market frameworks that may be available to mitigate the frequency and severity of threats to the security and reliability of the power system.

The MCE considers that any recommendations arising from the review should also identify, where applicable, possible benefits or lessons for the broader energy market framework.

The MCE does not anticipate that this review will result in a fundamental revision of the electricity market design.

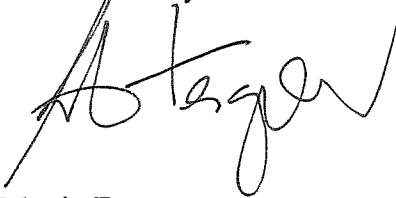
Timing and process

The AEMC is to report by 29 May 2009 on measures that are currently under consideration that would improve system reliability and security and any further cost-effective measures that could be taken in the short term that would impact on system reliability for the summer of 2009-10.

The AEMC is to report by 30 October 2009 on any cost-effective changes that could be made to energy market frameworks that would improve system reliability in the longer term and contribute to the more effective management of system reliability during future extreme weather events.

Copies of both of these reports are to be provided to the Australian Energy Regulator and the National Electricity Market Management Company/Australian Energy Market Operator. The MCE will determine whether the reports are to be published.

Yours sincerely

A handwritten signature in black ink, appearing to read 'M Ferguson', written over a horizontal line.

Martin Ferguson