

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

AEMC Reference: ERC0134



5th December 2011

Submission regarding:

Consolidated Rule Request - National Electricity Amendment (Economic Regulation of Network Service Providers) Rule 2011

As a management consultant advising the electricity sector and regulators in Australia and New Zealand, and as a past senior electricity network executive and board member, I wish to comment on statements that were reported¹ to have been made at the AEMC Brisbane Public Forum, 23 November 2011 as to the causes of the 1998 Auckland power supply crisis. My intention is to avoid incorrect inferences to be drawn from those statements.

The initial failures in Auckland were on two 110kV gas filled cables followed by the failure of two 110kV oil filled cables. The gas filled cables were installed in 1959 and the oiled filled in 1976². The expected lifetime of the cables, as attributed by the network business itself, was 50 years.

The Ministerial Enquiry into the power failure concluded³ that the cause was due to gas leaks and thermo-mechanical movement. The enquiry found that there were multiple contributing factors relating to the installation, operation and maintenance of both the gas and oil cables, the level of risk management and contingency planning by the network business involved, and exacerbated by an inappropriate response to the initial cable failure which then led to all cables failing.

The failures were a result of technical and management decisions and actions of the network business. They were not a result of under spending on maintenance and the level of maintenance spending was not constrained by the New Zealand regulatory regime. The approach to electricity industry regulation at the time was considered to be light handed with decisions on the levels of investment in networks resting with the electricity companies.

What the Auckland example does highlight is the importance of good industry practice asset management frameworks and practices. Regulation should not focus

¹ Sydney Morning Herald, 24th November 2011 "Risk of cuts if power spending lower say distributors" and The Australian 24th November 2011 "Sydney's aging cables a blackout crisis threat".

² http://www.med.govt.nz/upload/23701/part_one.pdf Figure 3.3

³ http://www.med.govt.nz/upload/23701/part_two.pdf Section 6-1

exclusively on the costs of supply but should also consider how an organisation ensures quality of supply through application of sound policy and strategies. With such an approach, regulation can play a constructive role in assisting with good governance, leading to supply being provided to consumers at appropriate levels of reliability and at efficient costs.

Nothing in this submission is considered to be confidential. I would be pleased to provide further information if requested by the AEMC.

Yours sincerely

A handwritten signature in black ink, appearing to read 'William A Heaps', written in a cursive style.

William A Heaps
Managing Director
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