

Department of Infrastructure, Energy and Resources

OFFICE OF ENERGY PLANNING AND CONSERVATION

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Your Ref EMO 0010 Our Ref



Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH
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(Electronic submission via the AEMC website)

Re: Review of the Effectiveness of NEM Security and Reliability Arrangements in light of Extreme Weather Events

The Office of Energy Planning and Conservation, of the Department of Infrastructure, Energy and Resources, welcomes the opportunity to provide comment on the consultation paper of the *Review of the Effectiveness of NEM Security and Reliability Arrangements in light of Extreme Weather Events*.

The Tasmanian Government is currently still in caretaker mode due to the results of the State Election on the 20th March 2010 yet to be finalised. Due to this fact we must stress that this submission is the view of the Office of Energy, Planning and Conservation and not those of the Minister or Government.

Please contact Tim Astley on (03) 6233 3091 if you have any questions in relation to the matters raised in our submission.

Yours sincerely

Tony van de Vusse
DIRECTOR

29th March 2010

Whole of power system security and reliability

Q1. *Interaction between the investment regimes (for reliability) between each stage of the electricity supply chain.*

While investment in improving the reliability of one part of the supply chain has merit, consideration needs to be given as to whether the investment could be better spent in another area. The customer's experience is that of the weakest part of the supply chain. Investment should be focussed where it has the biggest impact on the customer. While the generation sector could outlay a large investment in improving reliability from 99.98% to 99.99%, if the distribution network is only achieving 99.95% reliability customer will see little benefit from this investment. It may well be more effective for the investment to be made in the distribution network.

The NEM Reliability Standard

Q2. *Setting the MPC as a ten year trajectory*

Setting the MPC as a ten year trajectory is important for providing a more certain investment climate.

Q3. *Length of the review period for the MPC*

The MPC should be reviewed less frequently than every 2 years. Undertaking a review every 4 or 5 years, in line with the AER's regulatory cycle, with the ability to review more frequently if certain circumstances occur, may be more appropriate.

Q4. *The wider non reliability impacts to the NEM of raising the MPC*

Raising the MPC will have significant impact on the costs of prudential cover for retailers and will most likely increase the volatility in pool prices which is likely to lead higher prices for end customers. The reason for raising the MPC is to increase generation investment.

This must inevitably give rise to increase costs somewhere in the supply chain. And the question is do customers want to pay more for improved reliability? Is the current level of reliability poor enough that customers would be willing to pay even more for it to be improved? With all the other drivers causing price rises it seems questionable to add another driver to increasing power prices.

Q5. *The current reliability standard*

The current reliability standards employ a very simplistic approach to a quite complex issue. Not all outages are equal and the impact of two outages may not be the sum of the impacts of the individual outages. An occasional big outage may be acceptable but four outages of quarter the size could have a far bigger impact on customers. The use of a simple average over 10 years causes step changes in the measurement of reliability once an incident is more than 10 years old. It would seem more appropriate to at least use a decaying rolling average, thereby lessening the impact of an outage over time which is more in line with customer's experience of reliability.

Technical standards and issues

Q6. *A review of technical and performance standards in the NEM*

The incentives seem weak for transmission and distribution to mitigate the impact of major storms by taking preparative action. A major storm (or cyclone) rarely is totally unexpected. Weather forecasts

often indicate a high probability of such events a day or two out. When this occurs, NSPs should be given incentives to 'pre-rest' crews so they can work for longer once the storm hits. Crews should also be on the road and ready to follow along behind the storm. Some of this may well already occur to some level but are the incentives appropriate and could more be done?

Governance arrangements – policy decision making on reliability standards and settings

Q7. *A statement of policy principles regarding the community's expectations and valuation of reliability*

Yes, the MCE should set broad policy principles and ensure that the community's expectations for reliability and price are captured by the industry and reflected in the levels of reliability provided. The implementation and response should be left to experts in the industry and regulatory bodies.

Q8. *The AEMC to make NEM reliability parameter decisions*

We consider it appropriate for the AEMC to make NEM reliability parameter decisions given the energy market framework governance arrangements established through the AEMA and the NEL.

Reliability Forecasting and information

Q9. *Current tools regarding demand and capacity forecasting/information*

The current forecasting tools seem reasonable but should be regularly checked. Forecasting will never be accurate and there will always be reasons in hindsight for a forecast to be wrong, but if a certain forecasting tool is regularly wrong it should be critically reviewed and modified or replaced with another approach which is more accurate. We suspect the forecasting methodology is not scrutinised critically enough.

Q10. *Other measures to improve reliability and security in the NEM*

Other measures that could be implemented to improve reliability and security in the NEM are better preparation for known storm events and better education for customers as to the importance of backup energy generation and uninterruptible power supplies.

The focus should not solely be on trying to reach 100% energy supply reliability (as that is impossible) but also on minimising the impact of the inevitable supply failures. Working with business, local government etc on the importance of business continuity schemes would be very useful.