



New South Wales

RECEIVED 14 JUL 2006

Joseph Tripodi

Minister for Energy

Minister for Ports and Waterways

Minister Assisting the Treasurer on Business and Economic Reform

DEUS Ref: 06/1221

Mr Ian Woodward
Chairman
AEMC Reliability Panel
PO Box H166
AUSTRALIA SQUARE NSW 1215

12 JUL 2006

Dear Mr Woodward

I refer to your letter of 25 May 2006 concerning the Comprehensive Reliability Review currently being undertaken by the Reliability Panel.

The broad range of matters canvassed in the Panel's Issues Paper and their significance to the reliability performance of the NEM are carefully noted. Given the various issues raised in the paper are so closely interrelated, I appreciate and support the approach being taken to review all aspects of the reliability regime together.

In response to your invitation to comment on the matters under review, I would like to make some general remarks and observations in relation to the reliability standard, price mechanisms and reliability intervention mechanisms.

Reliability Standard

It is appropriate that Australia's NEM operate to a standard that allows its reliability performance to be objectively monitored and assessed. Whether the level of the current standard (0.002% of unserved energy) is set appropriately is a key question and I welcome the opportunity this review provides to thoroughly re-examine this aspect of the NEM reliability framework. In considering this question, a level should be set which is consistent with the high standard of reliability that customers, particularly in NSW, have come to expect from their generation and bulk transmission system over the long term.

During the course of this review, I would also expect to see the Reliability Panel review the methods used to translate the current standard into the minimum reserve levels and to examine methods of improving this procedure. This has proven problematic in the past including benchmarking those standards with commonly acceptable standards internationally.

15523

Price Mechanisms

I welcome the inclusion of possible new approaches for more effectively managing investment and financial risks in the market as part of this review. The NSW Government is keen to ensure the market delivers timely and efficient new investment in either generation or demand side capacity, or both, and will be closely monitoring this aspect of the review going forward.

Intervention Mechanisms

The current mechanisms available to NEMMCO to intervene in the market by trading for reserves in low reserve situations provide a degree of comfort that there are last resort market intervention mechanisms for situations where routine market processes have failed to secure sufficient reserves to ensure reliable supply.

It is recognised that on occasions when contracts for reserve have been established in Victoria and South Australia, the capacity that has been made available through these contracts has not been used. This may suggest the criteria for deployment of NEMMCO reserve trading powers could be refined. However, the fundamental concept of providing NEMMCO with an ability to contract for reserves should continue as part of NEM arrangements unless a superior approach is identified during the course of this review.

Conclusion

I commend the holistic approach being taken to this review of the reliability regime in the NEM and look forward to the next steps in the review process.

If you require further information on this matter, please contact Jonathan Wills, A/Senior Manager, Energy Industry Strategy, Department of Energy, Utilities and Sustainability on 8281 7416.

Thank you for bringing this matter to my attention.

Yours sincerely

A handwritten signature in black ink, reading "Joe Tripodi". The signature is fluid and cursive, with a long horizontal line extending from the end.

Joe Tripodi
Minister for Energy