



**Government
of South Australia**

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Dr John Tamblyn
Chairman
Australian Energy Market Commission
PO Box H166
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Dear Dr Tamblyn

Thank you for your letter dated 24 January 2006 enclosing a copy of the Australian Energy Market Commission (AEMC) Issues Paper on enforcement and compliance with technical standards under the National Electricity Rules.

The South Australian Government considers this review of technical standards an important step towards improving the regulatory framework and providing a reliable and secure electricity supply system that operates in the interests of customers.

On both 8 March 2004 and 14 March 2005, approximately 650MW and 700MW respectively of under-frequency load shedding occurred in South Australia due to a technical fault in the protection equipment at the Northern Power Station. Obviously, these large-scale load shedding events had a significant impact on the South Australian community.

Following the 14 March 2005 incident, the National Electricity Market Management Company (NEMMCO) implemented new constraint equations that trade-off the output from Northern Power Station, with imports from Victoria across Heywood, thereby reducing capacity and increasing prices in the South Australian pool. While these new constraints were necessary to manage system security, they had the potential to reward a participant for the instability it created in the system as well as providing perverse incentives towards rectification of the system.

In addition, NEMMCO did not seek to exercise its powers under the Rules to ensure that security issues are urgently reviewed by relevant market participants and to ensure that compliance with standards is determined within a reasonable timeframe. If non-compliance is determined, NEMMCO is able to constrain the output of the non-compliant participant and thereby provide appropriate incentives to ensure the problem is rectified while minimising the impact on consumers.

These events have highlighted inadequacies in the National Electricity Market (NEM) arrangements, particularly regarding the investigative and rectification provisions under the Rules.

The Government considers there is an urgent need to develop a more robust process for ensuring that rectification occurs promptly, instead of relying on determining whether there has been a breach of the Rules.

I look forward to AEMC's draft report to the Ministerial Council on Energy following consultation with industry and the community on the issues associated with technical standards.

The NEM objective of efficient investment and use of electricity services for the long-term interests of consumers will be advanced by a comprehensive review of the provisions on technical standards of chapters 4 and 5 and schedule 5 of the National Electricity Rules.

Thank you again for your letter and I trust this information is of use.

Yours sincerely



HON PATRICK CONLON MP
MINISTER FOR ENERGY

15 March 2006