AUSTRALIAN ENERGY REGULATOR

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Mr Ian Woodward
Chairman, Reliability Panel
Commissioner, Australian Energy Market Commission
PO Box A2449
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12 February 2008

Dear Mr Woodward

Transmission Reliability Standards Review - Response to Issues Paper

The Australian Energy Regulator (AER) welcomes the opportunity to respond to the Reliability Panel's issues paper regarding the reliability standards that currently apply to Transmission Network Service Providers.

Whilst noting that the Terms of Reference for this review have been given to the Reliability Panel by the Australian Energy Market Commission (AEMC), the AER suggests that these should be read alongside the Final Report of the Energy Reform Implementation Group (ERIG).

The ERIG Final Report is a useful reference point in determining where the key issues are and could serve to narrow the scope of the current review. The report identifies shortcomings with the current arrangements:

> *"... ERIG is of the view that reliability standards should at least be clear and specific as to how they are applied, be set by a body independent of the entity responsible for meeting these obligations and be cast in a technology neutral manner. Any technical standard should be defined as narrowly and clearly as possible. A consistent and clear national framework should be implemented through redrafting schedule 5.1 of the Rules."*[1]

The AER considers that achieving clarity, transparency and independence in the setting of the reliability standards is the key issue facing this review. The AER notes that the Terms of Reference for this process call for a "*review of the jurisdictional transmission reliability standards with a view to developing a consistent national framework for network security and reliability*". As such, the Reliability Panel is not being asked to develop a single national reliability standard, as jurisdictions could still develop their own reliability standards, governed by a clear and transparent single national framework.

Accordingly, the AER has confined its comments to the high level principles that should apply to a clear, transparent and independent national framework for the setting of reliability standards. The AER does not consider that this review needs to set a single national reliability standard.

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1 Pg 182, Energy Reform – The Way Forward for Australia, 2007 ERIG Final Report

Clear and transparent standards

The AER considers that the most pressing issue facing this review process is the lack of transparency and clarity that is inherent in the current arrangements for setting reliability standards. This applies both at a jurisdictional level and at a national level through the National Electricity Rules.

As noted in the Reliability Panel's issues paper, there are high-level reliability standards in Schedule 5.1 of the Rules, with these standards being supplemented by state reliability requirements. However, in some cases the requirements remain high level and leave considerable scope for interpretation and application by the relevant TNSP. In all states except for Victoria the standards are based on deterministic reliability criteria in the form of "n-X". However, there are many qualifiers that are applied to these simple criteria, for example:

- In Queensland the requirement is "n-1 in accordance with good industry practice". Good industry practice is not defined and is open to interpretation. Further, Powerlink has planned much of its network on the assumption that the largest critical generator in a single zone is unavailable. This implies an "n-g-1" criteria which is not applied in any other state.

- In NSW, TransGrid writes their own reliability standard into a Network Management Plan, which is then approved by the Department of Water and Energy.

Powerlink has recognised the relatively open ended nature of its n-1 requirement by establishing a "planning criteria policy". Powerlink explains that the policy is required because of the lack of specificity in the National Electricity Rules (NER) or legislation:

> *"A salient feature of the arrangements in Queensland is that Powerlink has mandated reliability obligations that drive non-discretionary investment in grid augmentations as the load grows.*
>
> *These mandated obligations include a requirement to apply "good electricity industry practice" which in-turn necessitates a range of supporting planning assumptions. These assumptions are referred to as the "planning criteria". Whilst the components or detail of the "planning criteria" are not specifically defined by the NER or in State Government legislative requirements, the "planning criteria" must be defined and documented such that the required statutory outcomes are achieved."*[2] *(emphasis added).*

The lack of specificity in reliability standards in some states raises practical problems for the AER in its revenue reset processes. It is difficult for the AER to assess whether or not the TNSPs' capital expenditure proposals are genuinely required to meet reliability requirements if the requirements are poorly defined.

Further, the more ambiguous the reliability standards, the more difficult it is for the TNSPs to demonstrate compliance. Some of the TNSPs may address this risk by adopting a conservative approach to interpreting the standards, with the risk of inappropriately high capital expenditure claims.

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2 Pg 3, Planning Criteria Policy, Powerlink Queensland

Poorly defined reliability standards also create unnecessary uncertainty for investors in generation. Transmission capacity and congestion is a key determinant of generation location decisions. In making their location decisions investors will need to form a view about changes to transmission congestion over time. Open ended reliability standards make future capital expenditure by the TNSPs less predictable, in turn making future congestion more difficult to predict.

The problems with poorly defined reliability standards are best addressed by establishing clearly defined criteria through a rigorous, independent and transparent process.

Suggested way forward

The AER considers that the clarity, transparency and independence of the transmission reliability standards are the key issues facing this review process. There are a number of different models that could be examined to add clarity and independence to the setting of reliability standards.

The AER considers that a framework should be established for reliability standards where standards:

- are set following a transparent process, a rigorous cost/benefit assessment and thorough public consultation;
- are set independently of the transmission network service provider;
- are as specific as possible, preferably outlining the reliability standard to be achieved at each connection point; and
- are set in such a way as to be neutral between the technologies that are used to meet the given standard.

Establishing these high level principles would not require the formation of a one size fits all model. For example, the models currently used in South Australia and Victoria, whilst varying significantly, would still be consistent with the high level principles outlined above.

If a nationally consistent framework was implemented significant improvements in the clarity and transparency of the regulatory process could be achieved, delivering significant benefits to all stakeholders.

I would welcome the opportunity to discuss this issue with you further. In the first instance, if you or your officers would like any further information, the appropriate contact within the AER is Sebastian Roberts, who can be contacted on 03 9290 1435.

Yours sincerely

Steve Edwell
Chairman
Australian Energy Regulator