570 George Street
Sydney NSW 2000

Address all mail to
GPO Box 4009 Sydney
NSW 2001 Australia

www.energy.com.au

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20 August 2008

Mr. Ian Woodward
Chairman
The Reliability Panel
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Mr Woodward

RE: Transmission Reliability Standards – Interim Report

EnergyAustralia welcomes the opportunity to comment on the Reliability Panel's Interim Report on the National Framework for Transmission Reliability. EnergyAustralia supports the recommendations made by the Reliability Panel. However, we seek confirmation from the Panel that the transmission reliability standards will not apply to assets in our transmission network. Further we propose a measure that will allow the transmission reliability standards to be applied nationally, but also ensure consistency between transmission standards and existing jurisdictional reliability standards.

EnergyAustralia is concerned that the transmission reliability standards will apply to its network. EnergyAustralia has transmission assets which are "dual function" assets. Dual function assets are classed as transmission assets and therefore could be captured under the National Transmission Reliability Framework.

EnergyAustralia's view is that the transmission standards should not be applied to dual function assets because they are already subject to existing jurisdictional distribution reliability standards. EnergyAustralia would appreciate the Reliability Panel providing an explicit recommendation that this framework should not be applied to "dual function assets" as defined by clause 6.24 of the Rules.

To assist your analysis, I attach a discussion that explains how this duplication with distribution reliability standards may occur.

Consistency of transmission standards with jurisdictional distribution reliability standards is critical where transmission network assets are either connection assets (i.e. supply DNSPs) or are dual function assets (i.e. transmission assets that provide support to the transmission network but are owned by a DNSP). It is appropriate that consistent standards apply within a

jurisdiction to ensure that standards reflect the needs of customers in that jurisdiction. This is particularly relevant to EnergyAustralia where the reliability standards that apply to the jointly planned Sydney inner metropolitan transmission network are set by the NSW jurisdictional regulator.

EnergyAustralia suggests that the Panel's transmission reliability standards be applied to transmission assets that comprise the main transmission grid, but allow reliability standards for connection and dual function transmission assets to be set so they are consistent with existing jurisdictional standards.

EnergyAustralia believes that the jurisdictional authority is the appropriate body to set the reliability standards for transmission assets that relate to DNSP connection or are dual function assets. Jurisdictions already set reliability standards for DNSPs and would therefore be best placed to ensure consistency of standards between DNSPs and TNSPs operating within the same jurisdiction (for transmission connection and dual function assets). Jurisdictions are directly responsible to stakeholders and will set reliability standards in the interests of customers who pay for the service. Finally, jurisdictions are independent from the TNSP's investment process and the economic regulatory process and therefore ensure ensure there is no perceived conflict of interest.

On the other hand, application of transmission reliability standards to the main transmission grid will ensure that critical inter-regional constraints are addressed. The Transmission Planner has a central role in establishing appropriate investments that will address such constraints, and is therefore well placed to advise the reliability standards that should apply to the main grid itself. This would preclude the need to establish a new national body to set these standards. EnergyAustralia believes it is in the interests of the NEM that the number of regulatory bodies be streamlined as much as possible.

Finally, EnergyAustralia considers that the Interim Report's recommendation to set deterministic standards, based on economic and probabilistic analysis is an important step in the transition to the ideal – a full probabilistic standard. It is also encouraging that the Panel has recommended that a jurisdiction can choose to go beyond the deterministic standard by adopting a probabilistic framework if it desires. This would be consistent with our proposal to extend the role of jurisdictions to transmission assets where they connect to DNSP networks or have a dual function.

If you have an enquiries in relation to this matter please do not hesitate to contact me on (02) 4951 9411 or Ms Catherine O'Neill on (02) 9269 4171.

Yours sincerely -

GEOFF LILLISS
Executive General Manager – Network

Dual function assets (transmission assets)

The Interim Report is unclear as to how it intends the National Transmission Reliability Framework will apply to dual function assets owned by DNSPs. If the National Framework is applied to "transmission networks" then by definition it would be applied to "dual function assets". This is because dual function assets are a subset of a transmission network under the Rules. In most circumstances this would result in the same asset being subject to two different (and potentially conflicting) sets of standards for reliability.

This duplication is unnecessary, does not promote the National Electricity Objective and should be avoided.

"Dual function asset" is not an EnergyAustralia term. Clause 6.24.2(a) of the Rules defines "dual function assets" as:

> any part of a network owned, operated or controlled by a Distribution Network Service Provider which operates between 66 kV and 220 kV and which operates in parallel, and provides support, to the higher voltage transmission network is deemed to be a dual function asset;

The same concept was considered and accepted by the MCE during the development of the transitional Chapter 6 rules[1] which apply to NSW and ACT for the 2009-2014. However, instead of the term "dual function assets" the MCE adopted the term "EnergyAustralia transmission support network".

These definitions operate for the purposes of Chapters 6 and 6A only, so as to allow the AER to make a single regulatory decision for a DNSP that owns assets that form part of a transmission network. Prior to the introduction of the dual function assets, transmission assets owned by a DNSP were subject to an AER transmission determination every 5 years, in addition to the distribution determination. These definitions have no impact on the application of the other provisions of the Rules, such as Chapter 5, to assets owned and operated by DNSPs which fall within the definition of a transmission network.

The primary driver of building dual function assets is to efficiently provide distribution services as required by the relevant distribution planning and reliability standards. However, when these assets operate in parallel with and provide support to the higher voltage transmission network, they fall within the Rules definition of Transmission network. A distribution asset may move in and out of the Rules definition of "transmission network" over time.

Therefore while dual function assets form part of the transmission service, it is incidental to the asset's voltage and configuration with the transmission network.

To avoid duplication, these assets should not be included within the reliability standard regime for transmission.

The Interim Report compares dual function assets with sub transmission assets in Queensland

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[1] See Rule 11.5 and Appendix 1 to the National Electricity Rules, "Form in which Chapter 6 applies to New South Wales and the Australian Capital Territory for the Regulatory Control Period 2009-2014 at clause 6.1.6

owned by Ergon Energy and Energex 1. "Sub transmission assets" is not a defined term in the Rules and, while this term has common meaning, it could potentially refer to either transmission network or distribution network assets under the Rules.

The Rules contain a jurisdictional derogation for Queensland to ensure a similar treatment. Clause 9.32.1(b) allows all assets owned by a DNSP to be excluded from the transmission network for all purposes, not just those of chapters 6 and 6A. Therefore, the network assets owned by Ergon Energy and Energex are distribution network assets for the purpose of economic regulation, pricing and reliability.

EnergyAustralia proposes that a similar outcome apply to its dual function assets. Subjecting dual function assets to reliability standards for distribution is consistent with the treatment of similar sub transmission assets owned by Ergon Energy and Energex.