

9 May, 2008

Dr John Tamblyn
Chairman
Australian Energy Market Commission
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By email: submissions@aemc.gov.au

Dear John,

Submission on the proposed Rule change for the Reclassification of Contingency Events

Thank you for the opportunity to make a submission on the Australian Energy Regulator's (AER) Rule change proposal. Under this proposal, NEMMCO is required to develop and then apply pre-determined risk assessment criteria when it considers whether to re-classify a contingency event. NEMMCO is also required to provide Market Participants with information about potential and actual re-classifications of contingency events.

NEMMCO considers that the proposed process would provide a more robust framework for re-classifying contingency events. It expects that this would result in increased transparency of NEMMCO's decisions which would benefit Market Participants and improve the consistency of decision making. Additionally, NEMMCO notes that the proposed Rule clarifies and broadens the information which NEMMCO must rely on when assessing whether to re-classify an event.

NEMMCO has already taken steps to address the problems associated with the re-classification process which were identified in the NEMMCO Power System Incident Report and the AER's investigation report into the events on the 16 January 2007. The progress on the implementation of the recommendations can be found at:

<http://www.nemmco.com.au/marketandsystemevents/232-0052.htm>

Generally, NEMMCO supports this proposed Rule change subject to the comments below.

Reclassifying contingency events (proposed clause 4.2.3A)

Proposed clause 4.2.3A seeks to impose requirements on NEMMCO to consider a broader range of information when considering how abnormal conditions would affect a contingency event and provide Market Participants with updated information on identified abnormal conditions. The proposed clause also requires NEMMCO to identify non-credible

contingency events and creates an ongoing requirement for NEMMCO to assess these after considering the relevant facts and circumstances and the proposed criteria outlined in proposed clause 4.2.3(f). Market Participants must be notified of further changes as soon as practicable. In addition, the AER has proposed that NEMMCO issues a six monthly report which sets out its reasons to re-classify all non-credible contingency events as credible contingency events in the relevant period.

NEMMCO supports this proposal because it provides further clarity on the requirements outlined in existing clause 4.2.3(f) and sets out the factors that NEMMCO must take into account when considering whether to re-classify contingency events. In addition, NEMMCO considers that the proposal would provide a robust framework for re-classifying contingency events which would, when applied, increase transparency for Market Participants and facilitate better decision making (with respect to re-classifying contingency events).

However, NEMMCO considers the drafting of proposed clause 4.2.3A(b)(1) needs further clarification. It requires that NEMMCO make reasonable attempts to obtain “all information” from “all available sources” regarding abnormal conditions. NEMMCO considers that the requirement to obtain “all information” from “all available sources” is too broad. Without qualification, the process of obtaining information on an abnormal condition could be time consuming and counter productive. Should NEMMCO source, for example, real-time information on lightning from every possible service provider of this kind of information? Under proposed clause 4.2.3A(b)(1), NEMMCO must make reasonable attempts to obtain all this information, this proposed requirement would result in NEMMCO obtaining replicated information.

In addition, NEMMCO notes that proposed clause 4.2.3A(b)(1) and 4.2.3A(e) requires it to obtain information on an abnormal event and consider whether the occurrence of the non-credible contingency event is reasonably possible on “an ongoing basis”. In both cases, NEMMCO considers that the wording implies that it must be undertaken continually. In practice, this would be impractical and place an onerous burden on NEMMCO. Given this, NEMMCO suggests the wording of both clauses reflect that these should be done regularly rather than continually.

Finally, NEMMCO considers that proposed clause 4.2.3A(e) provides too much scope regarding the “facts and circumstances” that NEMMCO must have regard to. NEMMCO suggests that the wording should specify that NEMMCO regards the “facts and circumstances” identified under clause 4.2.3A(b).

Based on the above issues, NEMMCO suggests the wording be amended as follows:

Clause 4.2.3A(b)

If *abnormal conditions* exist NEMMCO must:

- (1) ~~on an ongoing basis~~ where necessary, regularly make reasonable attempts to obtain relevant all information relating to how the *abnormal conditions* may affect a *contingency event* from ~~all available~~ relevant sources, including from *Registered Participants*, emergency services agencies and any other body that may possess relevant information.

Clause 4.2.3A(e)

If NEMMCO identifies a *non-credible contingency event* in accordance with clause 4.2.3A(b) it must, ~~on an ongoing basis,~~ regularly consider whether the occurrence of the *non-credible contingency event* is reasonably possible, having regard to all the facts and circumstances identified in accordance with clause 4.2.3A(b).

Drafting correction

NEMMCO has identified a minor drafting error in clause 4.2.3A(c)(1), abnormal conditions is a defined term in the Rules' Glossary and should be italicised.

Criteria for re-classifying contingency events (proposed clause 4.2.3B)

Proposed clause 4.2.3B requires NEMMCO to develop criteria for re-classifying contingency events in consultation with relevant stakeholders and publish it. In addition, NEMMCO must, in consultation with relevant stakeholders, review the criteria every 12 months. NEMMCO supports the proposal but has identified a number of issues which arise from the drafted clause regarding consultation on the criteria.

Proposed clause 4.2.3B(a)(1) includes the terms "relevant stakeholders" and "emergency services", NEMMCO considers that these could be interpreted more broadly. For example, "relevant stakeholders" could be interpreted as broadly as a community affected by the issue and "emergency services" is so broad that it could be interpreted as including ambulance services. As such, NEMMCO considers that these terms should be further qualified to ensure that no ambiguity exists about the parties that must be consulted.

NEMMCO supports the concept of regularly reviewing the criteria. In doing so, NEMMCO and relevant stakeholders would need to review the abnormal conditions that had occurred since the previous review. NEMMCO expects these would be categorised into conditions where application of the criteria led to:

1. Re-classification occurring but the contingency event not occurring.
2. Re-classification not occurring and the contingency event not occurring.
3. Re-classification occurring but the contingency event occurring.
4. Re-classification not occurring and the contingency event occurring.

NEMMCO notes that abnormal events occur relatively infrequently and this limits the amount of new data that would be collected each year. If the review of the criteria is held too frequently it is possible that any decisions to modify the criteria may be based on insufficient new data. Potentially, this may lead to an overreaction to one review and a correction to the overreaction being made in a subsequent review. Given this, NEMMCO considers that an annual review runs the risk of making decisions regarding changes to the criteria based on insufficient new data.¹ Thus, NEMMCO considers it is more appropriate to review the effectiveness of the criteria every two years rather than annually because it would facilitate better decision making.

¹ New data refers to the data collected on re-classified contingency events in the relevant period.

Amendment to the Glossary

Finally, the Glossary's definition of abnormal events needs to be amended to delete the reference to clause 4.2.3(f) and should be referenced to proposed clause 4.2.3A(a).

We look forward to the AEMC's consideration of our submission. If you have any queries on any of the matters raised in this submission please contact Taryn Maroney on (02) 8884 5609.

Yours sincerely,


Brian Spalding
Chief Operating Officer