


Our Ref: A2005/39  
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24 November 2006

Mr Les Hosking  
Managing Director  
NEMMCO  
Level 12, 15 William Street  
Melbourne  
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Dear Mr ~~Hosking~~

**The events of 31 October 2005 in New South Wales**

As you will be aware the AER recently released its report on the events of 31 October 2005 when the failure of a major transmission line in New South Wales caused significant disruption to the market. The AER investigated the response of market participants to the transmission line failure and subsequent events. The investigation did not identify any breach of the National Electricity Rules but identified a number of areas for improvement – in both the Rules and in some of NEMMCO's practices. A copy of the report is attached.

In this case, the AER concluded that NEMMCO managed most aspects of the incident well, but the outcomes highlighted scope for some improvements. The AER has identified three issues.

The first is outage notification. In order to repair the line, TransGrid needed an adjacent line to be taken out of service twice. NEMMCO did not provide sufficient advanced notice to the market on one of these occasions. The AER believes that high quality information is critical to achieving efficiency within the market. In this regard, the AER notes that one of the market design principles is the maximum level of market transparency in the interests of achieving a very high degree of market efficiency. The AER seeks from NEMMCO an undertaking to review its outage management procedures and training, in light of this incident to ensure that every effort is made to keep the market fully informed of network issues where there is likely to be a material market impact.

The second is network constraints used within the NEM dispatch engine. On 31 October NEMMCO had to introduce new constraints to reflect the transmission line outages, but there were some periods where these constraints were ineffective. The AER believes that this incident highlights the importance of effective constraints to both the management of the power system and to facilitate efficient market responses through accurate market forecasts. The AER seeks from NEMMCO an undertaking to review its procedures for developing and reviewing network constraints and to publicly report on the outcomes from that review. This review should include the processes for determining constraints for emergency conditions, for planned network outages, and for system normal conditions. The review should consider the adequacy of the arrangements for assessing constraint effectiveness, from both power system management and market forecast accuracy perspectives.

The third relates to the manual updating of data into the dispatch program. Under normal conditions generator output data is automatically fed into the dispatch engine using data supplied via dedicated communications facilities. The failure of the transmission line also affected these communication facilities between NEMMCO and two power stations. This meant that NEMMCO had to manually update the actual output of the generators. Initially it did this infrequently. The AER seeks from NEMMCO an undertaking to review its procedures for managing market or market systems failures in this regard, to ensure that under similar emergency situations, the process of substitution is timely, and accurately reflects power system conditions.

The AER is also developing a Rule change proposal dealing with generator ramp rates and plans to issue a compliance bulletin on following dispatch instructions. AER staff are liaising with NEMMCO staff on both matters. I consider that these changes combined with improvements in some of NEMMCO's practices will improve system security and market outcomes. I look forward to continuing to work closely with NEMMCO in this regard.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Steve Edwell', written in a cursive style.

Steve Edwell  
Chairman