

24 September 2007

Mr Steve Edwell
Chairman
AER
GPO Box 520
MELBOURNE VIC 3001

Dear Mr Edwell,

**ACTION BEING UNDERTAKEN BY NEMMCO TO ADDRESS ISSUES ARISING FROM
THE INCIDENT OF 16 JANUARY 2007**

NEMMCO is currently undertaking a number of actions to address the areas identified by NEMMCO in our review of the incident of 16 January 2007. These actions we believe also address those concerns identified by the AER in your recent report "The Events of 16 January 2007". This letter serves as the undertaking from NEMMCO sought in your report. I would be grateful if the AER would confirm that our intended actions and timetable are adequate and appropriate.

1. Consistency and Transparency of Reclassification Decisions

It is noted that the AER raised concerns regarding the consistency and transparency of NEMMCO's reclassification process and criteria.

The NEMMCO report identified the need for improvements in this area. The issues have been discussed with the TNSPs and general support for changes to the process has been received. Work will initially concentrate on bushfire threats but will then be extended to look at other threats. The aim is to establish a process for gathering information from identified appropriate sources about relevant factors (eg. circuit configuration, easement condition etc.) and establish a procedure whereby decisions are taken on a consistent basis. The process will then be adjusted from time to time on the basis of experience. It is planned to complete this project prior to the 2007/08 summer bushfire period.

In addition, the INDJI Watch bushfire monitoring systems are being installed in NEMMCO Control Centres prior to the 07/08 summer. This monitoring system which is also used by a number of TNSPs should improve the information available to NEMMCO regarding progress of bush fire threats.

Measures are also underway to improve the level of communication to market participants regarding potential risks. The steps being taken are in two main areas:

- o A new emergency communications system is being implemented to enable the Power System Operations Manager to initiate the broadcast of a brief e-mail or SMS

message to a wide distribution list of stakeholders. It would be envisaged that this would be done within 5 minutes of the Manager have assessing the impact of a major power system event. This would be followed by a more detailed market notice within 15 minutes.

- Upon receipt of advice of any circumstances which might affect power system security either from a registered participant under Rule 4.8.1 or from other operational sources, NEMMCO will issue a Market Notice that it has been made aware of such circumstances even if a decision is made at that time that the likelihood of the event is not significant enough at that time to trigger a reclassification.

We note that the AER intend to propose Rule Changes which make it clear that NEMMCO has full responsibility for the reclassification process and to make the reclassification process more transparent, rigorous and consistent. NEMMCO has at all times understood that it has full responsibility for reclassification but stands ready to participate in the consultation process to establish Rules to deliver the AER's goals.

2. Load Shedding

NEMMCO and all the NEM jurisdictional representatives are well advanced on a review of the NEM wide Automatic Under Frequency Load Shedding scheme (AUFLS). The objectives of the review are to achieve equity and effective operation under a wide range on conditions. On two occasions in the life of the NEM the AUFLS has averted a very widespread disturbance. The AER's recommendation to establish formal and effective communication processes between all parties involved in load shedding will be included in the AUFLS review and development work.

3. Load Restoration

A number of opportunities for improvement regarding the effective operation of NEMMCO's processes and procedures in the management of load restoration were identified in the NEMMCO report. A number of initiatives have subsequently been undertaken or are in progress in order to improve the management of load restoration. In particular:

- The constraint library has been enlarged to more effectively address situations where islanding takes place away from regional boundaries.
- During the incident the reserve maintained by NEMMCO to avoid under frequency load shedding, determined by the requirement under the Frequency Operating Standard, was that the loss of the largest generating unit would not result in under frequency load shedding. NEMMCO is developing a submission to the Reliability Panel to seek its views as to the appropriateness of this approach when load is still required to be restored. To this end NEMMCO is currently undertaking an analysis of the possible advantages and disadvantages of an alternative approach.
- NEMMCO is also including in its on going control room training, a session to emphasise the need to increase regulation requirements significantly above the standard levels during load restoration to cater for the uncertainty in the actual timing of such load restoration.

- To assist in decision making during load restoration events, NEMMCO is upgrading its general guidelines for load restoration to further assist in identification and choice of options. The guidelines will emphasise the need to maintain a flexible approach and will emphasise the need to be prepared to change from one approach to another if unexpected difficulties arise and if possible to run compatible options in parallel. Overall the guidelines will emphasise the goal of minimising unserved energy while adhering to the Power System Security and Reliability Standards issued by the Reliability Panel. These guidelines are expected to be ready by end of September 2007.
- As a longer term initiative, NEMMCO will develop improved analysis tools to assist operational staff in evaluating the rate at which load can be progressively restored given the prevailing generating capacity, demand and FCAS reserves.
- Further to our report it is evident that there are different policies adopted by the TNSPs on when transmission lines can be manually reclosed following the locking out of an automatic reclose attempt. These policies can have an impact on the time to restore system capability and thus load restoration times. NEMMCO is facilitating discussions with TNSPs to ensure relevant information on reclose risks is shared between those setting these policies.
- Finally, as noted in the AER report, the Demand Offset Facility (DOF) which is designed to assist dispatch in these situations could not be operated by the NEMMCO Control Centre. To address this problem, further training has been conducted on the existing interface for the DOF. The interface has also been modified to address the issues which created difficulties on 16 January and this new version is currently under test and should be ready for release shortly. A second round of training will then be conducted on the revised interface.

4. VoLL Override

There are various interpretations of the Rule provision on setting the VoLL override condition. NEMMCO agrees with the view of the AER that the current Rules cannot be effectively implemented manually under power system emergency conditions and supports the recommendations for Rule changes.

5. Intervention Pricing

NEMMCO did not initiate intervention pricing following the directions issued on 16 January and in order to implement intervention pricing in similar events, NEMMCO is undertaking the following actions:

- Recently introduced changes in the Market Management Systems to improve flexibility in developing appropriate constraints to trigger intervention pricing.
- Commenced a review of the current interface for triggering intervention pricing to make the operation of intervention pricing more intuitive and therefore more suitable for use under stressed conditions.
- Increased refresher training on the triggering of intervention pricing.

6. Conclusion

NEMMCO is available to brief the AER further on these initiatives should this be required in order that the AER may confirm that the actions and timetable are adequate and appropriate.

Finally, to address your requirement for NEMMCO to report to the Market on these issues I seek your agreement to publish this letter on our website.

Yours sincerely



LESLIE V HOSKING
Managing Director and
Chief Executive Officer