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Mr Andrew Reeves
Utilities Commissioner
Utilities Commission
GPO Box 915
Darwin NT 0801

Dear Andrew,

**Re: Review of Electricity System Planning, Monitoring and Reporting –
Power and Water's Response to Issues Paper**

I refer to the Commission's Issues Paper on its 'Review of Electricity System Planning, Monitoring and Reporting' (Review), released in December 2010. Please find attached Power and Water's response to the Review's Issues Paper.

Structural and organisational issues have not been addressed by this Review. Power and Water is of the view that the planned Review of Electricity System Planning and Market Operation Roles and Structures would have informed and provided guidance to some of the organisational impacts implicit in this Review.

Power and Water anticipates that the Commission's purpose in recommending any new or revised approaches to system planning, monitoring and reporting will be focused on benefits to electricity consumers, rather than having a collection of data sets, reports, and regulatory obligations, some with overlapping information and requirements. Quite clearly, there are already numerous methods by which the Commission maintains oversight of the Territory's electricity market.

An appropriate balance also needs to be achieved between the required investments and funding levels.

If you would like to discuss any issues arising from this response, please contact Ms Djuna Pollard, Manager Regulation, Pricing and Economic Analysis on (08) 8985 8431.

Yours sincerely



Andrew Macrides
Managing Director
31 January 2011

GPO Box 1921, Darwin, NT, 0801

**REVIEW OF ELECTRICITY SYSTEM PLANNING,
MONITORING AND REPORTING**

**SUBMISSION BY POWER AND WATER IN
RESPONSE TO ISSUES PAPER BY THE NT
UTILITIES COMMISSION**

JANUARY 2011

This report contains 8 pages

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1 Introduction

- 1.1 Instead of responding directly to the questions raised in the Issues Paper, Power and Water has more generally responded to the issues raised under the categories of system planning, monitoring and reporting. Before discussing these, there are a number of higher level concerns that Power and Water wishes to draw to the Commission's attention.
- 1.2 First, it should be acknowledged that since 2008 Power and Water has been heavily involved in various reviews and inquiries, which have resulted in a range of recommendations. A number of these recommendations have been implemented and once fully implemented will go towards aligning the NT with regulatory arrangements in the NEM and achieving good electricity industry practice.
- 1.3 Second, it is unfortunate that the structural/organisational issues have been excluded from this review as there is a real risk that additional planning, monitoring and reporting requirements will be established with limited to no reference to their organisational impacts. Power and Water's view is that the planned Review of Electricity System Planning and Market Operation Roles and Structures would have informed and provided guidance to some of the organisational impacts implicit in this review.
- 1.4 Third, the Issues Paper focuses on the alignment of reliability targets, system planning and investments; however it must also be recognised that an appropriate balance needs to be achieved between the required investments and funding levels. Power and Water considers that this is best achieved during the network price determination process and retail electricity price review.
- 1.5 Fourth, it is a little concerning that the Issues Paper raises some very large issues, such as the use of an "Un-served Energy" reliability target to set minimum reserve levels for generation, the possible introduction of AEMC-like distribution network planning requirements, and possible AER-like technical compliance frameworks, without providing any detail on how these might be adapted to the Northern Territory environment. In each of these cases, significant detail and consultation has been undertaken within the NEM before implementation. Power and Water anticipates that similar opportunities will be available in the Territory, and Power and Water will undertake a more detailed gap analysis when further details of the Commission's proposals are known, that is, after the release of the Draft Report in March 2011.
- 1.6 Overall, Power and Water anticipates that the Commission's purpose in recommending any new or revised approaches to system planning, monitoring and reporting will be focused on benefits to electricity consumers, rather than simply creating additional collection of data sets, reports, and regulatory obligations, some with overlapping information and requirements.

2 Planning

- 2.1 Power and Water is further developing its load forecasting capabilities and is currently undertaking work aimed at improving its understanding of the factors impacting electricity demand in the Darwin-Katherine, Tennant Creek and Alice Springs systems. This includes a more definitive understanding of the influence of weather on demand across the three systems. Elements such as weather correction (short term), econometric modelling (long term) and external validation will also be considered, where appropriate and cost effective. Merging of various forecasting methodologies is also being contemplated, taking into account the different business imperatives and technical requirements of Power and Water's separate business units.
- 2.2 The System Control Technical Code, Network Connection Technical Code and Network Planning Criteria are approved by the Commission and set the current reliability and security standards applying in the Northern Territory's regulated electricity market systems. With regard to the Network Connection Technical Code, the Commission states that the Territory's operating criteria are generally similar to the criteria outlined in the National Electricity Rules.
- 2.3 To the extent possible, Power and Water's Generation and Power Networks businesses undertake planning and investment decisions to ensure that reliability and security standards are met, particularly where these are set according to Australian Standards or accepted industry practice. However, no utility can guarantee uninterrupted electricity supply, and the cost to do so would be prohibitive. As the Commission has acknowledged, there is a trade-off between the benefits to customers of higher standards of reliability and security and the higher capital and operating costs required to achieve the higher standards.
- 2.4 The Network Planning Criteria is currently being reviewed by Power Networks. The proposed amendments will be circulated to system participants for comment and made publicly available. The revised Criteria will then be submitted to the Commission for approval and published. Power Networks also plans to review the Network Connection Technical Code over the next year, and to revamp and improve its 5 Year Network Management Plan to incorporate the requirements of the annual Power System Review.
- 2.5 The generation market in the Territory is open to competition, and the fact that sustainable competition has failed to emerge has not been due to any direct actions by Power and Water, but rather due to market size, market structure and fuel supply considerations. Power and Water Generation is required to consider and invest in supplier of last resort arrangements, adding costs to its business.
- 2.6 The Commission states that regulatory measures, such as the regulation of service performance or planning processes, might be needed to ensure that acceptable service performance is maintained by Power and Water Generation, and that investment is efficient and effective. Regulation of service performance already occurs through annual Standards of Service reporting, while the annual Power System Review should identify any gaps in generation investment and when new capacity is required in the Territory. If the Commission were to take a greater role in generation investment, this would conflict with the current responsibilities of the Power and Water Board and the Executive Management Team.
- 2.7 As noted in the Issues Paper, the regulatory reset process to determine access charges and revenues allows the Commission to assess the prudence and efficiency of Power

Networks' capital and maintenance programs. The option of adopting a forward looking building blocks approach for the next network price determination process would align with standard regulatory practice. In addition, annual reporting against the agreed minimum standards in the Standards of Service Code demonstrates performance against networks related reliability and security of supply standards. It should also be recognised that this process should also deliver a cost reflective tariff or a Customer Service Obligation payment.

- 2.8 As advised to the Commission in its initial submission for the 2009-10 Power System Review, Power and Water's Statement of Corporate Intent (SCI) provides the Corporation's strategic direction. The Board approved capital and maintenance programs in each year's SCI emanate from the priorities and service and reliability targets in each Business Unit's 5 year Business Plan and 20 Year Outlook, as approved by Power and Water's Managing Director. Individual projects on the Capital Investment Program are subject to the Capital Program Governance procedures and business case review.
- 2.9 Power and Water continues to improve the planning, management and control of its capital and maintenance programs. These improvements focus on the quality and control of project estimates, budgets and actual costs, project milestones, and effective management of key risks. Power and Water is in general agreement with SKM's conclusions and recommendations in its Draft Report following its review of Power and Water's capital and maintenance programs, and is already addressing a number of the recommendations as part of its capital and maintenance planning processes.
- 2.10 For example, a new General Manager Program and Portfolio Management position has been established, covering both capital and non-capital programs and projects. A specific focus of the role will be to develop and implement best practices on project and program management services across Power and Water's program and its portfolio of projects. This includes:
- optimising portfolio value;
 - maintaining stewardship of program/project data;
 - portfolio/program reporting;
 - setting portfolio/program standards; and
 - building project management capability.
- 2.11 The Asset Management Capability (AMC) project continues to develop and roll out improvements to Power and Water's asset management systems, processes and practices. Key activities during 2010-11 include refining the corporate asset management strategy and policy; establishing consistent asset management roles and structures across Power and Water; cleansing and converting available asset information; and roll-out, including training of new processes and supporting Asset Management and Geographic Information Systems.
- 2.12 Initially, improved asset performance depends on the delivery of the capital and maintenance programs outlined in the 2010-11 SCI. In the medium term, the solution and tools provided by the AMC project will provide Power and Water with a more detailed understanding of asset condition, criticality and capability. This knowledge supports development of improved asset management strategies and detailed plans to achieve service level, reliability and supply security targets.

3 Monitoring

- 3.1 Power and Water places a high level of importance on meeting its regulatory and technical compliance obligations. In working with the Commission to evidence its existing compliance processes, and in responding to proposals for additional requirements, Power and Water is mindful of the need to ensure that the benefits to consumers outweigh the costs. This, presumably, is also an important consideration for the Commission.
- 3.2 The monitoring activities currently supported by Power and Water include the following:
- Annual Licence Returns – Power and Water provides a statement that it is not aware of any issues that would compromise its capacity to hold the following electricity licences: Generation, Network, System Control and Retail;
 - Annual Audit of Compliance and Operations – an external assessment is undertaken to report on Power and Water's compliance with licence and Ring-fencing Code obligations. The scope of the annual audit is agreed with the Commission, and in 2009-10, compliance with the System Control Technical Code was also tested by examining compliance practices and outcomes for a sample of obligations. The General Managers of each Business Unit, as licensees, also provide an annual certification that they are not aware of any breaches of their licence conditions or of the Ring-fencing Code; and
 - Annual reporting under the Standards of Service Code, whereby reliability performance data is collected and analysed to determine performance trends. Power and Water has provided comment to the Commission on its current examination of options for revising the Territory's standards of service framework as part of its Review of Electricity Standards of Service.
- 3.3 Power and Water has recently created and filled a Senior Manager Risk and Compliance role to develop, implement and provide ongoing management of a corporate-wide compliance framework. A Compliance Management Strategy and Compliance Policy have been approved by the Corporation's Board and will be formally communicated and implemented across Power and Water. The framework incorporates regular updates to the Executive Management Team, half yearly updates to the Board and an annual review. The Compliance Management Strategy and Compliance Policy documents are intended to better align Power and Water's practices with AS 3806 standards.
- 3.4 The Commission has included a new licence condition in Power and Water's Generation Licence requiring the Corporation to establish and maintain a compliance process. The Commission also proposes to include the same clause in Power and Water's Network, System Control and Retail Licence. Power and Water supports the principle of having a compliance clause included in its licences, however, Power and Water contends that only relevant material breaches limited to the conditions of the licence should be notified to the Commission. This would be consistent with our current licences and with accepted practice in other jurisdictions.
- 3.5 The System Control structure has been re-assessed by the new Group Manager System Control, and as part of this, a Training and Compliance Specialist role has been created. This new position will focus on System Control's compliance of its regulatory obligations through regular audits and discussions with System Participants.

- 3.6 Power and Water agrees that clearly documented requirements and processes for investigation and reporting on incidents should support ongoing improvements in the reliability and security of the power system and distribution network. However, thresholds and triggers for reviews must be set to ensure only appropriate incidents are reviewed and reported. Power and Water has provided separate comments to the Commission regarding this.
- 3.7 The amended System Control Technical Code with respect to incident review and reporting must place obligations on System Participants to provide necessary information pertaining to events to System Control in a timely manner. This will assist in the review and reporting process. In addition, the changes to the System Control Technical Code must also require System Control to track the progress of the recommendations from the incident reports and provide the Commission with updates as part of its half yearly reports.
- 3.8 With respect to System Control ensuring generation and network reliability performance outcomes align with reliability and security standards, System Control plans to undertake an independent analysis of any new network or generation connection, including performance of connected plant and equipment if these are of concern. The review will be against both the System Control Technical Code and Network Connection Technical Code. In addition, routine and comprehensive monitoring and reporting on system adequacy will be implemented. System Control is seeking to recruit appropriate power system engineering resources to perform these tasks.

4 Reporting

- 4.1 Power and Water provides information and reports to the Commission that allows it to monitor, and where appropriate report, on the performance of the Territory's electricity systems. These include:
- the annual Power System Review advising of power system performance and capacity;
 - the annual Standards of Service Report on the performance of Generation, Power Networks and Retail against the reliability and quantity of supply and customer service performance indicators in the Electricity Standards of Service Code;
 - the annual Northern Territory Electricity Market Information statement reporting key electricity use, generation capacity and network statistics;
 - six monthly System Performance reports by System Control advising on the technical performance and major incidents of the power system; and
 - investigation reports by System Control of major system faults and incidents.
- 4.2 The Commission lists a number of forward looking and historical performance reports that are undertaken in other jurisdictions. The Commission needs to clearly articulate what reports are required, the content of these reports, the frequency of publication and who is required to produce these. Significant information from a number of System Participants, and primarily Power and Water, is required to produce forward looking and historical reports.
- 4.3 Any proposals by the Commission to require reporting against new templates and the provision of new reports needs to consider the organisational impacts on Power and Water, and ultimately, whether there will be benefits to electricity consumers. Power and Water reserves its right to comment on any new reporting requirements once the Commission has finalised its detailed proposals.