

Dear Ministers

Proposal to review national emergency management arrangements

In considering the implementation of the Australian Energy Market Operator (AEMO), the Standing Committee of Officials (SCO) has identified the need to review arrangements for the management of emergencies in the national energy markets. There are currently separate arrangements in place in the electricity and natural gas supply systems. With the creation of a single market operator and the convergence of the gas and electricity markets, it is an appropriate time to consider the best emergency management arrangements for the future.

While the emphasis of the proposed review will be on electricity and gas, it will also identify linkages with liquid fuel markets and emergency measures in that sector.

At the AEMO Implementation Steering Committee meeting on 20 August 2008, SCO agreed to establish an Energy Security Working Group to undertake this review. In particular the Group will be asked to:

- review the current separate and different emergency management arrangements for gas and electricity;
- advise on appropriate emergency management arrangements to apply after the commencement of operation of AEMO;
- identify opportunities to harmonise gas and electricity emergency response arrangements (organisational and protocol);
- advise on synergies and opportunities for closer integration between electricity and gas emergency management arrangements and those for liquid fuels under the National Oil Supplies Emergency Committee;
- determine the appropriate process for dealing with emergencies affecting more than one jurisdiction, or more than one energy form; and
- provide advice to the MCE on the appropriateness of government powers to deal with national energy sector emergencies.

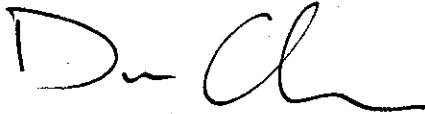
I enclose for your information the Terms of Reference adopted by SCO for the review.

SCO has agreed to the Commonwealth providing secretariat support and chairing the Working Group. Appointments to the Working Group have been finalised in consultation with your SCO representative and market operators.

It is anticipated that the Working Group will deliver a draft work plan for consideration by MCE by the end of 2008 with the review completed by August 2009.

On behalf of SCO, I will report back to you on key outcomes of this review. If you require any further information on this matter, please contact Dr Chris Locke, General Manager, National Energy Market Branch, who will Chair the Working Group. Dr Locke can be contacted on 02 6276 1512 or by e-mail: chris.locke@ret.gov.au.

Yours sincerely



Drew Clarke
Chair
MCE Standing Committee of Officials

3 October 2008

Draft Terms of Reference
Energy Security Working Group

Background

Ensuring the security of energy supplies is critical to supporting economic and social activity in Australia. Even short-term disruptions to supplies can have significant economic and social impacts. One of the key MCE objectives is to provide efficient, effective management of major energy supply shortages and to minimise impact of such shortages on the economy and community.

MCE does not have a direct responsibility in energy supply crises. If intervention is required, State and Territory governments have constitutional responsibility for planning and coordinating emergency responses within their jurisdictional boundaries. This includes the use of jurisdictional emergency powers, which as a rule will be used only after financial and market arrangements have been exhausted. For potential major energy supply disruptions affecting more than one jurisdiction, national advisory committees are activated to facilitate cross-border communication and coordination in liquid fuel and gas emergencies and, in the case of electricity, the system operator is used to provide a whole of market response in the National Electricity Market.

- ⇒ **Natural Gas** (National Gas Emergency Response Advisory Committee (*NGERAC*)) – The primary function of NGERAC is to advise the MCE and jurisdictions on effective responses to major natural gas supply shortages. Jurisdictional Ministers may exercise emergency powers, in accordance with their jurisdictions' legislation. These powers include directing the production, transmission, distribution, sale or use of natural gas. NGERAC members consist of Commonwealth and jurisdictional officials, gas market operators, NEMMCO, gas supply industry representatives and major energy users.
- ⇒ **Electricity** (National Electricity Market Management Company (*NEMMCO*)) – NEMMCO has responsibility for NEM system security under the National Electricity Law and Rules. NEMMCO conducts its Emergency Management activities in co-ordination with Jurisdictional Responsible Officers (JRO) under the National Electricity Market Emergency Protocol agreement. JROs manage communications and other elements of the issue through their relevant Energy Minister. Under the emergency management protocol, management of an emergency can transfer from the market operator to governments through the JROs in circumstances where this is warranted.
- ⇒ **Liquid Fuels** (National Oil Supplies Emergency Committee (*NOSEC*)) - NOSEC is the main executive channel through which Australian Governments, in cooperation with the petroleum industry, formulate the overall management response to a widespread fuel shortage. NOSEC reports to the Ministerial Council on Energy through the MCE SCO. Members of NOSEC include the Commonwealth, Jurisdictions, and petroleum industry representatives.

These national emergency response arrangements are managed cooperatively through Memoranda of Understanding rather than within a comprehensive legislative framework. While the individual advisory committees and electricity system operator were well founded, they have been developed through different forums over time and have distinct roles and specific

objectives. Their emergency responses are generally limited to addressing the relevant energy supply shock.

An important issue for consideration is the management of a national scale emergency. The increasing use of gas for electricity generation may increase the risk of joint gas and electricity supply problems across the NEM and interconnected gas market. The establishment of AEMO and its assumption of responsibilities for electricity and gas market operation has created an opportunity for MCE to review the consistency and the degree of inter-linkage between the different national emergency response measures and consider the framework within which MCE might coordinate and communicate in a national scale emergency.

On the issue of liquid fuels, the recent major gas shortages in Western Australia have demonstrated the degree to which fuel switching (primarily gas to diesel) may occur during an emergency. An appropriate framework may therefore be required for managing joint gas/electricity emergencies or joint gas/liquid fuel emergencies. The communication and coordination requirements of this type of emergency may be greater than is envisaged in the individual emergency protocols.

Effective management of multiple emergencies will require the efficient use of technical resources and the ability to understand and take into account interactions between the gas, electricity and liquid fuel systems and markets. This will reduce the risk that efficient options are overlooked during an emergency.

It will therefore be important to ensure that NGERAC, VENCORP, and NEMMCO (later AEMO) and potentially NOSEC have clear established emergency management procedures and access to each other's technical experience and expertise. This cross-collaboration should be reflected in their respective protocols.

The recent major gas shortages in Western Australia also highlighted the importance of ensuring governments and affected industry are well informed, and that emergency management actions are well coordinated. It is therefore important to consider mechanisms to ensure that decisions are well informed, and powers are appropriate to deal with joint emergencies.

Terms of Reference

The MCE Standing Committee of Officials will establish an Energy Security Working Group to manage the review of national energy sector emergency management arrangements. The Working Group is to be comprised of officials from jurisdictions and market operators. The main focus of the Working Group is to advise the Australian Energy Market Operator (AEMO) Implementation Steering Committee (ISC) within six months on an appropriate structure for electricity and gas emergency management with consideration given to:

- a review of current arrangements to manage electricity and gas emergency responses, and the appropriate role for AEMO in managing emergencies;
- the consistency and the degree of inter-linkage between the different national emergency response mechanisms and scope for harmonisation and simplification of the electricity and gas emergency response protocols;
- an assessment of the likely benefits of a common approach to national emergencies;
- the adequacy of information provided to industry and governments from current emergency response procedures;
- the effectiveness of current arrangements to facilitate communication, coordination and data sharing between the different national emergency bodies; and
- potential synergies between electricity and gas emergency management, and linkages to those for liquid fuels.

Subsequently the Working Group is to advise SCO on the MCE's potential role in energy emergency management, including:

- the circumstances which might qualify as a "national" energy emergency;
- the appropriateness of powers currently available to the MCE in its own right or through its member Ministers to deal with emergency situations;
- the potential role for MCE in coordination of responses to national energy emergencies;
- the adequacy of information flows to the MCE to inform decision making in emergencies; and
- actions which the MCE might take to assist management of energy emergencies.

The MCE SCO notes the importance of the ESWG engaging with industry in undertaking this review. In particular, the ESWG is to consult with groups relevant to managing of emergency arrangements including: National Gas Emergency Response Advisory Committee (*NGERAC*); National Oil Supplies Emergency Committee (*NOSEC*); Gas Market Leaders Group (*GMLG*); and Responsible Officers/Transmission Network Service Providers (*TNSP*).

The ESWG is to have regard to the views and advice of stakeholders in preparing its findings.

