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Australian Energy Market Commission

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ERC0278 – System Restart Services, Standards and Testing

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) consultation paper on System Restart Services, Standards and Testing.

AGL is one of Australia's leading integrated energy companies and the largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant retailer of energy and provides energy solutions to over 3.6 million customers in New South Wales, Victoria, Queensland, Western Australia and South Australia.

Following the black system event in South Australia in 2016, a number of issues were identified with the process for re-energising the system using System Restart Ancillary Services (SRAS). The rule change requests from AEMO and the AER seek to address these issues.

A black system event has a high impact on customers, market participants and the wider economy. SRAS assists with the re-energisation process and is an important tool for AEMO. However, it is important to keep in mind that these are low probability events and it is important to weigh the costs of SRAS against the additional value it provides. Despite SRAS providers failing during the South Australian event, AEMO and market participants were able to re-energise the system in six hours.

AGL is supportive of making cost efficient improvements to SRAS. We consider the current framework to be robust whereby the Reliability Panel sets the System Restart Standard and AEMO procures services to meet that standard at the most efficient cost. Should changes be made to the definition of SRAS to include restoration services, AGL considers the System Restart Standard is still the most appropriate place for the system needs to be defined. AEMO should continue to procure services with a least cost approach.

With regard to black system tests involving market participants, AGL considers that these could be valuable exercises when carried out appropriately and would provide greater confidence in SRAS capability. However, mandatory participation without compensation or indemnification is a significant cost and risk for market participants. AGL makes some suggestions as to how the costs and risks for participants could be managed in **Attachment A**, along with further comments on the issues raised in the consultation paper.

If you have any queries about this submission, please contact Jenessa Rabone on (02) 9921 2323 or JRabone@agl.com.au.

Yours sincerely,

Chris Streets

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Attachment A

Expanding the definition of SRAS

AEMO has proposed that the definition of SRAS be expanded to (i) allow non-generators to provide system restart services and (ii) include services that assist with system restoration (not only system restart services). AEMO expects that this would improve competition for the provision of system restart services and improve the speed at which a black system event could be addressed.

As a general principle, AGL is supportive of appropriately valuing and compensating services that are necessary for the efficient, reliable and secure operation of the market. Ideally this should be completed through a technology neutral and competitive process, to minimise the costs of delivering those services.

AGL is supportive of a technology neutral approach to the provision of SRAS. If system restart services are able to be safely and reliably provided by a non-generator, there is no reason to restrict SRAS provision to generators.

The merits of allowing AEMO to procure specifically for system restoration services are less straight forward. System restoration services such as reactive power and voltage control can help to prevent tripping the network during a re-electrification process. However, it's unclear how or why AEMO would procure these services as part of SRAS, given these types of capabilities are already included to a certain extent in the Generator Technical Performance Standards. For example, a question exists around whether restoration services would be procured along AEMO's system restart paths. If these change over time, it may undermine investment decisions that are relying on SRAS contracts. AGL seeks further clarification on the specifics of the proposal, including the services that AEMO envisages would be system restoration services, in order to provide feedback.

Changes to the SRAS procurement framework

AEMO has proposed that SRAS should be procured in accordance with the National Electricity Objective (NEO), and not the Procurement Objective. AEMO considers that this would allow it to consider a wider range of factors (not only cost) when deciding what to procure, such as whether a more reliable service could be obtained by entering into a longer-term contract with a provider that is more expensive.

AGL considers the current decision-making frameworks to be robust and would not support fundamental changes. The Reliability Panel considers a wide range of factors to develop the System Restart Standard, which include participation by AEMO through its advisory function on the Reliability Panes. AEMO then procures adequate levels of SRAS to meet the Standard at lowest cost.

AEMO's view in the rule change request is that it is unable to enter into long term SRAS arrangements. AGL considers that if a long-term arrangement is a more cost-effective option than other options, then AEMO would be able to justify that contract. We do not consider the Procurement Objective to be the issue. If the issue is that an SRAS provider is not reliable enough, the SRAS Guidelines could be amended to set expectations around reliability. If there is something in the rules that otherwise prevents AEMO from entering long term contracts, this could be specifically clarified instead of changing a fundamental aspect of the framework.



AGL does not consider there to be an issue to be addressed here. It is appropriate that AEMO procure SRAS on the basis of cost effectiveness.

In addition, we would be particularly concerned that removing the Procurement Objective would allow AEMO to prioritise reliability and/or security over cost. We would also be concerned with AEMO underwriting investment in new black start technologies should there be existing capability that is available at lower cost. As discussed above, it is vital to get the right balance when mitigating the risk of high impact but low probability events.

Should the definition be expanded to include restoration services, we envisage that the Reliability Panel would set out requirements in the System restart standard, and again AEMO would procure these services at minimum cost.

Testing of SRAS

AEMO has proposed that market participants be required to participate in testing of system restart paths. AEMO considers this necessary to resolve unexpected issues that could occur during an actual restart process.

The proposal does not provide further explanation around the circumstances in which testing would be carried out. For example, it is unclear whether this would be an expansion of the annual testing of SRAS providers, or an ad hoc exercise that may be carried out less often. The extent of the requirements is also unclear. For example, is the purpose to test whether an SRAS provider can successfully reenergise an electrical bus, or is it intended to capture and test the capability of market participants (eg starting up a generator)?

AGL appreciates the benefits that may be achieved through system restart tests. Not only would it provide a live test for the capability of the SRAS provider, but it could help to improve learning and confidence for AEMO, networks and SRAS providers regarding black system events.

There are significant costs and risks associated with participating in these tests. It requires resources and planning, there is potential lost opportunity cost from participation, and there is also a risk that equipment could be damaged from the stress of the testing. As a worst case, testing also carries a risk of tripping and causing an outage, which would be disruptive and costly for the wider market.

While there are risks that need to be managed, AGL is open to being part of these tests because of the system benefits, where it is not overly disruptive or damaging to business operations and the plant and market risks are appropriately managed. Specifically:

- Participants should be able to decline participation or negotiate the date of the test. Timing can be incredibly important to help mitigate the costs and risks involved in testing.
- AEMO should provide an engineering proposal to assist participants with preparing for a test.
- Participants should be indemnified for any plant damage or losses that occur as a result of the testing.

It is likely that AEMO will seek participation from the same small group of participants that have the required equipment each time it carries out this testing, so if not compensated, the impacts on those



participants could be unfair. The network is able to recoup costs through its regulated revenue, and the SRAS provider receives compensation through that contractual arrangement.

Generator access standards

AEMO has proposed that the Generator Technical Performance Standards (GTPS) be amended such that the minimum access standard would be to provide at least one system restoration service (to be specified in the SRAS Guideline), and the automatic access standard would be to provide all the system restoration services. AEMO notes that reactive power and frequency control could be system restoration services, but these are not otherwise identified or defined.

This proposal would drive all generators to have system restoration capability through a mandatory mechanism (the GTPS) in addition to AEMO's other proposal to introduce a market mechanism (services procured through SRAS).

AGL suggests that this proposal is considered carefully, given the risk that such requirements cause unnecessary costs for new connecting generators and create barriers to entry.

We also suggest that AEMC carefully consider the interactions between a mandatory mechanism through the GTPS and AEMO's proposal for procuring system restoration services. At face value these proposals appear duplicative. This may lead to higher costs compared to relying solely on the market mechanism to drive an efficient level of services being available during system restart events.

Roles and obligations of participants

AER has proposed that the roles and obligations of participants should be clarified and defined with regard to the SRAS. AGL has no concerns with this suggestion in principle.

Information provision and communication protocols

AER has proposed improvements to the communication and coordination between parties involved in SRAS provision. AGL considers this proposal to directly address the issues that were experienced during the South Australian system black event and would help to prevent such issues occurring again in the future.