



EnergyAustralia

LIGHT THE WAY

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Dear Commissioners,

AEMC 2019, System Restart Services, Standard and Testing Rule Change, Consultation Paper

We welcome the opportunity to comment on the Commission's consultation paper on the proposed rule changes related to System Restart Services.

EnergyAustralia is one of Australia's largest energy companies with around 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own, operate and contract an energy generation portfolio across Australia, including coal, gas, battery storage, demand response, solar and wind assets with control of over 4,500MW of generation capacity in the NEM.

We recognise the effort taken by the AER and AEMO to identify changes that may be required to the System Restart Ancillary Services (SRAS) rules, predicated on analysis of AEMO's experience utilising the existing rules and processes in South Australia in September 2016.

We support AEMO's efforts to broaden the scope of SRAS, both in terms of services procured and eligible service providers. This will enhance competition in the market and provide AEMO more options. However, we do not support the uneconomic proposal by AEMO to introduce mandated capabilities through Generator Technical Performs Standards (GTPS) as these will force inefficient investment in what is likely to be under, or unutilised, capability. In regard to enhanced testing and changes to the procurement requirements it is our view that AEMO needs to provide more information about why these changes are required and the benefits they will provide.

In addition to our response to the four substantive changes that are proposed, we recommend some additional changes to the SRAS rules for the AEMC to consider.

1. Definition of System Restart Services

AEMO have proposed that the definition of SRAS should be broadened to incorporate potential new ancillary services, such as provision of reactive support or frequency control. These services would be in addition to the existing black start capability service. We support this suggestion as it enables AEMO to broaden its options for system restart and increases the range of assets able to provide support. This will serve to increase

competition, provide a means of valuing beneficial services and supporting investment in the required services. We expect that the new services will be in addition to the current services, resulting in a moderate increase in SRAS costs, but we envisage these additional costs will generate value for AEMO and market customers in providing system security and reliability. Where one provider is currently required to provide all services in a bundle, the new categories will allow other providers to supplement aspects of the support to create more options for AEMO in re-building the system.

In principle we support AEMO having the flexibility to define the services it procures based on identified need, allowing it to deal with changes in the system. However, the consultation paper does not clearly articulate what these services are likely to be, and this information would be helpful in assessing the suitability of AEMO or the AEMC as determining the service parameters.

We recommend that at a minimum the rules prescribe high level requirements that are placed on AEMO to ensure the processes used to identify and procure these services are clear and transparent. This should include provisions for information on the approach AEMO takes to identify requirements, the types of services that AEMO has procured, the types of services AEMO may procure and why these services have been chosen. Finally, the costs of services should be publicly available.

AEMO have also suggested that participants eligible to provide SRAS should be extended beyond generators to include other technologies and Network Service Providers (NSPs). We support further assessment of this suggestion as it has the potential to increase the range of providers and improve market competition, thereby reducing overall costs for customers. We stress that the inclusion of NSPs must be on a competitive basis (including ringfencing requirements) whereby they participate in the same tender process as generators and are considered on equal merits. We support this suggestion, provided the process for procurement is clear and transparent.

2. Procurement of System Restart Services

EnergyAustralia have concerns around AEMO's proposal to change the requirements from procuring SRAS at 'least cost' to procuring with regards to the National Energy Objective (NEO). We consider that AEMO needs to provide more information on the compromise they are making between costs and capability. Industry must have confidence that AEMO will have appropriate processes in place to structure its use of discretion and judgement to ensure they are providing value for money for customers and not merely seeking to minimise their own risks by obtaining greater control.

3. Testing of System Restart Services

We do not think AEMO has made a substantive case as to why testing of restart paths is required. Historically AEMO has relied upon modelling to predict and assess system restart paths. It is unclear to us why this is no longer sufficient and why AEMO no longer has confidence in its modelling outcomes. Arguably the experience of system restart in September 2016 could be addressed with less invasive measures including improved co-ordination, communication and greater transparency between AEMO, TNSPs and Generators.

Such testing is highly invasive and expensive. It would require outages of both SRAS assets and affected third party assets, in addition to network outages with the potential for substantial market impacts. Any required changes to SRAS testing should allow an avenue for affected third party participants to claim compensation.

We request that AEMO show cause for these changes by better articulating its concerns with the current process and specifying what benefits additional testing will deliver and show cause for these changes.

We suggest that a focus on productive discussions and activities between AEMO, the relevant TNSP and SRAS providers and third parties will strengthen AEMO's confidence in its procured services.

4. Changes to the Generator Performance Standards

EnergyAustralia has concerns about the efficiency and efficacy of AEMO's proposal to mandate system restart support service capability for new plants. The proposal disregards economic principles that underpin the market and provide value for customers by enabling the required services to be provided at least cost.

AEMO's approach in recent years has been to include an increasing number of requirements in the access standards. We have concerns that this approach fails to consider the economic ramifications of these actions and forces a generation business to make an irrational investment. AEMO does not require every asset to provide support to restart the system and it is inefficient to mandate all assets to have the capability.

Two examples of forced inefficient investment are:

- ❖ Distribution connected generators: These generators are unlikely to provide critical restart services, due to the complications of including another party in the process and visibility issues. Under the proposed rules they will be required to have invested in redundant capabilities.
- ❖ Generators located in very weak or remote parts of the transmission grid. While they may offer support services, these assets are unlikely to provide black restart services. Their ineligibility to provide black restart will preclude them from accessing the automatic standards negotiation process. This could create unnecessary delays in their development and connection process, increasing time and cost impacts.

Mandating the provision of support services, and raising the bar for the automatic standard is likely to increase barriers to entry for new plants by slowing down the connection negotiation process. These proposed changes also implicate existing assets that re-open negotiation on their standards due to plant changes that triggers clause 5.3.9. The changes could therefore serve as a barrier to expediently upgrading plants and could hinder developments if negotiation was required based on new minimum standards.

Further, by mandating the provision of services, the costs of provision will be concealed within the energy price (along with a myriad of other services that are currently not explicitly valued such as voltage control and dispatchability). This obscuration makes it

difficult to assess whether services are over or under procured and whether customers are receiving value for money. A more pragmatic and efficient approach is to allow investors to assess where investing in the capability is worthwhile and to provide their services to AEMO on a competitive basis. Generators actively consider their ability to provide system restart services when building an investment case. AEMO should clearly advise what capabilities and services it will value and allow market forces to determine which assets will be most cost effective in providing these services.

Finally, the AEMC has suggested there would be some positive externalities if all plants were required to have this capability. While this may be true, these sorts of unvalued externalities are hindering the ability of investors to invest in the types of assets the market needs. We are witnessing this in the provision of flexible generation and the provision of inertia and system strength, all of which are currently positive externalities provided by synchronous generation which is not explicitly valued, making it difficult to justify investment and continued operation, of assets providing these services.

5. Communications and Clarification of Roles and Responsibilities

EnergyAustralia support the proposals to improve clarity around roles and responsibilities, the objective of the Local Black System Procedures (LBSP) and communication protocols.

In particular, we support the Commission's position that the purpose of the LBSP is to provide information to AEMO about the likely performance of assets to consider when it develops its restart paths. We suggest that if there is confusion in the NER then this should be clarified.

Conclusion

We support AEMO's suggestion to expand the definition of SRAS as this will increase competition, diversify AEMO's options by providing flexibility and minimising risks, and create value add opportunities for assets that currently don't participate in SRAS. We see these services as providing an additional benefit to AEMO in re-building the system and as a means to strengthen the existing processes.

The remaining proposals are under-substantiated and do not appear to provide net economic benefits to customers. We recommend the Commission seek further details from AEMO as to why existing procurement and testing arrangements are insufficient. We also recommend the AEMC consider the economic costs of mandating superfluous generator technical standards that are ultimately paid for by customers. These are rarely used services which are not considered critical in a system restart event. With some assets unsuitable to provide the services in any case, the forced investment will bake redundant and opaque expenditure into the energy price, increasing costs for customers.

If you would like to discuss this submission, please contact Georgina Snelling on 03 9976 8482 or Georgina.Snelling@energyaustralia.com.au.

Regards

Sarah Ogilvie

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