



19 February 2015

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Mr Pierce,

National Electricity Amendment (System Restart Ancillary Services) Rule 2014

Alinta Energy (**Alinta**) welcomes the opportunity to make a submission in response to the Australian Energy Market Commission's (**AEMC**) draft rule determination on the *National Electricity Amendment (System Restart Ancillary Services) Rule 2014*.

Alinta is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta has around 2500 megawatts of generation capacity in Australia (and New Zealand) and a growing retail customer base of over 800,000.

Alinta is committed to contributing to energy market developments across Australia and in all regions of the National Electricity Market (**NEM**) as it pursues its forward growth strategy. In this regard and as one of the rule change proponents, Alinta is of the view that System Restart Ancillary Services (**SRAS**) forms an important element of system security and reliability.

Background and AEMC's draft determination

Under the current SRAS framework and procedures the reliability panel is responsible for determining the System Restart Standard (**SRS**) which establishes target timeframes for restoration and the reliability of SRAS. Once the standard has been determined it is then Australian Energy Market Operator's (**AEMO**) responsibility to procure enough SRAS to meet the technical and operational parameters of the SRS.

It was during the operation of this existing framework that several participants (including Alinta) came to the view that the existing regulatory SRAS framework provided insufficient functional separation between AEMO and the reliability panel. This led to a view that AEMO had the ability to seek to change the parameters when considering the size and scale of a major supply disruption, subsequently having the ability to procure less SRAS to mitigate a lesser SRAS requirement. This confusion over the existing SRAS functional responsibilities has led to the existing rule change process and broader considerations to improve the existing regulatory framework for SRAS services.

Alinta notes that the AEMC has made a *draft more preferable rule* which is a combination of the two rule change proposals submitted from the Australian Energy Market Operator (**AEMO**) and a group of NEM generators including Alinta. Alinta understands the AEMC's draft determination is seeking to achieve the following objectives:

1. Clarify the responsibilities and accountabilities of different bodies within the SRAS frameworks;
2. Clarify the nature of the event that SRAS is procured to mitigate;
3. Promote more competitive outcomes in SRAS markets; and
4. Increase the cost reflectivity of SRAS charges.

Alinta's views on the AEMC's draft determination

Alinta appreciates the opportunity to respond to the AEMC's draft determination and aside from the minor considerations outlined above, we are broadly supportive of the recommendations and direction of the draft determination. Alinta's specific views on the main tenants of the proposal are outlined below.

Effective Governance Arrangements

Alinta broadly supports the AEMC's draft determination as it will provide more effective governance arrangements for the procurement and management of SRAS. Alinta believes that the proposed rules will help clarify the responsibilities and accountabilities of the different regulatory bodies with respect to the procurement of SRAS. In this regard Alinta is supportive that the draft determination simplifies and clarifies that:

- The Reliability Panel's key function is to develop the SRS in order to meet the SRAS Objective. The SRAS Objective has been amended and is to minimise the expected economic costs of a major supply disruption;
- The level of SRAS procured is to mitigate the scenario of a NEM-wide major supply disruption through the independent restoration of each sub-network. This means that energy from other neighbouring sub-networks cannot be relied upon to assist in restoration;
- AEMO's key function is to use reasonable endeavours to procure sufficient SRAS to meet the requirements of the SRS **at lowest cost**; and
- The introduction of improved transparency and accountability arrangements which include a number of new reporting and consultation requirements which AEMO must report on annually, which allow participants to see what processes and the outcome of AEMO's procurement of SRAS for each sub-network.

Whilst broadly supportive of the aforementioned reforms, Alinta has some concerns over the terminology of "*procuring sufficient SRAS to meet the requirements of the SRS at lowest cost*" as the draft rule change is currently worded. Alinta is concerned that the lowest cost approach may incentivise the selection of SRAS services which can only meet SRAS requirements for a short period, which may not be sufficient to re-energise a region. Alinta would prefer to see a "*greatest net benefit*" approach which would deliver a closer alignment between the benefit customers receive and the National Electricity Objective. This would ensure that SRAS is procured which can meet a sustained black start event which would require several hours consistent generation to re-energise a region.

This minor concern aside, in Alinta's view these new arrangements represent a vast improvement on the previous framework which was characterised by ambiguities which made AEMO's obligations difficult to discharge. Importantly, these changes consolidate the relationship between AEMO and the Reliability Panel for the purposes of transparency and stability and allow for the parties tendering for SRAS to have confidence that AEMO will not alter arrangements or make late decisions regarding the nature of services required.

Procurement Process

Alinta notes the AEMC's decision to broaden the scope of methods of procurement available to AEMO. The *draft more preferable rule* removes the existing requirement for AEMO to procure SRAS only through a SRAS tender process, giving AEMO the ability to procure SRAS through whatever process it considers to be most appropriate. AEMO may still choose to continue procuring SRAS through an open tender process if they choose.

Broadly, Alinta supports additional flexibility in the manner in which AEMO chooses to procure SRAS services as long as the procurement process is competitive, transparent and the SRAS procured meets the technical SRS. Nonetheless, Alinta would hold concerns in this area if select participants were approached by AEMO to directly negotiate SRAS contracts, free from any competitive tension. Alinta notes that it is vital that there is confidence that SRAS investments will have an equal and ongoing opportunity to compete to provide services to a known standard through a competitive process. As such, whilst Alinta supports flexibility in the method of procurement, we consider that it is essential that the process of procurement remains open and transparent.

Regionalised cost recovery

Alinta notes the AEMC's draft recommendation to allow for regionalised cost recovery of SRAS costs. In Alinta's view SRAS markets like all other markets should incentivise new entry when signals justify that entry, and it is clear that new entry will likely be rewarded. Individual SRAS costs in regionalised areas is consistent with this principle. Additionally, rationalised cost recovery is more efficient and aligns with the beneficiary pays principle.

For these reasons Alinta is supportive of regionalised cost recovery and the AEMC's draft determination.

Efficient SRAS Market Outcomes

Market based competitive solutions should always be favoured over blunt regulatory approaches which often contain substantial costs of regulation. In this regard, Alinta agrees with the AEMC's finding that the introduction of a price arbitration model would dampen investment signals for participants to invest in SRAS and would likely lead to SRAS services being withdrawn from the tender process. Further, new entry will always be less appealing if the competitive process can be easily undermined by price arbitration at AEMO's discretion.

As such, Alinta welcomes the AEMC's dismissal of a price arbitration model in favour of market based procurement solutions.

Definition of primary and secondary service

The removal of the definitions of primary and secondary services increases AEMO's ability to procure a flexible range of services as best facilitates meeting SRAS obligations. Both generators and AEMO support this outcome.

Interim market issues - Implications of proposed changes on current SRAS processes

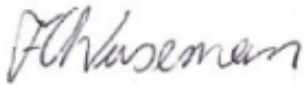
Alinta notes that currently AEMO is undertaking an existing procurement process for SRAS services effective 1 July 2015. In Alinta's view it is unusual to instigate a new tender process under the existing rules, given that the AEMC has outlined several areas of reform and clear deficiencies in the current arrangements. If AEMO instigates new contractual arrangements effective 1 July 2015, this may delay the implementation of the rule change and/or complicate existing SRAS processes.

Alinta considers it would be appropriate and sensible to allow for an extension of current SRAS contracts for a period of one year, during which AEMO, the AEMC and the reliability panel will have appropriate time to consult and implement the recommendations of the rule determination. Alinta understands that the AEMC has some scope in this area in regards to the draft transitional rule 11.77.7 which allows for an extension of existing SRAS contracts between agreeing parties. Alinta would encourage the AEMC to work with AEMO in this area as a matter of priority.

Conclusion

Should you have any queries in relation to this submission or earlier submissions please do not hesitate to contact Mr Anders Sangkuhl on, telephone, 02 9375 0962.

Yours sincerely,



Fiona Wiseman
Wholesale Regulation Manager