



Government
of South Australia

Department of
State Development

A718960

Mr Richard Khoe
Director
Australian Energy Market Commission
PO Box A2449
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Dear Mr Khoe

Thank you for the opportunity to comment on the Australian Energy Market Commission's (AEMC's) National Electricity Amendment (Compensation arrangements following an application of an administered price cap and administered floor price) Rule 2016 Additional Consultation Paper (Paper). The Department of State Development, Energy Markets and Programs Division (the Division) welcomes the further consultative paper and submits the following comments.

The Division is supportive of the inclusion of eligibility for ancillary services providers to claim compensation following an administered price limit event as identified in amendments to the AEMC's draft Rule to:

- Include the reference to "other services" (ie ancillary services) from the objective of paying compensation during an administered price limit event; and
- Include the eligibility for ancillary services providers to claim compensation.

The Australian energy markets are undergoing a significant transformation as the markets evolve to a low carbon energy supply, with significant investment in both large and small scale renewable energy capacity, declining energy consumption with relatively high peak demand and increasing gas prices.

In particular the South Australian energy market is facing the earliest transition towards a carbon constrained future. The Australian Energy Market Operator's (AEMO) recent South Australian Electricity Report indicates that 4,226 GWh, or 34 per cent of electricity generation in 2014-15, was produced by wind generation. In addition, the report indicates that South Australia has an estimated 663MW of installed small scale solar generation generating 857 GWh of energy, which is equal to 7 per cent of electricity generation in 2014-15.

AEMO's 2015 National Transmission Network Development Plan (NTNDP) recently highlighted in its discussion of inertia to the power system, that with the reduction of synchronous generation within South Australia the Heywood Interconnector will play a critical role in maintaining power system security and providing ancillary services from other regions.

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Network outages of the Heywood Interconnector during October and November 2015 resulted in periods where the separation of South Australia from the NEM was a credible risk. A credible separation risk requires AEMO to have arrangements and processes in place to ensure the security of the South Australian power system following separation from the NEM. On 12 October 2015, the first ever application of an administered price limit event in an ancillary service market occurred in South Australia. This was primarily as a result of a need to procure 35 MW of regulation frequency control ancillary services (FCAS) within the South Australian region for the duration of network outages needed for the Heywood interconnector upgrade. Over the period of time from 12 October 2015 until 26 November 2015, the cumulative price threshold was subsequently breached on 15 additional occasions, such that the administered price cap applied on 16 days in all South Australian ancillary services markets.

While in the past FCAS has generally been provided by conventional generating units, with the changing generation mix it may be more difficult to obtain FCAS. During the period above, South Australia only had three registered participants in the FCAS market, including the Northern Power Station which will close in March 2016.

The Division therefore considers that the National Electricity Rules need to provide the appropriate incentives for providers to participate in the FCAS market. The inclusion of eligibility for ancillary services providers to claim compensation following an administered price limit event is considered an appropriate incentive for such participation.

In reaching this conclusion, the Division is cognisant of:

- Direct costs incurred by the providers of ancillary services (which could relate to the increased wear and tear of generation equipment) in addition to opportunity costs which may not be realised during an administered price event.
- Compensation being recovered from market customers.
- Costs associated with loss of load in South Australia if insufficient local FCAS is available in the circumstance that South Australia is islanded from the rest of the NEM.

Should you require any further information or have any questions, please contact Ms Rebecca Knights on (08) 8204 1715 or Rebecca.Knights@sa.gov.au.

Yours Sincerely



VINCE DUFFY
EXECUTIVE DIRECTOR,
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