

20 February 2015

Mr John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Level 22
530 Collins Street
Melbourne VIC 3000

Postal Address:
GPO Box 2008
Melbourne VIC 3001

T 1300 858724
F 03 9609 8080

By online submission

Dear Mr Pierce

Draft National Electricity Amendment (System Restart Ancillary Services) Rule

AEMO appreciates the opportunity to respond to the AEMC's Draft Rule Determination on the National Electricity Amendment (System Restart Ancillary Services) Rule, published on 18 December 2014.

AEMO supports the principles underlying the Commission's draft more preferable rule.

The attached submission raises some issues for consideration by the Commission relating to the practical implementation of some aspects of the draft rule, and the transition process. It also includes suggested drafting changes to clarify the intent of the rule in a few key areas.

If you need further information or wish to discuss our submission or any other matter relating to the implementation of the rule change, please contact Mark Stedwell on (03) 9609 8563 or mark.stedwell@aemo.com.au.

Yours sincerely



Mike Cleary
Chief Operating Officer

Attachment: AEMO Submission in response to AEMC Draft Determination: National Electricity Amendment (System Restart Ancillary Services) Rule

AEMO Submission in response to AEMC Draft Rule Determination: National Electricity Amendment (System Restart Ancillary Services) Rule

This submission adopts the same abbreviations and definitions used in the Commission's draft determination and more preferable rule.

Executive Summary

The Commission's proposed more preferable rule helps to clarify the respective roles of the AEMO and the Reliability Panel in relation to SRAS procurement, and provides focused objectives.

We agree in principle with most of the Commission's draft conclusions, and the draft determination generally reflects a sensible position that creates some opportunity for competition to develop in the absence of wholesale changes to the SRAS framework. If a competitive market fails to develop under these conditions within a reasonable time, it may be that more fundamental changes to the procurement approach are required.

AEMO's comments on the draft more preferable rule are set out below under five headings: governance arrangements, acquisition of SRAS, AEMO reporting, efficient cost recovery, and transitional. Most of AEMO's comments relate to matters of clarification and detailed drafting, but there are two key issues AEMO would like to highlight for further consideration:

- Acquisition of SRAS – There remains a prospect of non-competitive outcomes in some sub-networks. AEMO is concerned that there may be an expectation that, in these circumstances, AEMO would acquire SRAS at any price. While this is not necessarily correct, we ask the Commission to consider clarifying AEMO's discretion not to acquire services. For example, as SRAS costs will be allocated on a regional basis, it would be appropriate to consult with the affected jurisdiction where AEMO considers that price outcomes are excessive.
- AEMO reporting – Some of the proposed AEMO reporting requirements duplicate other rules requirements, or may not need to be reported on an annual basis. For efficiency of process, and to ensure information given to the market is useful, we suggest that information is given to the market when the SRAS contract position changes (whether in terms of overall cost or continuing to meet the SRS).

Section 6 of this submission contains proposed drafting changes reflecting most of the suggestions discussed in sections 1 to 5.

1. Governance arrangements

1.1. Definition of objectives and major supply disruption

SRAS Objective

AEMO agrees with the Commission's analysis of the current SRAS Objective in section 5.1.1 of the draft rule determination. We support the Commission's proposal that the national electricity objective (NEO) should be the only express consideration for the Reliability Panel in determining the extent to which the SRS must seek to minimise the expected costs of a major supply disruption.

However, the proposed drafting of the SRAS objective creates an ambiguity. The words 'to the extent appropriate' could be read to refer to the need to have regard to the NEO, rather than the need to minimise costs. This can be clarified by a small drafting change.

SRAS Procurement Objective

AEMO is generally comfortable with the proposed SRAS Procurement Objective, but considers that it should expressly recognise the technical requirements that are likely to be included in the SRAS Guideline, which the SRS itself does not cover. This should reduce the risk of the objective being interpreted to mean that AEMO must acquire the lowest priced services with the reliability and capability to restart and energise supply in accordance with the SRS, even if they do not satisfy the detailed requirements of the Guideline. AEMO suggests that this could be clarified by including an obligation to have regard to power system security obligations (being the driver for the additional technical requirements). With this change, it would also be appropriate to reference the SRAS Procurement Objective in respect of AEMO's obligation to make the SRAS Guideline.

Major supply disruption

AEMO understands the Commission's intention is to confirm that a major supply disruption entails at least some loss of load. AEMO welcomes this clarification, but suggests that the proposed definition could be more explicit in this respect. As power stations also have connection points that can generally receive supply from the grid if required, the proposed criterion of loss of supply to at least one connection point means that a 'major supply disruption' would arguably still arise even where a loss of voltage only affects generation.

1.2. Reliability Panel and the system restart standard

AEMO accepts the Commission's draft findings in relation to aggregate reliability requirements in each electrical sub-network, the possibility of the standard diverging between sub-networks, and the restriction on allocating a service to more than one sub-network. While they represent changes to the current guidelines and procurement process, the proposals are workable and would create the potential for more efficient SRAS outcomes.

It may be beneficial for the rules (rather than the SRS itself) to further clarify that the restoration timeframe in the SRS is a procurement standard, given the potential for alternative interpretations highlighted by the Group of Generators' proposal. AEMO notes that the definition of system restart standard indicates that it is 'for the acquisition of system restart ancillary services', but the Commission may wish to consider whether confirmation in clause 8.8.3(aa) would be desirable.

1.3. AEMO's SRAS Guideline

The provisions for determining the boundaries of electrical sub-networks (proposed clause 3.11.8) can be incorporated into the requirements for the SRAS Guideline (clause 3.11.7). This would reflect AEMO's established practice of determining or reviewing the boundaries as part of the package of guidelines for SRAS, as any changes to the boundaries can affect other requirements, and vice versa.

Otherwise, AEMO accepts the Commission's proposed principles for determining the SRAS Guideline.

2. Acquisition of SRAS

2.1. SRAS definition

AEMO welcomes the AEMC's draft decision to remove the distinction between primary and secondary services.

2.2. Flexible procurement

AEMO notes the Commission's draft decision to remove the obligation to acquire SRAS through a prescribed tender process. Generally, AEMO expects that it will continue to seek offers to provide SRAS using a tender approach. However, additional flexibility may help to ensure the SRS is met on

a continuous basis, by enabling AEMO to use more cost-effective procurement methods appropriate for the circumstances, consistent with good governance principles.

While the draft more preferable rule may result in an improved procurement framework, a lack of effective competition for SRAS in some sub-networks may still affect the ability to efficiently acquire SRAS to meet the SRS. We note the draft determination that a price arbitration provision is not appropriate, but remain concerned that there is a real risk of non competitive outcomes. If AEMO is effectively a price-taker, some protection is needed to reduce the risk of consumers and generators paying for SRAS at any price.

As a minimum, AEMO's obligations and discretion as a buyer on behalf of other parties should be as clear as possible. AEMO considers the requirement to use 'reasonable endeavours' to acquire SRAS allows a degree of discretion not to acquire SRAS at a price that is disproportionately high, but it would be in the market's interest to frame clear and appropriate parameters around that discretion. A price cap is used in the energy and FCAS markets, and regulated procurement is used in NSCAS. In the absence of similar mechanisms for SRAS, we propose that the AEMC consider the option for AEMO, as an informed buyer and in consultation with the relevant jurisdiction, not to acquire SRAS that are priced at a non-competitive level. This is a similar concept to the provisions relating to reserve contracts in rule 3.20 and the RERT guidelines, and would be consistent with the regional recovery arrangements now proposed for SRAS.

We would be happy to discuss a suitable mechanism and guiding principles with the Commission.

2.3. Role of network businesses

Information and involvement by network business in the SRAS procurement process is essential to verify the extent to which a proposed SRAS can assist in meeting the SRS in an electrical sub-network. AEMO supports the proposed changes to clarify the roles and responsibilities of network service providers and prospective SRAS providers.

3. AEMO Reporting

3.1. Information on dispatch

The activities covered by the proposed procedures referred to in clause 3.11.10 of the draft more preferable rule appear to be comprehensively covered by clauses 4.8.12 and 4.8.15 of the rules. The procedures for dispatching SRAS to restart the power system will include confidential information and should not be made publicly available.

AEMO acknowledges that clause 3.11.10 is based on existing clause 3.11.6(a1), which refers to 'non-market ancillary services'. AEMO's view is that these requirements were only intended to apply to NSCAS and other non-market ancillary services excluding SRAS. This appears to have been a drafting oversight in the original version, noting that the rest of the current clause 3.11.6 deals only with NSCAS.

3.2. Annual reporting

The draft more preferable rule provides for AEMO to report annually on a number of matters. Some of this information is currently reported after each SRAS tender process (historically every three to four years), while others are new or varied reporting obligations.

AEMO agrees that regular transparent reporting of appropriate information may assist in promoting competition in the provision of SRAS, and potentially investment in alternative black start facilities. However, we have concerns about the content, timing or value of some of the proposed reporting matters, and the potential for duplication of information:

- *Total annual cost per electrical sub-network and region, broken down into availability and use:* AEMO currently publishes these costs after each procurement process. The overall cost

of SRAS per trading interval is made available to market customers, market generators and small generation aggregators weekly as part of settlement, and is also published on AEMO's website.

- *Any failure to acquire sufficient SRAS to meet the SRS in a sub-network:* Rather than an annual report, this information would be of most use to the market if it were reported whenever AEMO's SRAS contract position changes – either after SRAS are acquired, if a contract expires or is terminated, or if testing establishes that the SRS is no longer being met on an ongoing basis. AEMO would be able to incorporate the reporting requirement into its procurement and contract management processes. This would avoid the potential inefficiency of producing an annual report which provides no new information to the market, particularly if AEMO contracts for SRAS under longer term arrangements going forward.
- *The process followed for testing and assessment, including network assumptions:* Both the processes and the assumptions will be included in the SRAS Guideline, so it is unclear what additional information would be provided to the market in an annual report of this nature. To reduce the potential for any gaps, the Commission may wish to consider including in clause 3.11.7(d)(3) an additional requirement for the SRAS Guidelines to specify the modelling assumptions AEMO will make in relation to transmission networks.
- *The process followed by AEMO to acquire SRAS for each sub-network:* Again, AEMO considers that this information should only be reported after AEMO has undertaken a procurement process, rather than mandatory annual reporting even if there has been no procurement activity in the relevant year.

AEMO further notes the existence of clause 3.13.5, which currently requires AEMO to publish annual reports on costs and quantities associated with each type of ancillary service acquired by AEMO (both market and non-market). This requirement appears to cover essentially the same information that is already published either on a weekly basis or after contracting for NMAS. In the case of NSCAS, clause 5.20.2(c)(9) also requires AEMO to report on NSCAS acquired in the previous NTNDP year. To avoid duplication, AEMO suggests that clause 3.13.5 be either deleted, or combined with other relevant clauses if the AEMC believes it is necessary to retain any additional detail from clause 3.13.5.

4. Efficient Cost Recovery

AEMO supports the Commission's draft determination that SRAS costs should be recovered on a regional basis, consistent with the extent to which each service benefits a NEM region. AEMO proposes to start consultation in February on amendments to the regional benefit ancillary services procedures to allow for the allocation of SRAS costs on this basis, subject to the AEMC's final determination.

We agree that the formula in clause 3.15.6A(d) of the draft more preferable rule accurately reflects the calculation of trading amounts for SRAS-related transactions, but have noted that clause 3.15.6A(b1) needs to be updated to recognise amounts for small generation aggregators.

5. Transitional

Clause 11.77.3 of the draft more preferable rule requires AEMO to determine the SRAS Guideline as soon as practicable after the Amending Rule commences. As the guideline will need to reflect the revised SRS, the timing will be dependent on the Reliability Panel's determination and will need to be adjusted accordingly.

We recommend the transitional rule should confirm that changes to SRAS Guideline that would otherwise affect contracted SRAS (such as annual testing requirements) will not apply to SRAS procured under the 2015 tender process. These would continue to be tested in accordance with the contract terms reflecting the current guidelines.

Finally, as AEMO has already published separate tender guidelines for NSCAS, there is no need for a transitional requirement to republish those guidelines.

6. Suggested Drafting Changes

6.1. Drafting for issues raised in this submission

(a) Section 1.1: Definitions

- For the definition of SRAS Objective, moving the position of the comma will remove potential ambiguity, i.e. "... to minimise the expected costs of a *major supply disruption*, to the extent appropriate, having regard to the *national electricity objective*."
- For the definition of SRAS Procurement Objective, ensure AEMO is under no obligation to procure SRAS that does not meet technical requirements in the SRAS Guideline, e.g. "AEMO must use reasonable endeavours to acquire *system restart ancillary services* to meet the *system restart standard* at the lowest cost, having regard to AEMO's power system security responsibilities."
- For the definition of major supply disruption, amend the proposed wording after 'power stations' as follows: "and which leads to a loss of *supply* to any load~~ed or more connection points~~."

(b) Section 1.2: Reliability Panel and the System Restart Standard

- Amend clause 8.8.3(a):
"The *system restart standard* applicable to AEMO's acquisition of *system restart ancillary services* must: ..."

(c) Section 1.3: AEMO's SRAS Guidelines

- Delete clause 3.11.8.
- Include a new paragraph (1) in clause 3.11.7(d), for example:
"the boundaries of the *electrical sub-networks* into which the *national grid* is to be divided for the purpose of acquiring *system restart ancillary services* and determining and implementing the *system restart plan*, consistent with the *system restart standard*;"
- Amend the clause reference in the definition of *electrical sub-network* in the glossary to reflect the revised numbering.

(d) Section 3: AEMO reporting

- Delete clause 3.11.10.
- Amend clause 3.11.11(a):
~~At least once each year, After acquiring a *system restart ancillary service* for an *electrical sub-network*, AEMO must prepare and publish a report detailing the total estimated annual cost for the provision of *system restart ancillary services*, broken down to charges for availability and use, for each that *electrical sub-network* and for each the *region* or *regions* in which that *electrical sub-network* is located.~~
- Replace clause 3.11.11(b) with the following:
"AEMO must *publish* the following reports:
(1) after any acquisition or attempt to acquire *system restart ancillary services* for an *electrical sub-network* where the *system restart standard* was not met, and at any other time if AEMO becomes aware that the services acquired for an *electrical sub-*

network no longer meet the *system restart standard*— a report on the reasons why the *system restart standard* was not met, or is no longer being met; and

(2) after any acquisition or attempt to acquire *system restart ancillary services* for an *electrical sub-network*— the process followed by AEMO to acquire those services.”

- Amend clause 3.11.7(d)(2):

“a process for the modelling, assessment and physical testing of *system restart ancillary services* proposed to be provided by an *SRAS Provider*, including any assumptions to be made by AEMO regarding the state of transmission elements during a major supply disruption,”

(e) Section 4: Efficient Cost Recovery

- Amend clause 3.15.6A(b1):

“...except that a reference to *trading interval* in the calculation of RBF, AGE, AAGE, TGE, ATGE, TSGE, ATSGE, TCE, ATCE is to be read as “the relevant period...”.

(f) Section 5: Transitional

- Amend clause 11.77.3:

“As soon as practicable after the ~~Commencement Date~~ AEMC publishes the *system restart standard* as revised under clause 11.77.2, AEMO must develop and publish the first *SRAS Guideline* and ~~NSCAS tender guidelines~~.

- Amend clause 11.77.6 by making the existing provision paragraph (a), and adding a paragraph (b) as follows:

“(b) Any reference in an existing SRAS contract to a document *published* by AEMO under old clause 3.11.4A [*note: ‘old clause 3.11.4A’ will require definition in clause 11.77.1*] is taken to be a reference to the relevant provision of that document as in effect immediately before the Commencement Date.”

6.2. Minor drafting

AEMO makes the following minor drafting suggestions on the draft more preferable rule:

- Clause 3.11.1(2)(i) – italicise ‘need’ after ‘NSCAS’
- Clause 3.11.7(a) – the ‘SRAS’ in ‘**SRAS Procurement Objective**’ should not be italicised.
- Clause 3.11.7(d)(2) – replace “under clause 8.8.3(aa)(3)” with “consistent with the *system restart standard*”, to match (4).
- Clause 3.11.7(d)(4) – delete “, type” after “number” [*note: having removed the categories of primary and secondary restart services, there is no longer a concept of ‘type’ for SRAS*].
- Clause 3.11.9(d) – add full stop.
- Clause 3.11.9(f) – this paragraph applies to contracted SRAS providers, but all other provisions of clause 3.11.9 apply to prospective providers. Suggest moving this paragraph to the end of the clause.
- Clause 8.8.3(aa) – italicise ‘system restart standard’ in first line.
- Clause 11.77.3 – italicise ‘SRAS Guideline’.
- Clause 11.77.6 – the ‘SRAS’ in ‘**existing SRAS contract**’ should not be italicised.