



23 February 2015

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Lodged web: <http://www.aemc.gov.au/>

System Restart Ancillary Services – Draft determination

The Energy Supply Association of Australia (esaa) welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) *System Restart Ancillary Services* (SRAS) rule change.

The esaa is the peak industry body for the stationary energy sector in Australia and represents the policy positions of the Chief Executives of 37 electricity and downstream natural gas businesses. These businesses own and operate some \$120 billion in assets, employ more than 59,000 people and contribute \$24.1 billion directly to the nation's Gross Domestic Product.

The esaa supports the draft determination, in particular we support the AEMC's decision that SRAS procurement should include consideration of a National Electricity Market (NEM) wide or multi region black event and the rejection of price arbitration of SRAS offers. The inclusion in the proposed rule of the requirement that the System Restart Standard (SRS) covers standalone restoration timeframes and aggregated reliability requirements for each sub-network clarifies what type of event SRAS is being procured to mitigate. The rejection of price arbitration is the best approach to facilitate a competitive market for services offering.

The esaa is comfortable with the AEMC's determination that SRAS costs will be recovered on a regional basis. This will align the costs of procurement with the beneficiaries from the services provided.

The esaa supports the proposed clarification of the SRAS governance arrangements such that the Reliability Panel determines the SRS, while the Australian Energy Market Operator (AEMO) determines the guidelines to meet the SRS. The objectives of the Reliability Panel and AEMO, however, need to recognise the tradeoffs between the cost of procuring SRAS with minimising the cost of a major supply disruption.

The esaa agrees with the AEMC that, due to the uncertainty about the size of a major supply disruption the cost of a disruption is also difficult to determine. This does not preclude the Reliability Panel recognising the trade-off between the cost from a NEM-wide or multiple region supply disruption with the cost of obtaining SRAS in determining the Reliability Standard.

Both the Reliability Panel when setting SRS and AEMO when it procures services need to be mindful of potential unintended consequences, specifically around the cost of acquiring SRAS. For example, if there is a minimum number of services that must be procured for a region this could undermine AEMO's ability to acquire relatively cheap services that would better optimise the costs of a supply disruption and the costs of SRAS.

There remains some uncertainty regarding the 2015 procurement process, due to the rule change process, in particular, the requirement that AEMO must consider a NEM wide or multi region event in its procurement. Participants are uncertain as to whether AEMO will act in accordance with the proposed interpretation or the more restricted - and disputed - interpretation which has formed the basis for their consultations up to this point. The proposed rule and its guidelines will be at various stages of development when 2015 contracts are awarded. This creates uncertainty for SRAS providers as the new guidelines could alter the economics upon which SRAS was originally offered. It is also unfortunate that the new rule will be published just as contracts are awarded, as this will, in effect, delay the start of the rule. esaa suggests that the timing and interactions between the current tender process, rule change and setting of guidelines be further considered and clarified.

If you have any questions relating to this submission, please contact Fergus Pope on 03 9205 3107 or by email to fergus.pope@esaa.com.au.

Yours sincerely



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