

19 February 2015

Mr Paul Smith
Chief Executive Officer
Australian Energy Market Commission

Online lodgement at www.aemc.gov.au

Dear Mr Smith

RE: Draft Rule Determination System Restart Ancillary Service (Ref ERC0168)

GDF SUEZ Australian Energy (GDFSAE) appreciates the opportunity to comment on the Australian Energy Market Commission (AEMC) draft more preferable rule to improve the frameworks for system restart ancillary service (SRAS) in the National Electricity Market (NEM).

The National Electricity Rules (the rules) require the Australian Energy Market Operator (AEMO) to procure system restart services to enable timely power system restart following a major supply disruption event. A total shutdown of all, or a substantial part of the power system is an extremely low probability event although the likely impact would be significant economic and social costs.

In assessing what level of system restart services to procure, there needs to be consideration of the economic and social cost of a major supply disruption, balanced against the cost of purchasing additional system restart services. This is an important assessment which will impact the amount of system restart service procured.

The governance framework in the current rules for carrying out this important assessment is not clear, with both the Reliability Panel and AEMO having somewhat overlapping responsibilities. The rule change from the group of generators sought to clarify the responsibilities of the Reliability Panel and AEMO.

The AEMC has considered the rule change proposals from both the group of generators and AEMO, and has recommended a draft more preferable rule that contains elements of both original proposals.

GDFSAE broadly supports the draft more preferable rule change as outlined in the draft determination, as it captures the key objectives of the group of generators proposal, as well as some elements of the AEMO proposal.

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The draft determination describes the changes proposed in the draft more preferable rule, and groups them into three areas. GDFSAE comments on each of these are set out below:

Developing effective governance arrangements

The proposed change to the overarching SRAS Objective is supported, as it establishes a clear overall statement of purpose, being to minimise the expected economic costs of a major supply disruption having regard to the National Electricity Objective (NEO). By removing the reference to system restart costs in the current SRAS Objective and utilising the NEO, it brings the assessment into alignment with other economic assessments relevant to the NEM.

The draft more preferable rule clarifies the objectives for the Reliability Panel and AEMO as follows:

- Reliability Panel to develop the System Restart Standard (SRS) to meet the SRAS Objective; and
- AEMO to use reasonable endeavours to procure sufficient SRAS to meet the SRS at lowest cost.

GDFSAE supports these changes relating to governance arrangements as they provide clarity of the roles and responsibilities of both AEMO and the Reliability Panel. This will overcome the current issues of unclear responsibilities leading to AEMO in some instances implementing changes that appear to be more appropriately made by the Reliability Panel.

GDFSAE also supports the AEMC decision to make it clear that a major supply disruption includes consideration of a NEM-wide disruption event. This has the important implication that AEMO would not be entitled to rely on supply from neighbouring regions in planning its requirements for system restart service.

Efficient SRAS market outcomes

GDFSAE notes the concerns expressed by AEMO in their rule change proposal regarding the level of competition for system restart services, and their proposal to introduce price arbitration. The technically onerous requirements to provide a system restart service, along with the risks associated with contractual and rules compliance have contributed to participants' decisions of whether to offer system restart.

Despite these potential barriers to entry, it is apparent from previous system restart tender processes that there has been a level of competition with a number of participants taking part in the AEMO tender. GDFSAE is supportive of changes that overcome barriers to entry and therefore improve levels of competition. The draft more preferable rule contains a number of such changes, including a more flexible procurement process, broadening the scope of potential services and removing the distinction between primary and secondary services.

One element of the draft more preferable rule that is not supported by GDFSAE is the proposal to reduce the level of information published by AEMO following each procurement round.

The AEMC draft determination indicates that this change is designed to reduce the potential for non-competitive bidding by increasing the degree of competitive pressure in SRAS markets. GDFSAE suggests that market competition is enhanced through transparent information disclosure. High prices act as an incentive to new entrants, but will not be effective if prices are not revealed.

GDFSAE is strongly supportive of the draft determination not to introduce price arbitration as requested by AEMO. As noted by the AEMC, the concerns regarding lack of competition are somewhat unfounded, but are more likely to manifest if new barriers to entry are imposed such as the threat of price arbitration. This was a poorly conceived proposal from AEMO, which has correctly been rejected by the AEMC.

Efficient cost recovery

GDFSAE supports the introduction of a regional approach to the recovery of SRAS costs which would allocate the cost of each restart service on the basis of the benefit it provides to each region. This will increase the cost reflectivity of SRAS charges (prices) and will align the prices paid by users of restart services with the benefits they receive from those services.

GDFSAE acknowledges that our submission to the consultation paper provided qualified support to a NEM wide cost recovery. This was based on the approach currently being adopted by AEMO which considers inter-regional power supplies being used to restore regions across interconnectors. Although GDFSAE did not support this approach (and advised AEMO of its concerns), it led to the conclusion that a NEM wide cost recovery was more applicable to an approach that allows sharing of SRAS service across regional boundaries.

Now that the AEMC draft more preferable rule makes it clear that sharing SRAS services across regional boundaries should not be the standard, GDFSAE believes that a regional cost recovery based on regional benefit measures provides a better outcome, where charges are more reflective of the costs and benefits to stakeholders (customers and generators) within each region.

Transitional arrangements

Although the AEMC have given consideration to transitional arrangements for AEMO and the Reliability Panel to conduct their required consultation processes in developing the new standards and guidelines, as well as the introduction of regional cost recovery, there remains a degree of uncertainty regarding the current SRAS tender. The current process being conducted by AEMO is expected to result in new SRAS sources being in place from 1 July 2015.

The draft more preferable rule (if implemented) would introduce a number of important changes which, potentially, would not be implemented until after the current tender process has concluded and new contracts in place on 1 July 2015. Depending on the term of the new contracts that commence on the 1 July 2015, the new rule changes might not have any impact for a number of years.

GDFSAE believes that the approach being adopted by AEMO in the current tender round is fundamentally at odds with the more preferable rule being proposed by the AEMC. If the more preferable rule is implemented, the rules would require that SRAS should be capable of responding to a NEM wide event, but AEMO would have insufficient SRAS available to meet this requirement.

GDFSAE trusts that the comments provided in this response are of assistance and supports the direction of the proposed rule change. Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 03 9617 8331.

Yours sincerely,

A handwritten signature in black ink, appearing to read "Chris Deague". The signature is fluid and cursive, with a prominent initial "C".

Chris Deague

Wholesale Regulations Manager