

A few
words.

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

via email: aemc@aemc.gov.au



18 February 2015

Dear Mr Pierce,

**National Electricity Amendment (System Restart Ancillary Services) Rule
Your Reference: ERC0168**

AGL Energy Limited (**AGL**) welcomes the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) *Draft Rule Determination: National Electricity Amendment (System Restart Ancillary Services) Rule 2014 (Draft Determination)*.

AGL is one of Australia's leading integrated energy companies with a diverse mix of power generation including base, peaking and intermediate generation plants, spread across traditional thermal generation as well as renewable sources. AGL is also a significant energy retailer with over three million electricity and gas customers. Accordingly, AGL supports the proposed improvements to the System Restart Ancillary Services (**SRAS**) framework, as it will provide better protection to customers, generators and the economy should a power system shut-down event occur.

AGL supports the AEMC's draft more preferable rule (**the proposed rule**), which has been made in response to rule change requests by the Australian Energy Market Operator (**AEMO**), the National Generators' Forum and a group of generator/retailer businesses (**the Group of Generators**), which includes AGL. AGL previously outlined its concerns in a submission to the *Rule Change Request Consultation Paper*, and we believe that the proposed rule addresses the concerns raised. On that basis, AGL welcomes the proposed rule which we believe, on the whole, adequately balances the needs of AEMO, generators and customers, and accords with the National Electricity Objective. The new SRAS framework is likely to stimulate participation and competition in the provision of SRAS and maintain the integrity of SRAS arrangements by clearly delineating roles and responsibilities.

However, in supporting the proposed rule, AGL notes there are aspects of the proposed SRAS framework which could undermine its overarching aims. These are:

- allowing AEMO to directly negotiate to procure SRAS;
- no longer requiring AEMO to publish quantities of SRAS; and
- lack of clarity in how the proposed rule interacts with the current tender process.

AGL believes that these aspects of the proposed rule should be given further consideration to ensure a competitive SRAS market develops and protects consumers from inefficient costs.

Support for the rule change

AGL welcomes the AEMC's decision not to introduce price arbitration for SRAS. AGL agrees that the introduction of cost-reflective charging for SRAS and the option to procure SRAS on a less standardised basis is likely to incentivise more efficient levels of investment and market entry. This is likely to encourage competition, maintain downward pressure on SRAS prices and avoid the need for price arbitration.

AGL supports the proposal that the Reliability Panel will set a System Restart Standard (**SRS**) for each electrical sub-network. Increased SRS requirements will ensure that enough SRAS is procured to meet sub-network, regional and National Electricity Market (**NEM**) wide shut-down events. This is a welcome proposal given the Group of Generators' and AGL's concerns that current levels of SRAS would not be sufficient to address a NEM-wide shut-down and that interconnectors would be overly depended upon to deliver SRAS in the event of a power system shut-down.

AGL notes that total SRAS costs may increase in comparison to previous years, as a result of a SRS being applied to each NEM sub-network. In addition, the measures to improve competition in SRAS markets may take time to eventuate, as participants invest in response to cost reflective charging and new SRS requirements. Until a new baseline is established, increased costs should not be taken as evidence that the rule change is not delivering benefits or that there is a case for price arbitration.

Concerns with the rule change

Direct negotiation

AGL is concerned that the ability for AEMO to undertake direct negotiation to secure SRAS could undermine the competition enhancing measures of the proposed rule. Over-use of direct negotiation would make tender processes opaque, which is likely to deter incumbents and new entrants from participating in the SRAS framework. This would decrease the availability of SRAS services, lower reliability and increase costs. AGL notes that AEMO will be required to report on the methods it has used to procure SRAS but we are of the view that more specific requirements, which only allow AEMO to use direct negotiation by exception would be preferable.



Reporting on the quantity of SRAS

AGL notes that the proposed rule will no longer require AEMO to publish quantities of SRAS it has procured. Given that the Group of Generators' rule change request was specifically concerned with whether SRAS levels were adequate, it is troubling that quantities of SRAS will not be made transparent. While some comfort is provided by the requirement that AEMO report on whether it has met the SRS for each sub-network, this is not as informative as publishing quantities of SRAS.

The Draft Determination's rationale for restricting this information is that it will reduce opportunities for strategic bidding. However other measures in the proposed rule are aimed at encouraging competition, which will place a natural limit on these opportunities. Furthermore, it is just as likely that limiting information to market participants will dissuade potential market entrants and make it difficult for the rule to achieve its stated benefits. AGL suggests that the final rule include a requirement for AEMO to publish SRAS quantities.

Current tender process

The Draft Determination notes that there is a SRAS tender process currently underway with contracts to begin in July 2015. 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. AGL suggests that the AEMC consider whether existing contracts can be extended and the current tender delayed until the new rule and guidelines are settled. AGL also notes that AEMO has proposed a three year term for 2015 contracts with an option for extension. AGL suggests that for subsequent contracts, options for extension should not be allowed as this will create an uneven playing field among SRAS providers.

In closing, AGL thanks the AEMC for thorough consideration of the SRAS issues raised in the rule change requests and agrees that the AEMC's draft more preferable rule will promote a SRAS framework that is in the long term interest of consumers. AGL welcomes further consideration of the issues it has raised, as we believe they will enhance the benefits arising from the proposed rule.

Should you have any questions in relation to this submission please contact Kirsten Hall, Wholesale Market Adviser, on (03) 8633 6688 or at khall@agl.com.au.

Yours sincerely,



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Manager, Wholesale Markets Regulation

