

19 February 2015

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

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

System Restart Ancillary Services proposal (Ref. ERC0168)

Hydro Tasmania welcomes the opportunity to make a submission to the Australian Energy Market Commission (AEMC) System Restart Ancillary Services (SRAS) rule change.

Hydro Tasmania is strongly opposed to AEMC's proposal for regionalised SRAS cost recovery, however broadly supports the other aspects of the SRAS rule change. In the initial submission process, from the many market participants who expressed a view, either individually or through an association, only one supported regionalisation.

Hydro Tasmania made a presentation to AEMC staff in Sydney about several aspects of the proposed rule change including the proposed regionalisation of SRAS cost recovery. We were disappointed to see no reference to our arguments in the draft determination and no rebuttal of the logic. This omission, combined with the lack of support by most participants, makes it hard to understand how the AEMC could support regionalisation. Whilst the submission process is not a voting process, such clear lack of support from industry would require very strong reasons for AEMC to endorse regionalisation, for which we do not believe the case has been sufficiently made.

We offer comments in relation to the reasons why AEMC should reject regionalisation of SRAS cost recovery under the following headings:

- National Electricity Market (NEM) as a single market
- Tasmania's support for a single national market
- Current Process is more equitable than regionalised cost recovery
- Rule Change does not improve National Electricity Objective (NEO)
- Rule implementation timeline

NEM as a single market

Hydro Tasmania contends that there is an underlying "One Market" philosophy underpinning the NEM that allows customers to pay the same for energy despite some regions having cheaper generation (aside from transmission constraints and

losses). For example, the market is designed to allow cheap electricity generated from brown coal to be used in states outside Victoria.

For global market ancillary services all customers generally pay the same in spite of some regions having cheaper ancillary services available. It is therefore inconsistent to change the system restart ancillary services to regional cost recovery.

We also see that having a single market is one of the key strengths of the NEM and watering down this approach is very undesirable.

In addition, the procurement and provision of SRAS is administered under a single National Standard, and this predicates that the SRAS cost recovery should adopt a similar approach.

Tasmania's support for a single national market

It should be noted that Tasmania as a region entered the NEM on a predominantly vanilla basis (i.e. conformed to a national market originally based on large thermal units).

Over time, this involved:

- entering the market on a “plain vanilla” basis in spite of being a hydro generation region.
- providing support to the rest of the NEM through Basslink at no cost to the NEM.
- paying for a Basslink frequency controller to further assist in the facilitation of a single market approach
- changing Tasmanian frequency standards towards the NEM standard.

Hydro Tasmania in particular is now concerned that after such determination, effort and expenditure on its part towards participation in a national market, the AEMC is considering stepping away from the “One Market” philosophy regards SRAS.

Current process is more equitable than regionalised cost recovery

The current process takes the total costs of SRAS and distributes them across the NEM. The outcome from this process is shown in the table below.

Region	SRAS Recovered ¹ (\$M, Nominal)	Customer Load ² (GWh)	Customer SRAS Payments (\$/MWh)
New South Wales	17.6	70,000	0.13
Queensland	13.8	52,000	0.13
South Australia	3.5	14,000	0.13
Tasmania	3.2	12,000	0.13
Victoria	13.1	50,000	0.13

This shows that customers pay for SRAS in line with the size of their load and they pay the same no matter which region they are in.

The problem with a regional approach is that the costs of SRAS per region are relatively fixed but the number of customers to pay for the “fixed” costs varies widely. The proposed rule will result in customers paying widely different charges per GWh for SRAS.

In relation to Basslink, although the existing technology used in Basslink is not capable of assisting in a restart, if Basslink was built today, the technologies available for a new interconnector could assist in a restart. It is important not to use technology arguments that may become out-dated in determining rule changes.

The AEMC believe that regionalisation may reduce prices in regions due to a more direct feedback. The AEMC³ state in relation to an advantage of regionalisation:

It will promote competitive outcomes in SRAS markets, as existing SRAS providers in these regions face the prospect of making large payments to their direct competitors if they lose a tender process. This could create stronger incentives for these SRAS providers to price their own offers competitively, in order to win the tender process.

This comment fails to recognise the national nature of the market and the commercial drivers of generation businesses, especially where it is not viable for many generators to provide SRAS. In the current NEM, participants are increasingly focussed on multiple regions and broader national market outcomes.

Rule change does not improve NEO

The proposed rule change does not enhance the NEO as it is not in the long term interests of consumers for the following reasons:

- It introduces an inequitable pricing regime to replace the existing regime in which every customer pays the same per GWh of load for SRAS

¹ Source: AEMO, Rule change proposal: System Restart Ancillary Services, December 2013, p.11.

² Indicative only, rounded to the nearest thousand, may vary based on imports/exports from/to a certain region and differences in load calculation methodology between systems.

³ AEMC Draft SRAS Rule Determination page 25

- It introduces a change in the regulatory environment which has potentially large price changes for customers (especially in Tasmania)
- It is a step that fractures the NEM to the detriment of customers; risking the loss of the efficiencies of the national market
- It introduces a more complex and costly way of collecting the same amount of money

Rule implementation timeline

Hydro Tasmania agrees with Stanwell's submission that there exists significant uncertainty surrounding the SRAS rule changes and the 2015 SRAS procurement process. Although AEMO contends that the rule changes are not directly linked to the SRAS procurement process it is unclear what rules Hydro Tasmania or other potential tenderers will be operating under before contracting for SRAS.

Origin Energy also communicated similar concerns to AEMO during AEMO's SRAS document consultation process in relation to the inefficiencies of tendering prior to completion of the AEMC process.

CS Energy and esaa highlighted that it is inappropriate for AEMO to entertain the letting of contracts when there is a formal Rule change being considered by AEMC.⁴ It was CS Energy's understanding that the Rule change may necessitate a change to the governance of sub-networks, a review of the standard and a change to the recovery of SRAS costs.

In light of the above, Hydro Tasmania notes the high level of uncertainty and consequent difficulty in tendering for any SRAS as part of the current SRAS procurement process until the parameters of the SRAS operational requirements and cost recovery models are finalised.

As AEMC has pointed out in the draft determination, transitional arrangements are required as part of the final rule determination. As AEMO and the Reliability Panel must undertake consultations as a result of the final determination, Hydro Tasmania proposes as a matter of consistency and certainty, that all rule changes (including any change to SRAS cost recovery) commence at the same time and this should be after the term covered by the current SRAS procurement process (minimum of July 2018 with recognition of options to extend).

⁴ AEMO, Attachment 1 Response to submissions by Consulted Persons, 5 September 2015
http://www.aemo.com.au/Consultations/National-Electricity-Market/Open/~/_media/Files/Other/consultations/nem/SRAS%20consultation/SRAS%202014/SRAS%202014%20Part%202/Attachment_1_Response_to_submissions_by_Consulted_Persons.ashx

Conclusion

Hydro Tasmania supports much of the draft preferable rule as a step towards enhancing the NEO. We believe that in relation to cost recovery, for the reasons stated, the AEMC should make no change to this area of the rules. The proposed change does not enhance the NEO, introduces inequity for customers (and generators), is against the NEM "One Market" philosophy and causes additional costs to the market.

If you have any questions relating to this response, please contact Prajit Parameswar on (03) 6230 5612 or by email prajit.parameswar@hydro.com.au.

Yours sincerely

A handwritten signature in black ink that reads "D. Bowker." with a horizontal line underneath the name.

David Bowker

Manager Regulation