Australian Energy Market Commission
PO Box H166
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By email: submissions@aemc.gov.au

RE: PROPOSED RULE NO. 2005/2 – SYSTEM RESTART ANCILLARY SERVICES AND PRICING UNDER MARKET SUSPENSION

The Energy Retailers Association of Australia (ERAA) is the peak industry body representing energy retailers in Australia. We appreciate this opportunity to comment upon the aforementioned rule changes proposed by NEMMCO.

Concerns of Retailers

50% of System Restart Ancillary Services (SRAS) costs are recovered by NEMMCO from market customers. Retailers are therefore keen to see the appropriate level of SRAS procured at minimum cost (including overhead costs). Retailers also prefer to minimise variability of these costs temporally and geographically.

The NEM SRAS costs were $10m p.a. for 13 providers until June 2005, when NEMMCO contracted 16 providers at $13-$16m[1] p.a. The ERAA considers these historic costs reasonable and would be concerned if the proposed rule changes lead to an increase.

The ERAA is not in a position to comment on the changes proposed in the method of SRAS procurement, nor of the technical specification issues.

System Restart Service Standard (8.8.1, 8.8.3, 4.2.6, 3.11.4A) and Determination of Sub-Networks (3.11.4B)

The ERAA is concerned where SRAS standards are created by non-national bodies and those that may not be in a position to consider cost implications. We prefer that the level of SRAS to be procured be set NEM-wide by a technically expert body including participant representation. The ERAA therefore welcomes explicit recognition of the Reliability Panel's role in specifying a national standard in procuring SRAS within sub-networks. The Panel's expertise and membership allows it to strike a balance between the need to secure the network and minimise cost.

We are however concerned that the material envisages a role for NEMMCO, Jurisdictional Planning Bodies (JPB's) and TNSP's to effectively exceed these standards at their own discretion and in an inconsistent manner. NEMMCO makes its expectations clear in this regard:

[1] $13m p.a. fixed, extra $3m if all services used.

> "…provision should be made for variation in restoration standards between regions as jurisdictional governments can, for social policy reasons, make representations to the Reliability Panel for a more or less onerous restoration standard in specific areas of the power system…"[2]

In the proposed rule change the issue appears in the:

- Requirement for the Reliability Panel to act "on the advice of NEMMCO" in 8.8.1 and 8.8.3(aa)(3), which is unnecessary, puts the Panel's authority in doubt and should be removed; and

- Vesting of the determination of electrical sub-networks with NEMMCO (in consultation with JPB's and TNSP's) rather than with the Panel in 3.11.4B.

It seems impractical to set these boundaries outside of the process of setting the System Restart Service Standard itself, as the size of the sub-networks would be relevant. It leaves open the prospect of these parties effectively altering the Standard by setting sub-networks of a smaller size than was intended, resulting in a greater number of providers. 3.11.4B should therefore vest this power only in the Reliability Panel.

The ERAA does not understand why it is deemed necessary to facilitate localised variations from the national standard. In setting the standard, the Panel will inherently take into account variations in physical electrical networks through their also determining sub-networks. In the unlikely event a jurisdiction feels sufficiently aggrieved that an agreed national standard is insufficient for their own societal demands, then the NER cannot prevent them installing additional facilities at their own budgetary cost.

Regionalised Recovery

If state-based bodies are vested with an ability to dictate their own variations to the national standard, it is necessary to isolate the resulting cost variance to that state. A smeared approach would result in seriously distorted incentives for those bodies. NEMMCO has attempted to avoid smearing through a regionalised recovery arrangement. However this in turn creates a number of problems:

- The regionalised recovery process is necessarily complex, resulting in increased NEMMCO setup and audit costs and participant settlement verification costs.

- It will now result in SRAS costs varying between regions-a retailing overhead that had previously been nationally consistent.

- The regionalisation itself is imperfect in that it presumes energy regions align with a jurisdictional boundary. Where it doesn't, e.g. the snowy region, there is no linkage between the participants who pay for the additional services and the jurisdiction deciding upon the variance from standard.

- It will create winners and losers following energy regional boundary changes-an event that should be irrelevant to SRAS sub-networks.

[2] NEMMCO covering letter, attachment 2

ERAA sees no easy improvements to NEMMCO's proposal. For example, allocating costs on a jurisdictional, rather than regional, basis may address the latter two points but would complicate calculations even further.

ERAA's clear preference is for a single NEM-wide levy. However this is only sensible and fair where there is a single national standard. A thoughtful consideration of the problematic regional recovery supports our position that:

- The Reliability Panel should set a single national standard and the electrical sub-networks;

- NEMMCO should procure based upon this standard only and recover on a national basis; and

- In the unlikely event a jurisdiction considers this insufficient for their own societal needs, they may procure additional providers outside of NEMMCO and the NER.

Upon making the changes recommended earlier to implement a purely national standard, the AEMC should then delete the proposed regionalised recovery changes to 3.15.6A.

Primary Service Premium and Additional Secondary Restart Services Allowance, 3.11.5G

ERAA questions the benefits of this new clause and recommends its removal.

The Panel's standard will set a fixed minimum number of primary service providers per sub-network and NEMMCO will be obliged to engage that amount. The competitive advantages of a primary source of itself should be an incentive for providers to invest in equipment needed to achieve the higher technical reliability. Where a cost-based price is imposed by NEMMCO, the proposed rules already provide for an economic return on all relevant assets, including those needed to achieve Primary status.

Upon achieving the minimum standard, there should be no discretion for NEMMCO to purchase additional services just because they are relatively low cost. This questions the validity of the standard itself.

Lastly, ERAA questions the vesting the premium and allowance determination with AEMC. This does not seem to fit the Commission's role nor expertise. The economic/technical evaluation would appear to sit better with either the Reliability Panel, the AER or both.

In the first instance please contact me if you require any further information.

Yours sincerely,

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