



9 May 2014

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

Dear Mr Pierce

National Electricity Amendment (System Restart Ancillary Services) Rule 2014

Alinta Energy welcomes the opportunity to make a submission in response to the consultation paper on the proposed *National Electricity Amendment (System Restart Ancillary Services) Rule 2014* (the proposed rule or the proposal) lodged by the Australian Energy Market Operator (AEMO) and the National Generators Forum, AGL, Alinta Energy, Energy Brix Australia, GDF Suez, Intergen and Origin Energy (the generator proponents).

Alinta Energy is an active investor in the energy retail, wholesale and generation markets across Australia. Alinta Energy has around 2500 megawatts of generation capacity in Australia (and New Zealand) and a growing retail customer base of over 750,000.

As one of the rule change proponents it is the case that the rationale for change, the desired changes, and the benefits of changes supported by Alinta Energy are reflected in the rule change proposal submitted by the generator proponents.

The purpose of this submission is to give additional support to the rule change proposal by responding to the issues and questions raised by the Australian Energy Market Commission (AEMC). Nonetheless, this submission should be read in conjunction with the rule change proposal submitted by the generator proponents.

Clarity and guidance in the SRAS frameworks

Alinta Energy maintains the view that the existing System Restart Ancillary Services (SRAS) framework fails to provide the appropriate level of guidance and creates a need for AEMO to make assumptions surrounding SRAS that may not be appropriate.

Alinta Energy does not support the AEMC's contention that detailed economic and technical analysis would be required to develop the rules in this area. Alinta Energy's position is that as the ultimate form of insurance for the market the National Electricity Rules must ensure the SRAS framework acknowledges the potential for worst case outcomes.

This does not mean that SRAS should be procured to the defined standard regardless of cost to the market. Yet, unlike insuring one's house, there is no option not to procure some level of SRAS to militate against worst case scenarios and the consequences of not doing so could be catastrophic.

This means the SRAS framework should create clear obligations that cannot be circumvented. In this regard, decisions regarding trade-offs about the level of service procured and the structure of sub-electrical networks can be made within that framework for the purpose of maximising efficiency but have to be made against a strict and defined obligation.

This is not occurring under the current SRAS framework or reflected in proposals outside of this rule change process being advanced by AEMO. Alinta Energy has no confidence that potential changes to sub-electrical networks, significant reductions in services and significant reliance on adjacent networks can guarantee the SRAS obligations could currently be met.

Under the proposed SRAS framework AEMO will still be able to propose and consult on changes; however, the level of transparency will be significantly improved and AEMO will need to evidence those changes against a strictly defined obligation in the National Electricity Rules that is not open to a multitude of interpretations.

Alinta Energy supports the following changes to give effect to an appropriate SRAS framework.

- Clarify that the Reliability Panel determines the System Restart Standard on the basis of advice from AEMO and other relevant stakeholders.
- Clarify the guidelines and acquisition of SRAS applies to NEM-wide and multiple region events.
- Support AEMO's preference that the distinction between primary and secondary services be removed.
- Require AEMO to assess the maximum amount of time each type of service will restore power and the manner in which each type of service will be relied upon to restore energy in neighbouring electrical sub-networks.
- Provide guidance on and demonstrate where each electrical sub-network can be energised from an adjacent electrical sub-network.
- Require the Reliability Panel to approve amendments to a number of relevant guidelines.
- Strengthening the link between the NER and the System Restart Standard.
- Linking restoration timeframe targets and service procurement, and requiring AEMO to detail where a service has been procured which will not meet restoration targets and the possible impact on sensitive loads in the Standard.
- Placing an obligation on AEMO to consult with network service operators and advise the Reliability Panel of any outstanding issues.
- Require AEMO to publish a methodology for assessing restoration under system black conditions and requiring appropriate modelling where material changes are identified or proposed.
- Strengthening the link between the Reliability Panel's Annual Market Performance Review and system restart reporting.

These changes are identical to those in the rule change proposal submitted by the generator proponents.

Potential analytical approaches

Alinta Energy acknowledges there are multiple analytical approaches each with strengths and weaknesses. For this reason, Alinta Energy welcomes additional analysis and encourages the

AEMC to consider the work of ROAM Consulting undertaken for the National Generators Forum and the Private Generators' Group.

The Roam Consulting probabilistic framework provides an objective, credible and robust analytical approach to assess the risk adjusted benefit of procuring sufficient services across sub-networks. The work by Roam Consulting draws upon data collected over many years from a range of electricity markets comparable with the NEM.

While each approach contributes to understanding of the SRAS arrangements it is important to consider community expectations in returning from a system black condition as those expectations need to be captured within any analytical framework. It is not apparent to Alinta Energy that the communities expectations are always captured where analytical approaches seek to minimise the probability of system black outcomes.

Allocation of responsibilities

It seems clear that there is tension between AEMO's various roles within the SRAS framework. This tension manifested itself in the AEMO's singular approach to its recent SRAS review which generated concerns amongst a number of market participants and various stakeholders.

This is not to suggest that AEMO cannot perform multiple roles in this space, nor is it suggested that AEMO is not fit to perform the roles identified. More to the point, the rules and the SRAS framework create a number of tensions and are plagued by ambiguities. This ensures AEMO's obligations are difficult to discharge.

The generator proponent's rule change proposal attempts to resolve these tensions and is supported by Alinta Energy. The proposed changes aim to provide clear guidance around what AEMO should be doing, where and how AEMO should exercise discretion, and how that discretion is justified.

Importantly, these changes consolidate the relationship between AEMO and the Reliability Panel for the purposes of transparency and stability. It is important parties tendering for SRAS have confidence that AEMO will not alter arrangements or make late decisions regarding the nature of services required. This has been a feature of recent times. Further, it is important for stakeholders in whose name SRAS is procured and network service providers to have evidenced and documented arrangements.

Reliability Panel's process

Alinta Energy appreciates the view that the Reliability Panel's general obligations to consult may be sufficient; however, the concern around the manner in which the SRAS framework has evolved justifies insertion of a specific obligation upon the Reliability Panel.

The consideration of SRAS in the Reliability Panel's Annual Market Performance Review creates the conditions for ongoing assessment of SRAS and provides scope for the Reliability Panel to recommend more detailed review where issues are identified that cannot be otherwise resolved. No further review obligations are considered necessary based on the identified issues.

Restoration timeframes

Alinta Energy stands by the analysis contained in the generator proponents' proposal in that the soft target approach to restoration timeframes has led to a situation where stakeholders and jurisdictional governments have little confidence that those timeframes can be achieved. This is not acceptable going forward for two reasons.

First, there is little value for consumers in incurring a multi-million dollar expense for services which cannot meet the restoration timeframes they expect. The procurement process will be strengthened if there is greater confidence around the level of service being procured and the required obligations.

Second, a hard target ensures greater accountability around AEMO's actions and procurement processes including against which to assess and proposed adjustments to the number of service procured and the sub-network boundaries. Alinta Energy has no issue with AEMO varying the number of services procured and the form and number of sub-networks but requires a standard those changes can be measured against. That standard is best expressed as a hard target.

This does not necessarily mean that in all circumstances the hard target can be reached. There may be situations where an absence of service means the target cannot be reached; however, this will provide a clearer signal for new entry and enable AEMO to outline the deficiency between the service procured and the hard target.

Additionally, there may be justifiable reasons not to acquire services to meet the standard within an individual sub-network. For example, where the tendering service required to meet the hard target is not technically acceptable and the level of service in surrounding sub-networks is demonstrated to be sufficient. Such an exception is necessary to achieve a balance between total costs and the hard target but should not be the norm.

As it currently stands the SRAS arrangements could fail to meet the soft target under every circumstance in every sub-network and AEMO would not be required to justify or evidence these arrangements. This is a by-product of utilising a soft target instead of a hard target where failure to meet that hard target needs to be explained and justified.

Definition of primary and secondary service

The removal of these definitions increases AEMO's ability to procure a flexible range of services as best facilitates meeting SRAS obligations. Both generators and AEMO support this outcome.

Competition in SRAS markets

SRAS markets like all other markets should incentivise new entry when signals justify that entry, and it is clear that new entry will likely be rewarded. This means any increase in prices needs to be enduring, and the arrangements for the market are unlikely to dramatically change between the time of investment and new entry.

Alinta Energy notes that price signals may exist but they may not necessarily be enduring given the form of service and how often the service is tendered for. It needs to also be noted that SRAS is not an extremely profitable enterprise for many participants although there are sub-networks where opportunities exist.

Additionally, the rules and arrangements for SRAS have been subject to late change by AEMO which has not assisted in confidence.

New entry would be more likely in an environment where there were greater opportunities to tender and recover investment costs and where the rules or arrangements for purchase did not appear to be subject to AEMO discretion. This does not mean AEMO should not be able to alter sub-networks or the number of service provided. In fact, Alinta Energy supports exploration of longer-term and shorter terms services if a combination of service durations supported competition.

What is required is a confidence that investment will have an equal and ongoing opportunity to compete to provide services to a known standard and bid at a price which recovers the costs of the service. That confidence is understandably absent in the market for a range of reasons.

Potential price arbitration in SRAS procurement

Alinta Energy does not welcome the threat of price arbitration and suggests that in circumstances where AEMO is not satisfied – based on unknown assumptions – with the tendered price they can push parties into arbitration. This is likely to have multiple negative outcomes.

First, parties will include the cost of potential arbitration in their bids as AEMO has demonstrated a position which suggests it will likely favour price arbitration over the competitive process. Second, some participants are likely to withdraw from the tender process. Further, new entry will be less appealing if the competitive process can be easily undermined by price arbitration at AEMO's discretion.

Given some generators only recover costs in some sub-networks, these generators do not have a strong incentive to continue bidding if costs increase. This would be a bad outcome as marginal participants and the threat of new entry supports competitive outcomes.

Recovery of SRAS costs

Alinta Energy previously indicated that the issue of regional or NEM-wide cost recovery cannot be examined in isolation and needs to occur following a clear determination of the purpose of SRAS. If SRAS is to be a NEM-wide service then benefits accrue to each market customer and the difference in costs between each region is not a distortion but a representation of where services are located and the value of those services against the standard.

Conclusion

Alinta Energy appreciates the opportunity to comment on the consultation paper.

Alinta Energy has made detailed submissions to recent AEMO SRAS review process which may be of interest to the AEMC. Those submissions can be found here:

- <http://www.aemo.com.au/Consultations/National-Electricity-Market/Open/System-Restart-Ancillary-Services-2013-Consultation/System-Restart-Ancillary-Services-Issues-and-Options-Paper>
- <http://www.aemo.com.au/Consultations/National-Electricity-Market/Open/System-Restart-Ancillary-Services-2013-Consultation>

Should you have any queries in relation to this submission or earlier submissions please do not hesitate to contact me on, telephone, 02 9372 2633.

Yours sincerely,



Jamie Lowe
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