

Christiaan Zuur  
Australian Energy Market Commission  
L6, 201 Elizabeth Street  
Sydney NSW 2000

By online submission

14 May 2014

Dear Christiaan,

**System Restart Ancillary Services Rule Change Proposal – Ref ERC0168**

GDF Suez Australia (GDFSAE) welcomes the opportunity to make a submission to the AEMC System Restart Ancillary Service Consultation paper (Consultation Paper).

GDFSAE owns and operates 3,540 MW (gross) of renewable, gas-fired and brown coal-fired generating plants in Victoria, South Australia and Western Australia, and owns the Simply Energy second tier retail business with more than 340,000 customers across the National Electricity Market. The business is part of the Energy International business line of the GDF SUEZ group which is arguably the largest independent power producer in the world, and has a strong presence in its markets with 78 GW gross (41.9 GW net) capacity in operation and a significant programme of 5.5 GW gross (3.5 GW net) capacity of projects under construction as at 30 June 2013.

As one of the proponents in support of the Generators' rule change proposal, GDFSAE reiterates in this submission, our support for the Generators' rule change proposals. We believe that these changes are required to clarify the governance arrangements for system restart, and to ensure distinct and separate roles for the Reliability Panel to establish the system restart standard, and for AEMO to procure services to meet that standard.

The current the need for this clarification is underscored in the current system restart procurement process, in which AEMO propose radical changes to the amount of system restart service to be procured. GDFSAE accept that it is appropriate for AEMO to seek to meet the system restart standard in the most cost effective manner, but we do not accept that AEMO (the monopsony purchaser) should have the authority to unilaterally amend the level of service. This responsibility should sit with an independent body such as the Reliability Panel.

AEMO are conducting a consultation process in parallel with this Rule change consideration, in which AEMO are seeking to introduce changes to the SRAS framework. GDFSAE have raised concerns with AEMO regarding the appropriateness of this, given that their authority to implement such changes is currently the subject of a rule change proposal currently under review by the AEMC.

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Prior to their current consultation process, AEMO also conducted a review in 2013 in which they raised the option of reducing the number of system restart sources available in the NEM. AEMO received a number of submission to their proposals, and GDFSAE suggests that the AEMC review those submissions which can be accessed on AEMO's website at

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

and

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

GDFSAE has supported a review carried out by ROAM Consulting on the arrangements for system restart in the NEM. The findings of this review, which have been submitted to the AEMC rule change process, highlight a number of matters of concern regarding the approach that AEMO are proposing to take.

The remainder of this submission contains specific responses to the questions posed by the AEMC in the consultation paper.

**Q 1.1: Do the current SRAS frameworks, including the NER, SRS and SRAS Guidelines, provide adequate guidance to the market regarding the objective and economic basis of SRAS?**

GDFSAE believe that the current SRAS frameworks are inadequate as there is not a sufficiently clear distinction between responsibilities for establishing policy (e.g. the standard to be met), and implementing procedures for procurement and operation.

**Q 1.2: If further guidance is required regarding the objective and economic basis of SRAS, what changes should be made to the frameworks?**

GDFSAE believe that it is important to clarify that the Reliability Panel is responsible for establishing policy through the system restart standard, and that AEMO is responsible for implementing the policy (procuring the SRAS). The framework should make it clear that in procuring the system restart service, AEMO does not have the authority to change the amount of service to be procured.

**Q 2.1: What analytical approaches could be used to inform any required changes to the SRAS frameworks to provide improved guidance regarding the objective and economic basis of SRAS?**

A number of generator businesses have commissioned ROAM to carry out analysis of the probability and economic impact of blackout events. GDFSAE believes that the approach set out in the ROAM report provides a reasonable basis for the Reliability Panel to consider this issue.

**Q 2.2: Are there particular strengths or weaknesses associated with any of these potential analytical approaches?**

In assessing events with very low probability it is generally not possible to be precise in determining the probability or impact. However, GDFSAE believes that there is value in carrying out some analysis, to at least establish whether the probability and/or impact is so small that it can be ignored, or whether there is a level of likelihood that warrants mitigation measures.

**Q 3.1: Does AEMO face conflicts or difficulties reconciling its role as procurer of SRAS and its role in determining certain aspects of the SRAS frameworks?**

GDFSAE believe that AEMO does face conflicts in reconciling its role as SRAS procurer and determining various SRAS guidelines. For example, it is not appropriate for AEMO to respond to cost increases by deciding to reduce the level of service purchased. By doing this, AEMO are effectively making a value / risk

assessment that the higher cost of purchasing additional services is not justified in terms of potential to restart the power system more quickly.

GDFSAE notes that according to tables 4.4 and 4.7 of the ROAM review<sup>1</sup>, AEMO would be unable to meet the current system restart standard of restoration of 40% of the demand within 4 hours, if there is only one SRAS source available, for the scenarios examined by ROAM. This analysis suggests that the approach proposed by AEMO would lead to the system restart standard not being achieved.

**Q3.2: Would there be benefits in additional oversight of AEMO in its development of the various SRAS Guideline documents?**

GDFSAE believes that the issue is not so much oversight – but governance and responsibilities. AEMO should be able to perform their role of SRAS procurement with little if any direct oversight from regulatory agencies, but their boundary of responsibility should be drawn to clearly exclude AEMO from consideration of the system restart standard.

**Q4.1: Is it necessary to include a specific requirement in the NER for the Reliability Panel to consult with certain stakeholders, or are existing provisions sufficient to ensure adequate consultation?**

The current rule obligation is for the Reliability Panel to determine the system restart standard on the advice of AEMO (rule clause 8.8.1(1a)). GDFSAE would be satisfied if this requirement was changed to require the Reliability Panel to consult in accordance with the standard Rules consultation procedures.

**Q4.2: Is there merit in requiring a periodic review of the SRS by the Reliability Panel? If so, what might be an appropriate time period for such a review?**

GDFSAE does not support a periodic review of the system restart standard. Once the standard is properly established, it should remain stable unless there is a material change in relevant circumstances. GDFSAE believes that it is important to provide regulatory stability, and not carry out unnecessary reviews.

**Q5.1: Would there be any benefits associated with making the restoration targets in the SRS operational standards?**

It is important that the obligation on AEMO to procure sufficient SRAS is made clear in the system restart standard, and should not be regarded by AEMO as a mere guideline which they are free to relax at their choosing. On the other hand, making the restoration of a certain percentage of the load within a defined timeframe an operational obligation on AEMO overlooks the uncertainty associated with a system restoration process.

An alternative would be that the SRS is expressed as a planning standard placed upon AEMO, in which they would be obliged to demonstrate in a transparent manner (open to comments from market participants), the planning studies they have performed to satisfy themselves that they would reasonably be able to achieve the SRS recover standard for a number of system black scenarios. It is anticipated that if AEMO were obliged to carry out a planning analysis such as this, it would be required to take a probabilistic approach to deal with the uncertainty associated with starting generators and re-energising transmission elements and demand blocks.

**Q5.2: Are there are specific classes of participants who may face significant costs associated with a power failure and who may benefit in having a "firmer" restoration time frame?**

Different categories of customers are likely to place different values on the reliability of their electricity supply. However, the SRS should be set to a level that achieves a reasonable recovery time based on an 'average' consumer. Any specialised consumers that might require a more stringent standard of recovery should put in place their own local arrangements at their own cost.

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<sup>1</sup> ROAM Consulting Review of System Restart Ancillary Services (SRAS) Requirements in the NEM, 7 May 2014

**Q5.3: Are there likely to be any cost or implementation issues related to turning the restoration timeframes into operational standards?**

If the standard is defined as a planning standard, then AEMO should be able to carry out the necessary system restart studies for a number of scenarios at a reasonably low cost.

**Q5.4: Is AEMO's proposal to undertake transient or dynamic modelling of SRAS a relevant consideration? Would such modelling provide the market with improved certainty regarding the capacity of procured SRAS to restore power?**

AEMO's proposed use of transient and dynamic studies seems reasonable, and would provide greater confidence in the modelling results. However, it needs to be recognised that these more complex models require the generators to provide more complex modelling data, which for some of the older generators, might not be readily available. As a result, generators may need to do additional dynamic assessment and testing of their plant, which would introduce additional costs.

**Q6.1: Is it appropriate to remove the definition of primary and secondary restart services from the NER?**

GDFSAE supports the removal of primary and secondary restart definitions, although it might lead to some existing (cheaper) SRAS sources no longer qualifying. This could potentially result in higher SRAS costs.

**Q6.2: What impacts would the removal of these definitions have and would it be necessary to develop some other guidance regarding what forms of restart services should be procured?**

GDFSAE believes that it is important to have clear guidelines on what factors need to be taken into consideration in assessing a potential SRAS source. Such guidelines would also assist potential new SRAS suppliers in understanding their obligations, should they decide to become SRAS providers.

**Q7.1: Do SRAS markets display characteristics which would imply ineffective or limited levels of competition? Do increases in SRAS costs identified by AEMO reflect such an outcome in SRAS markets?**

Although there are a limited number of potential SRAS providers, GDFSAE believe that there is sufficient competition to warrant a continued market approach to the procurement of SRAS. As well as existing potential SRAS sources, the SRAS tender process provides an opportunity for new entrants, which maintains a level of competitive pressure on existing SRAS providers. It is noteworthy that the largest increase in SRAS costs in recent years has occurred in NSW, where the generation sector remains government owned.

**Q7.2: To what extent have or would changes to the quantity of SRAS procured influence the price of SRAS?**

Reducing the quantity of SRAS procured would in general, reduce the overall procurement costs. However, this approach suggests a greater burden would be placed on the reduced set of SRAS providers, which in turn is likely to cause those SRAS providers to increase their price to cover their increased exposure to risk of not delivering the service, or meeting testing requirements etc.

**Q8.1: Would price arbitration or regulation effectively address any inefficiencies in the SRAS procurement process? Is the Dispute Resolution Adviser an appropriate body to administer such regulation?**

Price arbitration should not be applied when there is competition in the electrical sub-network. The assessment of the level of competition needs to include the possibility of a new entrant, as this applies competitive pressure on the existing providers. Only in cases that it is clear that there is not competition in a sub-region, nor is there any reasonable likelihood of new entrants choosing to enter, should arbitration be considered.

**Q8.2: Would a price arbitration option influence SRAS providers' decisions to enter an SRAS tender? Would it influence their decision to invest in new SRAS facilities?**

The threat of arbitration introduces a barrier to entry, as the potential of having to go through an arbitration process would tend to discourage participation in the tender process.

**Q8.3: Have the arbitration provisions included in the NSCAS procurement processes ever been utilised? Are these processes applicable to SRAS?**

GDFSAE has no specific knowledge on this matter.

**Q8.4: Are there any other alternative solutions that should be considered?**

If AEMO is unable to meet the SRAS standard, then GDFSAE suggests that it should report this outcome to the market. This transparency might lead to new entrants coming forward.

**Q9.1: Does the current smeared, NEM-wide approach to SRAS cost recovery result in any inefficiencies? Would there be benefits associated with the recovery of SRAS costs on a regional basis?**

GDFSAE suggests that the current smeared cost allocation probably does result in some inefficiencies and cross subsidies as noted in the AEMC consultation paper. However, moving to a regional recovery may introduce new inefficiencies. In particular, with AEMO proposing that they rely on inter-regional support when considering the number of SRAS sources needed in a region, it could be argued that the customers in the region 'importing' the SRAS service, should pay for the inter-regional service.

On balance, GDFSAE would suggest that the current NEM wide cost allocation remain in place.

**Q9.2: Would the establishment of sub-networks that span multiple NEM regions create disproportionate complexity in the implementation of regional SRAS cost recovery?**

Electrical sub-networks that span NEM regions will introduce complexity in implementing regional SRAS cost recovery. GDFSAE therefore suggests that, that the current NEM wide cost allocation remain in place.

**Q10.1: Is AEMO's proposed amendment to clarify that SRAS is procured by AEMO rather than TNSPs appropriate?**

Yes – OK

**Q10.2: Is it necessary to specify that AEMO should consider any other matters in NER clauses 3.11.4A(d)(3) and 3.15.6A(c4)(2)?**

The current wording in the clauses referred to seems appropriate and there is no need to change. GDFSAE notes however that the reference to clause 3.15.6A(c4)(2) is incorrect (no such clause). It should be 3.15.6A(c3)(2).

GDFSAE hopes that the information provided in this submission assists the AEMC in their consideration of these rule change proposals. Should you require further information, please do not hesitate to contact me on 03 9617 8331.

Yours sincerely,



Chris Deague