



19 February 2015

Mr John Pierce  
Commissioner  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Submitted online: [www.aemc.gov.au](http://www.aemc.gov.au)

Dear Mr Pierce

### **ERC0168 – System Restart Ancillary Services**

Origin Energy (Origin) appreciates the opportunity to provide comments to the Australian Energy Market Commission (AEMC or Commission) Draft Rule Determination on system restart ancillary services (SRAS). Origin considers the draft determination is broadly appropriate to maintain reliable SRAS arrangements at an efficient price.

***Origin supports the AEMC clarifying the functional separation between the Reliability Panel and Australian Energy Market Operator (AEMO):*** The Reliability Panel and AEMO perform different functions under the SRAS framework and it is appropriate that this is recognised in the National Electricity Rules (NER or Rules). Providing additional guidance on how the Reliability Panel develops the System Restart Standard (SRS or Standard) and how AEMO procures restart services could assist in ensuring adequate SRAS are procured consistent with the National Electricity Objective (NEO).

Origin supports reporting obligations for AEMO to improve transparency and accountability around the procurement of SRAS. It is important that AEMO is able to demonstrate the process it has followed in procuring restart services for each electrical sub-network and the ability of the services to achieve the restoration timeframe under the Standard. Providing transparency around testing and assessment of power system modelling is also likely to assist in this objective.

***Origin supports retaining the current SRAS tender guidelines:*** A clear and consistent tender process is likely to promote competition in the provision of SRAS over the long term. We support the AEMC in not endorsing the proposal for price arbitration. We consider price arbitration could be detrimental to promoting competition in SRAS over the long term due to the increased risk in obtaining a commensurate return on providing a restart service with the cost of investment.

We consider the draft proposal to allow AEMO to procure SRAS under multiple tender processes will not enhance but deter competition through the process likely to be characterised by opaque and bespoke contracts creating uncertainty in how AEMO procures SRAS.

***Origin welcomes the clarification that SRAS should be procured on the basis of a National Electricity Market (NEM) wide or multiple region major supply disruption:*** The size or location of a major supply disruption cannot be determined with any accuracy. It is important therefore, that each electrical sub-network is capable of restarting independently of adjoining sub-network - assumptions regarding the availability of an adjoining electrical sub-network being available to restore supply are unreliable.

**Origin does not support the explicit reference to restart services only being acquired by AEMO:** Origin understands that, while not explicit, it is possible under the existing SRAS arrangements for a person, other than AEMO, to procure non-market ancillary services (NMAS) as a form of SRAS. As the Reliability Panel and AEMO are not, ultimately, accountable for the consequences of a major supply disruption we consider a person, for example a jurisdictional body or business, be able to independently procure a non-market ancillary service to contribute to the restart process to ensure community expectations are met.

Should you have any questions or wish to discuss this information further, please contact Ashley Kemp on (02) 9503 5061 or [ashley.kemp@originenergy.com.au](mailto:ashley.kemp@originenergy.com.au).

Yours sincerely,



Steve Reid  
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Energy Risk Management

## **1. The functional separation between the Reliability Panel and AEMO**

The Rules should clearly define the functional separation between the Reliability Panel and AEMO under the SRAS framework. It is also important that sufficient guidance is provided as to the objectives that each body is expected to achieve. The limit to the governance arrangements under the SRAS framework, however, is that while each body should be accountable for the decisions they make regarding the Standard and SRAS acquired, they are ultimately not accountable for the consequences of a major supply disruption by being indemnified.

### *Changing the objectives under the governance framework*

Origin supports retaining the current objectives under the SRAS governance framework. We consider the draft determination dilutes the objectives under the governance framework. We consider the Reliability Panel and AEMO should endeavour to undertake their respective functions to achieve the SRAS Objective explicitly recognising the Objective is a cost benefit assessment of the cost of a major supply disruption with the cost of procuring SRAS.

The problem with the approach to redefining the SRAS Objective is there is a reduction in the level of guidance as to considering the trade-off between price and reliability. While we acknowledge the difficulty in determining the cost of a major supply disruption, this does not preclude a qualitative assessment of the trade-off between minimising the costs of a major supply disruption and the cost of procuring SRAS.

Origin does not support the development of a new Procurement Objective for AEMO to acquire SRAS at the lowest cost. Where AEMO is required to determine the number, type and location of restart services to be procured to meet the SRS, adequate consideration needs to be given to balancing the cost of a service with the capability of a service to meet the restoration timeframe outlined in the SRS. In the context of AEMO's procurement requirement, the objective should be to acquire SRAS at the most efficient price commensurate with the technical capability and reliability of the service to contribute to meeting the Standard.

Origin supports SRAS being procured at an efficient price given SRAS is procured to minimise the expected economic cost of a major supply disruption given the cost of procuring SRAS. Accordingly, we consider that the Reliability Panel and AEMO should both perform their respective functions under the SRAS governance framework consistent with the existing SRAS Objective.

### *Reliability Panel*

The Rules should identify the Reliability Panel as determining the Standard and provide sufficient guidance on the form the Standard should take – consistent with the SRAS Objective. While the restoration timeframe is a critical component under the Standard, the Rules should provide guidance as to the overall form of the SRS to identify the technical and diversity requirements of a sub-network. The SRS should provide confidence that the restoration timeframe can be met to minimise the expected economic cost of a major supply disruption.

Origin supports the removal of reference to primary and secondary restart services. The distinction does not add any material value to the development of the SRS. Applying a new aggregated reliability requirement is likely to promote competition in the provision of SRAS across a range of assets of varying size and reliability.

We do not support the Standard to stipulate that a restart service can only be acquired by AEMO. While we will elaborate on this separately, the Reliability Panel could be accountable for determining the Standard but they cannot be accountable for the cost of a major supply disruption.

#### *AEMO*

Clarifying that AEMO is to acquire restart services to meet the Standard highlights the functional separation between the Reliability Panel and AEMO. The requirement for AEMO to consult with TNSPs when procuring restart services should provide an additional check and balance that the modelling and assessment of SRAS is accurate and capable of meeting the Standard. As noted above, however, any procurement objective to meet the Standard should be to acquire SRAS at an efficient price in the context of the capability and reliability of the restart service.

As the procurer of restart services, AEMO should be transparent in demonstrating that it has acquired sufficient SRAS to meet the System Restart Standard. Transmission Network Service Providers (TNSPs) have extensive knowledge and experience in operating their networks and it is therefore appropriate that AEMO is required to consult with them in modelling and testing SRAS services in determining what restart services to acquire.

#### *Enhanced reporting requirements for AEMO*

It is important that AEMO is able to demonstrate with a high degree of confidence that procured SRAS are able to meet the Standard. The reporting requirements outlined in the draft determination are likely to assist this through providing transparency around the processes AEMO used to procure SRAS in each electrical sub-network and the modelling and testing it has conducted in assessing restart service provided.

Origin has provided extensive data to AEMO to comply with its new approach to assess restart services based on modelling dynamic and transient stability data. Without breaching confidentiality or security, it is important that the results of these studies are provided to the market to promote transparency and provide confidence in AEMO's ability to restart the grid following a major supply disruption.

#### *Regional cost recovery*

Origin has previously indicated support for cost recovery on a regional rather than NEM-wide basis. Prices should reflect the costs incurred in each region and send a price signal to consumers and generators.

#### *Accountability for a major supply disruption*

Origin does not support any explicit reference to restart services only being acquired by AEMO or changes to the definition of non-market ancillary services (NMAS). We agree with the principles adopted by the AEMC in determining the draft more preferable rule that each body should be accountable for the decisions it makes. The limitation with the SRAS framework is that there is ultimately no or limited recourse to the Reliability Panel or AEMO.

We consider the current Rules provide an opportunity for other persons, either businesses or jurisdictional bodies, to procure a restart service independently of AEMO. While we understand this has not occurred to date - and we consider it is unlikely to happen into the future - as businesses and jurisdictions would be ultimately accountable for the consequences of a major supply disruption they should, in principle, be afforded the opportunity to procure a restart service if they consider the number of procured SRAS as

inadequate to minimise the costs of a major supply disruption and meet community expectations.

## **2. A clear and consistent tender process**

Origin supports retaining the current tender guidelines. We consider competition in the provision of restart services is likely to be enhanced through a clear and consistent tender process with fixed contract periods. While we support measures to increase competition in SRAS markets we consider the draft determination to enable AEMO to procure SRAS by alternative tender processes is unlikely to promote competition through the process being characterised by an opaque and bespoke set of contracts between AEMO and SRAS providers creating uncertainty under the tender process.

Origin considers the current tender process is adequate and provides AEMO with the ability, as a monopoly procurer of restart services, to off-set any perceived limitation in competition in SRAS markets. AEMO is able to assess and model what restart services are available to contract through initiating an expression of interest process. AEMO is subsequently able to choose what services it may prefer to contract with through issuing an invitation to tender to prospective SRAS providers. Finally, AEMO determines who it will issue a SRAS contract based on a range of factors including technical performance and price.

We welcome the AEMC supporting competitive tender processes and determining not to endorse the price arbitration proposal. The existing tender process is clearly understood and balances the interests of both parties to an SRAS contracts. We agree with the AEMC that price arbitration would undermine competitive SRAS markets leading to higher prices over the long term from a reduced incentive for generators to invest in competitive services due dampened price signals and rights under a price arbitration model.<sup>1</sup>

## **3. Procuring SRAS for a NEM-wide major supply disruption**

Origin welcomes the draft determination that SRAS should be procured to mitigate a NEM-wide or multiple region supply disruption. We agree that the probability of a NEM-wide or multiple regions event cannot be determined with any certainty but the cost of a major supply disruption would be significant. It is important therefore, that each electrical sub-network is capable of restarting independently of adjoining sub-network - assumptions regarding the availability of an adjoining electrical sub-network being available to restore supply are unreliable.

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<sup>1</sup> AEMC 2014, 'System Restart Ancillary Services, Draft Rule Determination,' 18 December 2014, Sydney. p. 20.