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The Chairman
Australian Energy Market Commission
PO Box H166
Australia Square NSW 1215

Attn of Mr Matthew Crocker

RE: DRAFT RULE DETERMINATION ON SYSTEM RESTART ANCILLARY SERVICES

The National Generators Forum (NGF) welcomes the opportunity to comment on the two issues raised by the AEMC in relation to the draft Rule determination for System Restart Ancillary Services.

The two issues raised by the AEMC along with the NGF responses are listed below.

Issue 1

Publication of information and price discovery - NEMMCO have suggested that given we are taking a more competitive approach to SRAS provision, more information should be provided on who the successful tenderers are and the cost of provision. Price information is likely to be important for potential new tenderers. Does the NGF have views on what kind of information should be published?

NGF Response

NEMMCO's current practice has been only to publish the total cost of SRAS and the number and names of providers. This is consistent with their approach to other non-market ancillary services. NEMMCO publish the total cost of Reliability safety net contracts without individual prices, names or number of providers. A continuation of the current approach was recommended by NEMMCO in their report¹.

“Where a market for a service is reasonably liquid, transparency of price related information is likely to promote competitive outcomes. However, the market for restart services is relatively thin and NEMMCO is of the view that publishing detailed contract price information is likely to weaken NEMMCO’s negotiating position with existing service providers to the detriment of the market overall. Special

¹ Review of System Restart Ancillary Services Arrangements – Final Report, Volume 1, dated 08 July 2004, Section 2.7.3

considerations of a commercially sensitive nature may need to be taken into account in contracting with parties for the provision of SRAS. Confidentiality needs to be maintained in such circumstances.”

NEMMCO recommends this approach whenever a market is "relatively thin". Whilst the AEMC's draft determination will make SRAS more competitive than it would otherwise be, it could never become "reasonably liquid". Also, the long period (4-6 years) between tender rounds will lessen the competitive benefits of specific pricing information to the next round.

The NGF has not formed a view as to whether such services should be procured more transparently as a general rule, however we see no reason to treat SRAS differently to other contracts procured by NEMMCO using tenders. Therefore, the NGF recommends that NEMMCO continue to publish the same levels of information. From this, it is possible to determine the average cost of contracts and form a reasonable view as to market pricing.

Issue 2

Given the concerns that the NGF and NEMMCO raised about the operation of the long term bilateral contract provisions (i. e how NEMMCO determines what would be 'better value for money') in the draft Rule, do you think that the long term contracting provisions should be removed, or is there a way to structure NEMMCO's discretion a bit better on this issue?

NGF Response

The NGF concurs with the draft determination that provides for long-term bilateral contracting should tendering processes result in the procurement of insufficient quantities of SRAS to meet the standard set by the Reliability Panel. We do not recommend removing this provision, however we believe it should be used only after the tender round has been exhausted.

The threshold to determine the use of long-term bilateral contracting would be where:

- Insufficient technically satisfactory tenders were received for a sub network;
- The price of the tender that NEMMCO would have to procure is significantly greater than an independently assessed estimate of the capital costs of a potential new entrant provider's System Restart equipment in that sub network recovered over the life of the contract.

If you need further clarifications on the above comments, please contact Methsiri Aratchige on 02 8268 4235.

Yours faithfully

John Boshier
Executive Director