



21 March 2006

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Dear Dr Tamblyn

REVIEW OF THE RULES FOR SYSTEM RESTART ANCILLARY SERVICES

Thank you for the opportunity to comment on the AEMC's draft rule change in relation to the SRAS.

Introduction

The Commission's work and the report by consultants Firecone addresses the issue of System Restart Ancillary services. The analysis takes what we would argue is an overly academic and even impractical view of the nature and use of the service leading to the conclusion that the existing and limited price controls on these services should be removed.

The actual changes drafted to the *Rules* also appears to remove those price controls on **all** network control ancillary services, not just system restart services, without any analysis or argument as to why that is a prudent decision. The Planning Council urges the AEMC to reconsider the draft *Rule* changes and to reinstate the original price controls in the current rules for all non-market ancillary services.

The role of System Restart Ancillary Services

The Planning Council concurs with the draft report that it is vital to have system restart services available to the power system. However, in analysing these services, it is important to keep in perspective the likely frequency of use of such services. In fact, the use of such systems is so low that the provision of system restart on economic grounds would be hard to assess.

A properly operated and protected power system with diverse ownership should be at very little risk of ever running totally black. While one sub-region or region may run black for a period, one would normally expect at least a core of the power system to be saved and this core would normally provide the quickest and most practical way to restart a black region. Many large generators can be

resynchronised and recommence generating from a trip if at least some power is available within a few minutes. It is our understanding that no black start service has ever been used in the seven years the NEM has been operating. Regions in the body of the national grid having connections to the rest of the NEM on each side would be particularly unlikely to need the service.

Scope for more investment in System restart Ancillary Services

The tender process seeks to provide a mechanism by which alternative suppliers can come forward if they are able to offer a more efficient and cost effective source of SRAS. The Planning Council fully supports this, the clear specification of the service outcomes and other steps aimed at underpinning a more open tender process. However, one must question the true competitive position of such a process given that, while a number of generators could potentially re-equip to make themselves capable of black start, only a few could realistically be part of a viable black start scheme. Even where possible, there could be quite a high cost to develop the control equipment, reactive power devices and switching schemes over and above the black start capability of the incumbent suppliers of that service.

The report argues that more services would be useful in that they would start the system quicker. As outlined above, we consider that these services should only be used rarely if ever. If the power system ever was in a true system black condition, we question the practicality of using more than one service in a region. In such circumstances, only a small number of services could be managed concurrently and coordinated with network and load switching through a black start procedure. Where the system in different sub-regions was started under separate system restart procedures, there would need to be both sufficient resources to concurrently manage multiple black start procedures and an ability to synchronise each sub-region. Given the likely limited application of these services, greater expenditure on more services and devising even more complex arrangements for their use would seem inefficient.

Cost and value of the service

The very low probability of using such a service, coupled with the difficulties in using more services at the stage where the system is black means that the notional graph drawn showing the decreasing economic cost of having more such services available would be very difficult to turn into realistic numbers. Conversely, the AEMC is projecting a total cost of SRAS in 2005/06 of over \$13 million. While this is a small proportion of the total electricity cost, that cost should still be reasonable and related to the risk it offsets.

Given that the use of such a service in any area would be sparse, say 1 in 30 years, and the impact would likely be on only one sub-region, the benefits would need to be very high to justify more than the two services currently proposed. In fact, it may even be difficult to economically justify two services in most cases.

The Commission's draft report considers that:

The objective for system restart ancillary services is to minimise the expected economic costs of a major supply disruption, taking into account the cost of supplying SRAS, consistent with the NEM objective.

The *Rules* do need to recognise the need for some black start services on the basis that, although a very low risk, the potential consequences of having no capability to recover quickly from such a circumstance are high. As they are only there to mitigate an extreme risk, we consider that they should be obtained at a fair and reasonable cost. We see little argument for increasing prices to stimulate unnecessary investment.

Existing price control on the acquisition of non-market ancillary services where supply is limited

The current *Rules* were drafted understanding the need for these services and to fairly fund their continuing availability. However, because their supply is constrained, a limited check was placed on the prices offered through the tendering process. The *Rules* therefore currently provide a process to negotiate and, if necessary, arbitrate prices when that process is not deemed to be competitive, viz:

“A tender will be deemed to be a competitive tender for a particular non-market ancillary service if the required quantity of that non-market ancillary service can be supplied from the conforming offers received by NEMMCO with any one conforming offer discarded or all conforming offers from any one party discarded.”

If a tender process is not deemed to be competitive, then there are processes to negotiate to agree reasonable terms and conditions taking into account the need to:

- (1) minimise the overall cost of supply of that non-market ancillary service; and
- (2) appropriately remunerate the providers of the relevant non-market ancillary service for that service.

If NEMMCO and the supplier cannot agree, the standard dispute resolution process under the *Rules* is invoked.

We note that the NGF submission, while criticising some of the changes proposed by NEMMCO for a more comprehensive price review power, did support the existing arrangements.

The Commission argues in the draft report that it “considered the risk that regulatory error could have on the level of service offered” and that “regulated provision runs the risk of limiting investment”. The Planning Council sees little argument that the regulatory scheme in the current *Rules* is overly onerous or that it needs to stimulate investment. In many cases the most efficient outcome will be to prevent dis-investment.

Application of the Rule changes to Network Control Ancillary Services

The current procedure for price review where the tender process is deemed uncompetitive applies to **all** non-market ancillary services; that is, to both SRAS and NCAS (Network Control Ancillary Services). The proposed draft removes these checks and balances on both types of ancillary services on the basis of advice from Firecone that SRAS could potentially in the future be competitive. There appears to be no justification of this change to the acquisition of NCAS. NCAS services are usually very location specific and often have only one viable tenderer. The removal of any check or balance on the prices they might offer would appear to simply invite excessive bids.

I would welcome the opportunity to discuss any of the matters raised above with you or your staff.

Yours sincerely

David Swift
CHIEF EXECUTIVE