

3 September 2010

Scott Stacey
Australian Energy Market Commission
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AEMC Reference: ERC0108

Dear Mr Stacey

**RE: ERC0108 – National Electricity Amendment (Network Support and Control Ancillary Services)
Rule 2010**

Alinta Energy Limited (AEL) appreciates the opportunity to provide comment on the Commissions rule amendment consultation paper regarding Network Support and Control Ancillary Services (NSCAS). AEL have prepared this submission having given consideration of the National Generator Forum's (NGF) Deloitte's critique of the proposed rule amendment¹. AEL recognise the significant level of consultation already completed by AEMO in forming this rule change request however still believe a number of issues remain outstanding.

The provision of NSCAS, either by AEMO or the TNSPs, is by definition essential to maintaining power system security and reliability in the National Electricity Market (NEM). AEMO have proposed that all future NSCAS requirements are to be identified as part of the annual development of the National Transmission Network Development Plan (NTNDP). AEL understands that in development of the NTNDP AEMO is to have regard to the TNSPs Annual Planning Reports (APR) and in turn these reports are to have regard to the NTNDP². Additionally, AEL note as part of the proposed rule change request TNSPs will have primary responsibility for the procurement of NSCAS and where an NSCAS requirement has been identified and remains unmet by a TNSP for a period of 18 months, AEMO is to tender for NSCAS.

The current arrangements see TNSPs procure a significant amount of NSCAS, specifically reactive power capabilities, through mandatory service acquisition as detailed within the connection agreements and generator performance standards of market participants. In doing so, a TNSP obtains these services for 'free' from registered scheduled generators, and to lesser extent semi-scheduled generators.

AEL appreciates that as the current review does not explicitly examine the effectiveness of this current arrangement then the current review of NSCAS is more likely to provide a sub-optimum outcome inconsistent with the NEO. Specifically, AEL considers that any structures designed to provide better incentives to TNSPs and AEMO to provide efficient and effective procurement of NSCAS that does not directly address the "free provision" of the majority of NSCAS services through connection agreements

¹ Deloitte has been engaged by the NGF to critique the Rule Change proposal. Deloitte's report is included as an appendix to the NGF submission.

² AEMO National Transmission Network Development Plan (NTNDP): Consultation Paper page 2

and generator performance standards will continue to embed the cross-subsidy between current registered generators, TNSPs³ and electricity users.

AEL consider appropriate contracting arrangements between TNSPs and market participants, should be put in place for the provision of these services, in doing so the market will be presented with greater information and transparency and the actual efficient price for these services.

The rule change request appears to depend heavily on the information provided within the NTNDP and the outcomes developed under the RIT-T. These two tools are currently untested instruments within the NEM regulatory framework,⁴ and represent a residual risk within the AEMC's proposed rule change where it depends on these tools operating effectively.

The RIT-T requires TNSPs to consider markets benefits when assessing a project, without placing an obligation to actually complete the project. Moreover, the TNSP do not at present under the NER have an explicit obligation to undertake a project based solely on market / economic benefits even where the service need is identified by AEMO. This creates a scenario where the NSCAS requirements identified by AEMO may not be met despite the overall economic benefit to the market. AEL recommend the AEMC amend the proposed rule to ensure an appropriate obligation is placed upon TNSPs and AEMO.

The timely identification and provision of NSCAS is of the utmost importance and as a result failure to provide TNSPs with appropriate incentives to procure NSCAS, particularly within what could be considered as an arbitrary period of 18 months, potentially limits AEMOs options to meet its security and reliability obligations. Notwithstanding the infancy of the NTNDP and RIT-T, AEL considers there opportunity to improve AEMOs proposed arrangements, primarily given the interaction between AEMO and TNSPs in developing respective network planning documentation, by requiring TNSPs respond to AEMOs identification of NSCAS requirements as part of the next release of their APR.

In doing so AEL supports Deloitte's proposed structure in which TNSPs would be required to identify:

- all existing sources of NSCAS;
- all existing plans the TNSP has for NSCAS in meeting an identified requirement; and
- reasoning as to why the NSCAS need has not been met, and where required, whether the need will be met by the TNSP⁵.

At a minimum, the provision of this information to the market will assist in creating a level playing field should AEMO be required to tender for the provision of NSCAS. Beyond this however AEL considers incorporating this obligation on TNSPs will create the appropriate incentive framework ensuring the efficient procurement and planning of NSCAS.

³ TNSPs are the jurisdictional body required to meet state jurisdiction security, and reliability requirements – by being able to procure NSCSAS through licensing imbeds a cross-subsidy through regulatory means.

⁴ The first publication of the NTNDP is currently scheduled for December 2010.

⁵ Deloitte critique page 29

A further area the AEMC could consider would be to amend the current NER arrangements (clauses 5.6.2A, 5.6.3, 5.6.4) to adequately address the provision of sufficient NSCAS for inter-regional network services by:

- increasing the obligation on TNSPs to be obliged to respond to AEMO's NTNDP
- subject TNSPs to the civil penalty provisions of the NEL for failure to respond to the obligation
- allow AEMO through the NTNDP to commence its own competitive procurement process for identified inter-regional NSCAS network need where AEMO considers there to be material risks to network operations.


AEL notes that such an arrangement may result in an outcome where AEMO NTNDP identifies a need in TNSP A and B regions, and neither TNSP responds to the extent that AEMO procures the building of the required asset or contracts from a participant which is not the same as the incumbent TNSP. Such an outcome will make determining cost recovery for AEMO problematic. AEL suggests that a cost allocation principle that where any AEMO procured NSCAS related service for inter-regional constraints should simply be allocated to the TNSP region where the asset was constructed or service procured would represent the best way forward.

AEL considers that the AEMC should examine the costs and benefits of limiting incumbent TNSPs from participating in an AEMO initiated tender process where the incumbent TNSP had not appropriately addressed the NSCAS requirements identified by AEMO in its NTNDP.⁶ A number of options may be considered with respect to this such as allowing other jurisdictional based TNSPs tender for the service, enforcing payment obligations upon the TNSP⁷ or amending the rules ensuring TNSPs (and AEMO) procure NSCAS where the RIT-T has identified a potential market/economic benefit.

An appropriate incentive framework has the added benefit of reducing the relevance of the 18 month period prescribed in the rule change request by incentivising AEMO and TNSPs to respond to a NSCAS requirement sooner.

Should you wish to discuss the contents of this submission further please give me a call on 07 3011 7646 or Lance Brooks on 07 3011 7667.

Yours sincerely

A blue ink signature of James Reynolds, consisting of a stylized 'J' and 'R' followed by a horizontal line.

James Reynolds
General Manager
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Alinta Energy

⁶ If AEMO identified an NSCAS requirement in its NTNDP, and the TNSP through its APR, and regulatory determination approval decided not to include, but then participated in an AEMO initiated procurement process for the same NSCAS service then the TNSP has effectively 'gamed' the process creating a form of moral hazard through the regulatory regime.

⁷ Placing the obligation upon the TNSP to pay for NSCAS procured through tender may be considered an appropriate response where a TNSP has failed to meet the NSCAS requirements despite the assessment resulting in an overall market benefit. The costs of the tender could therefore be recouped through charges to customers who ultimately benefit from the service.