10 December 2015

Mr John Pierce
Chairman
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000

Lodged via www.aemc.gov.au

Dear Mr Pierce,

RE: Compensation arrangements following application of an administered price cap and administered floor price (Ref ERC0176)

GDF SUEZ Australian Energy (GDFSAE) appreciates the opportunity to comment on the Australian Energy Market Commission (AEMC) additional consultation paper on compensation arrangements following an administered price cap or administered price floor.

GDFSAE notes that the AEMC published their draft determination on the 13 August 2015, which proposed a number of amendments to the National Electricity Rules (the rules), including removing eligibility for compensation for ancillary services providers following the application of an administered price event.

Since publication of the draft determination, a planned outage of the Heywood interconnector during which the Australian Energy Market Operator (AEMO) purchased an amount of regulating frequency control ancillary service (FCAS) from within South Australia, resulted in administered prices for regulating FCAS in South Australia.

Subsequent to the Heywood outage and the purchase by AEMO of local regulating FCAS in South Australia, there has been a great deal of discussion and review by AEMO and market participants about why the regulating FCAS was required in this circumstance, and the likelihood of this being needed in the future.

AEMO has advised that for any future occasions where the South Australian region would become an electrical island following any single credible contingency, they will purchase, pre-contingency, an amount of regulating FCAS locally from the South Australian region.

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A key consideration is the limited number of suppliers of regulating FCAS in South Australia at present, and the fact that one of the existing suppliers is Northern Power Station, which Alinta Energy has announced will be closing in early 2016.

Given the new operating arrangements whereby AEMO will purchase local FCAS in South Australia for a credible islanding risk, and given that there are limited and dwindling suppliers of this service, it is important to maintain adequate incentives to attract new entrants into the South Australian FCAS market. This issue also has the potential to impact on other regions, in particular those that are potentially at islanding risk (notable Tasmania and Queensland).

The nature of FCAS prices is that they are typically quite low, but can occasionally reach very high levels for short periods of time. For example, the average payment for South Australian regulating raise FCAS for the first 41 weeks of 2015 was $7,565[1] per week, but then in the following 4 weeks (during the Heywood interconnector outage referred to above) it was almost $3.3 million per week.

If new entrants are to be encouraged to invest in plant that can participate in the FCAS markets, they will need to have a level of confidence that they will be able to make a reasonable return on their investment. Given the nature of FCAS prices described above, the potential new entrant will most likely be reliant upon the occasional high FCAS prices periods to cover their investment costs. If a potential new entrant is unable to apply for compensation following an administered price event, there will be an additional barrier to the potential new entrant making a decision to invest.

The growth in intermittent generation and the withdrawal of a number of synchronous generators in Australia are leading to new challenges in maintaining power system frequency. To ensure that AEMO are able to continue to maintain adequate power system frequency, it is important that a sufficient number of FCAS providers continue to be available.

For these reasons, GDFSAE is supportive of the AEMC's preliminary view to include eligibility for ancillary services providers to claim compensation following an administered price limit event.

Further to the above comments in support of maintaining appropriate investment signals for ancillary service providers, GDFSAE would ask the AEMC to reconsider the points made in our previous submissions to this rule change proposal[2], which argue that energy market participants should also be able to seek compensation following an administered price event for foregone energy revenue that was reasonably expected by the participant, to support their investment decisions.

GDFSAE believes that there is little risk in including within the rules, eligibility for participants to seek compensation following an administered price event for ancillary services, or for investment in general, as all applications for compensation will need to set out the specific loss and reasons why it should be compensated.

[1] Based on date from AEMO file AS Payments Summary 2015 at http://www.aemo.com.au/Electricity/Data/Ancillary-Services/Ancillary-Services-Payments-and-Recovery

[2] See GDFSAE submission - 4 June 2015 (http://www.aemc.gov.au/getattachment/7ceaf0b3-0265-4dc9-aedb-2d0ef60f42b1/GDF-Suez.aspx) , and submission - 24 September 2015 (http://www.aemc.gov.au/getattachment/eb3a5e4b-1ef7-4e7b-b9c8-f4b16555e0bc/GDF-Suez.aspx)

GDFSAE trusts that the comments provided in this response are of assistance to the AEMC in its deliberations. Should you wish to discuss any aspects of this submission, please do not hesitate to contact me on, telephone, 03 9617 8331.

Yours sincerely,

Chris Deague
Wholesale Regulations Manager