

5 February 2015

Christian Zurr
Australian Energy Markets Commission
PO Box A2449
Sydney South NSW 1235
Submitted via AEMC website – ERC0168

Dear Christian,

RE: Draft decision on System Restart Ancillary Service Rule Change

Stanwell welcomes the opportunity to provide additional comment in relation to the Australian Energy Markets Commission's (Commission) rule change process regarding System Restart Ancillary Services (SRAS).

Stanwell supports the majority of the proposed measures

Stanwell welcomes the Commission's confirmation that SRAS procurement should include consideration of a National Electricity Market (NEM) wide or multi region black event. We also support the proposal to formalise this arrangement through requiring the System Restart Standard to include standalone restoration times.

Stanwell also strongly supports the Commission's draft decision to reject AEMO's request for price arbitration of SRAS offers. As indicated in the draft decision, providers who are required to hold an offer firm and are then also subject to price arbitration are likely to reconsider whether to offer the service at all.

Stanwell also support a number of relatively minor changes and clarifications, listed in Appendix A.

Stanwell is concerned by the use of a "lowest cost" rather than "greatest net benefit" approach.

We believe that both consumers and generators are entitled to SRAS procurement based on a cost-benefit analysis, and that this analysis can only be meaningfully performed with knowledge of offer prices. Accordingly, the proposal to provide AEMO with a procurement objective which requires a "lowest cost" outcome rather than a greatest net benefit is inappropriate. Such an approach would require AEMO to procure a certain number (quality) of services even if the cost to do so far outweighed the likely benefit. It would also preclude AEMO from procuring additional low cost services which would help to minimise disruption and cost in the aftermath of a system black event.

For example, if the System Restart Standard (SRS) says "procure at least two services, with at least 99% combined restart reliability" then this is what AEMO will have to do. If the second service is \$1Bn and there's no other offers, AEMO will have to buy this expensive second service. Conversely, if three services are \$1, \$2 and \$3 then, under the proposal, AEMO won't be able to buy the third service even if it decreases restoration time and saves tens of millions (NPV).

Despite the commentary in the draft decision regarding the difficulty of valuing a significant outage event, we believe the ROAM Consulting report provided to the Commission contains a reasonable cost estimate. The use of an internationally agreed “power law” to estimate the probability of an event, coupled with consideration of measures such as the Value of Customer Reliability provides a robust basis for estimating the cost of an event over varying timeframes. Having performed this analysis, AEMO could then consider SRAS offers and the resulting restoration times to determine the optimal volume of services to procure.

We note that AEMO has previously indicated support for inclusion of probabilistic analysis¹.

Stanwell note that the commission has proposed to retain the 50:50 split of cost recovery between generators (including aggregators) and customers. If this split is believed to be reflective of the relative benefits provided to each participant class, then this should be reflected in the valuation of a major event. For example, if the value to customers is relatively easily determined then it can be assumed that the generator value would be the same (for a 50:50 split) when determining the total value of the event.

Significant uncertainty remains regarding the 2015 procurement process

While the rule change process is not specifically linked to AEMO’s procurement of SRAS in 2015, there remains significant uncertainty regarding AEMO’s procurement requirements.

In particular, the confirmation that AEMO must consider a NEM wide or multi region event in its procurement can not be enforced because this requirement is in the revised SRS which will only apply after the current procurement process is complete.

Participants are therefore uncertain as to whether AEMO will act in accordance with the proposed interpretation or the more restricted – and disputed - interpretation which has formed the basis for their consultations up to this point.

Some items require further clarification

Further clarity is required regarding the impact on the restart plan for a sub-network if a generator in that sub-network is contracted to a neighbouring sub-network. For example, will that station be assumed to be available, online, or able to manage attributes such as block loading and voltage control given its possible role in rebuilding the neighbouring sub-network? This information may be contained within the non-published system restart plan rather than in the public domain.

While the removal of the formal tender requirement may help avoid a repeat of the current situation - where AEMO are progressing SRAS procurement in parallel with a rule change proposal which will fundamentally alter the approach – it does raise questions regarding the accessibility of SRAS markets to different participants. If procurement is not performed through a visible, competitive process, there is a risk that participants may not engage in the process. For example, new entrants may not know when or how to offer services. Also incumbents may not realise that AEMO are running a process well before the end of the existing agreement. Additionally, where AEMO procure a service other than via a competitive process (ie direct

¹ Draft decision, page 37.

contracting), it is unclear how this procurement will be assessed with respect to its value to consumers and generators.

The proposal to include reference to "Connection points" in the definition of a major event appears to be redundant, given the existing definition refers to one or more generators, and generators have connection points.

Similarly the proposal to move to regional cost recovery appears to provide little benefit given that most regions have similar costs and revenues. While Stanwell does not oppose either measure, we do question the merits of the proposal, particularly as regional cost recovery simply transfers wealth between participants and customers in different States.

Thank you for your consideration of Stanwell's response to the Draft Decision. If you would like to discuss any aspect of this submission, please contact me on 07 3228 4529.

Regards



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Manager Regulatory Strategy
Energy Trading and Commercial Strategy

Appendix A

Stanwell support a number of relatively minor changes and clarifications which are not expected to be contentious.

- Formalising the requirement for bi-directional engagement between AEMO and Network Service Providers (NSPs).
- The additional transparency provided by the proposed AEMO reporting. We do however question the logic regarding the removal of AEMO's requirement to publish the number of services procured. This seems likely to act as an information barrier which will deter new entrants rather than a successful technique to alter incumbent offer strategies. This is particularly pertinent given the results from 2012 where AEMO reported that for 7 of the 10 sub networks it was unable to meet all of its SRAS obligations².
- Removal of the primary/secondary SRAS service definition.
- Retention of the System Restart Standard (SRS) as a planning standard, rather than an operational standard.
- Retention of diversity requirements in the SRS, although we note that there may need to be a "catch all" provision to reflect any relationships between the reliability of multiple services.
- Clarification regarding the ability of the Panel to vary the SRS for regions or sub-networks
- Limitations on AEMO to procure a service only for a single region at a time
- Non-publication of sensitive information.

² Draft decision, page 86