

Department of State Growth

STRATEGY AND POLICY

10 Murray Street
GPO Box 536, Hobart TAS 7001 Australia
Ph 1800 030 688
Email info@stategrowth.tas.gov.au Web www.stategrowth.tas.gov.au



John Pierce
Chairman
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235
Submitted via AEMC Website

System Restart Ancillary Services proposal (Ref. ERC0168)

Dear Mr Pierce,

Thank you for the opportunity to respond to the draft rule determination regarding System Restart Ancillary Services (SRAS).

The Department of State Growth supports the principles upon which the preferable rule change outlined by the AEMC is based. In particular the Department supports transparency and efficiency in the cost of providing SRAS services and, where there is a clear case that these can be materially improved, appropriate measures should be adopted. The Department also agrees in-principle that improved competition for SRAS services should support improved efficiency, though in the case of Tasmania there is currently no capacity for competition in SRAS services.

The Department does have some concerns with respect to the proposed change to regionally-based cost recovery. The Department notes the cross subsidisation argument outlined in the draft rule change but considers that this is a secondary issue to the need to ensure SRAS services are provided efficiently across the National Electricity Market (NEM).

The Department also notes that the level of cross subsidisation is 'immaterial' for most regions, although it acknowledges there is a greater impact for Queensland and Tasmania.

A key question is whether SRAS services are considered 'NEM wide' services or are regionally based services. The fact that SRAS services must meet 'standardised' requirements across the NEM, and are procurement and testing are centrally administered, would suggest they are NEM wide services and, therefore, tends to support costs being spread equally. However, the Department also acknowledges the argument that the beneficiaries of SRAS services are predominantly regional.

Leaving aside the case for whether the cost of SRAS services should be borne on a regional basis or spread across the NEM, the Department is concerned about the immediate impacts of any change. In particular, the policy and regulatory uncertainty facing Hydro Tasmania associated with the Renewable Energy Target is providing commercial challenges. In this context, the absence of major changes to other policy and/or regulatory settings that place additional price pressures on Tasmanian customers is a benefit in the current environment.

The timing of the proposed rule change, occurring at the same time AEMO is undertaking its current procurement process, gives rise to a significant level of uncertainty in the market. The rule as currently proposed, provides no opportunity for customers and generators to take any action to mitigate the impact of cost changes that may occur on its implementation on 1 July 2015.

In this context, the Department recommends that should the draft rule change proceed, transitional arrangements be put in place to ensure the impact of changes to SRAS cost recovery are manageable and provide market participants with sufficient lead time to prepare. Such transitional arrangements could include extending the timeframe for the commencement of the rule change and/or 'phasing' in the change (ie SRAS services could be charged partly on a regional basis and partly on a NEM wide basis for a period of time, with the proportion of regional charging increasing over the period until fully phased in).

The Department considers that if the primary objective is to ensure SRAS services are efficient across the NEM, then some of the 'cross subsidisation' issues may diminish in any event. Therefore, the need to move to regional based charging immediately is not a high priority and, taken together with generator and customer impacts, a transitional approach is appropriate.

If you have any questions relating to this response, please contact Alex Tay on (03) 6166 3489 or by email alex.tay@stategrowth.tas.gov.au.

Yours sincerely



Alex Tay
Director

19 February 2015