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Submitted by e-mail: SRAS.review@aemo.com.au

Dear Ms Maroney

System Restart Ancillary Services – Draft Report

Origin Energy (Origin) appreciates the opportunity to provide comments on the Australian Energy Marker Operator's (AEMO's) Draft Report in relation to System Restart Ancillary Services (SRAS).

The National Electricity Rules (NER) require AEMO to conduct a competitive tender process for the procurement of SRAS. In light of cost increases in recent tender processes, AEMO initiated a review of the appropriateness of the SRAS arrangements in the National Electricity Market (NEM). The Draft Report sets out AEMO's recommendations, with an immediate focus on revising the SRAS quantities needed to meet the System Restart Standard (SRS).

Origin supports efforts that seek to ensure that the SRAS arrangements are as efficient as practicable. As such, understanding the underlying reasons for the recent increases in SRAS costs and whether they have been driven by inefficiencies brought on by market failure is important when contemplating any changes to the current arrangements. To proceed to making wholesale changes to the SRAS regime without carrying out such analysis is ill-advised and is likely to result in unintended consequences. SRAS is a vital insurance tool that will help to ensure the reliability of supply in the unlikely but potentially catastrophic event of a system black. The level and consequent cost of SRAS must be balanced against the cost of a potential supply interruption. Origin does not consider that the case for change as set in the Draft Report has been made.

This submission outlines our specific views on AEMO's recommendations, under the following sections:

1. *Proposed changes have not been demonstrated to be feasible*: AEMO has not conducted a cost benefit analysis to support its case to change the SRAS definition nor has it demonstrated that its proposed changes can deliver a better or even the same level of system restart capability that meets the SRS compared with what is available today.
2. *Competitive procurement of SRAS should be retained*: AEMO has not demonstrated a market failure in the current procurement process for SRAS that warrants a change to the process.
3. *Appropriate process to address perceived market failure with SRAS arrangements*: we consider where AEMO is recommending changes to the SRS, these need to be assessed properly prior to implementing any consequential operational changes.

Proposed changes have not been demonstrated to be feasible

AEMO proposes to simplify the SRAS definition by basing it on the ability to re-energise the local bus bar and supply 100MW of capacity within 60 minutes. It further proposes to reduce the number of electrical sub-networks from ten to seven and to reduce the number of SRAS procured in each sub-network. AEMO acknowledges this will:

- preclude some generators with black start capability complying with the proposed definition; and therefore
- lead to an overall reduction in competition through these generating units being unable to participant in an SRAS tender process.[1]

Origin agrees with AEMO's assessment in this regard. The proposed changes are unlikely to promote the SRAS objective, are expected to reduce competition and could present a form of sovereign risk insofar as they result in stranded "black start" generator assets.

We consider AEMO's proposal to redefine the SRAS description could reduce the capability to restore power system supply following a system black event. This would increase the cost and risk of a system black event, which is counter to the SRAS objective. Additionally, we have concerns around AEMO suggesting changes to the definition of SRAS that could exclude gas turbines located within major power stations from providing restart services. Without these units, it is unlikely that AEMO can meet the restoration timeframe under the SRS. Reducing the system's ability to restart in the requisite timeframe delivers a lower level of capability than is currently available. The impact of this is potentially severe.

We also expect the proposed change in the SRAS definition to reduce the competition for SRAS services by limiting the range of technology types capable of complying with the proposed definition. Contrary to AEMO's intention that this will lower the price of SRAS, it is likely the price will not be lowered as provision of SRAS services will be concentrated to a limited number of SRAS providers. The stranding of assets that are no longer capable of complying with the narrow definition of SRAS is also a risk presented by this change. Such stranded generator assets may constitute a form of sovereign risk.

Origin considers AEMO has not demonstrated the effectiveness or robustness of the recommended reduction in the quantities of SRAS procured to achieve the restoration timeframes under the SRS in the Draft Report. The Draft Report states AEMO has conducted technical studies to understand the impact the proposed changes could have on restoration timeframes under the SRS.[2] It further notes these studies have been reviewed by Transmission Network Service Providers (TNSPs) in Queensland and Victoria where AEMO proposes to reduce the number of electrical sub-networks. These TNSPs have deemed the proposal technically feasible.[3] However, AEMO has previously described its studies as only being indicative.[4] Given this, Origin does not have confidence in the restoration timeframes under the proposed changes.

If AEMO wishes to progress this change, stakeholders need to have confidence in the studies and analysis undertaken. It is important that AEMO demonstrates how the capacity to supply peak demand under the SRS could be met with the reduction in the number of generating units capable of complying with the technical characteristics of the new SRS definition. Generators cannot be expected to comply with a restoration timeframe that may not be physically possible. It is AEMO's responsibility to ensure there are adequate SRAS available to start base load generators to provide the capacity to meet the peak demand requirements under the SRS.

[1] AEMO 2013, System Restart and Ancillary Services Draft Report, May 2013, p.30.
[2] AEMO May 2013, p. 26.
[3] AEMO May 2013, p. 27.
[4] AEMO 2013, System Restart Ancillary Services Issues and Options Paper, January 2013, p. 28.

Progressing any change also requires a cost benefit analysis to justify the change. The cost of a major supply interruption could likely be considerable based on the estimated cost of a supply interruption in Victoria[5] and potential health risks from an extended supply failure. The potential cost to the $1.4 trillion Australian economy is also material. While we agree that the SRAS objective does not imply that the value and cost of SRAS should be equal, we do expect AEMO to identify the cost of a major supply interruption as a first step before attempting to reduce the cost of procuring SRAS.

AEMO noted it has attempted to estimate the cost of a supply interruption considering the time and probability of a major supply interruption. It has not, however, published this analysis as "its value is questionable due to the uncertainty of factors that might affect the value of SRAS."[6] Given this analysis provides some context for understanding the consequential impacts of AEMO's proposed changes, it is important for that information to be made available as part of this review process. For example, uncertainty could be put into context by assessing a range of possible scenarios or incorporating sensitivity analysis, both which could be informed by those who actively participate in the market.

A cost benefit of analysis needs to identify accurately the potential impact of a system black on the Australian economy. The cost and risk to the Australian economy from a major supply interruption should be a real and practical consideration for AEMO that cannot be dismissed on the abstract contention that the cost of supplying SRAS does not necessarily equate with a willingness to accept a major supply failure.[7]

Competitive procurement of SRAS should be retained

AEMO has proposed changes to the procurement of SRAS on the basis that the current SRAS market is uncompetitive. In response to the proposed changes, Origin continues to support competition in the procurement of SRAS because we do not consider AEMO has demonstrated market failure in procuring SRAS.

AEMO suggests price increases for SRAS indicate a failure in the current procurement arrangements. Price increases are an essential component of efficient market operations as an important signal for new investment. AEMO comments that that "some offers may be priced marginally below new entrant pricing to maximise the return on generator assets, resulting in SRAS costs increasing, not reducing, over the long term"[8]. However, we do not consider that position is supported by the most recent tender process in 2012, which resulted in a new entrant SRAS provider being offered an SRAS contract.

AEMO argues there has been a lack of competition for SRAS in some electrical sub-networks. However, as noted by AEMO through its National Transmission Network Development Plan, there has been a shift in generation clusters as old clusters disperse and reform in accordance with fuel sourcing and other factors. This makes the case for abstaining from intervention stronger because investment in new SRAS at new generation sites requires a stable regulatory regime to allow for the recovery of costs and limit the risk the investment will result in a stranded asset. AEMO should therefore avoid unnecessary intervention in the SRAS market, such as the changes it has proposed in its Draft Report.

Previous interventions have not delivered sufficient benefits to warrant the initial action. AEMO's intervention in 2012 to reduce the contract duration from five to two years was detrimental to the SRAS market. Contrary to AEMO's assertion that these changes had little

[5] The loss of 2,200MW in Victoria on 16 January 2007 over 4 hours is estimated to have cost $500 million.
[6] AEMO May 2013, p. 24.
[7] AEMO, System Restart and Ancillary Services, Draft Report, May 2013, Melbourne, p. 23.
[8] AEMO May 2013, p. 32.

impact, the net result has been a limiting of competition in the supply of SRAS services with the withdrawal of tenders from new entrant SRAS suppliers. Further changes are likely to exacerbate this problem, not resolve it.

Appropriate process to address perceived market failure with SRAS arrangements

Origin reiterates its concern with AEMO's SRAS review scope and proposed steps for implementing its recommendations. If AEMO's Review identifies a market failure, we consider AEMO should present their concerns and possible solutions to the AEMC Reliability Panel. This consultation is particularly important where AEMO is raising concerns with elements of the regime, which fall under the jurisdiction of the Reliability Panel. To ensure a sustainable and efficient system restart regime, it is critical that all aspects of the regime work together. Making adjustments at the operations end of the spectrum prior to confirming the appropriateness of the higher level objectives could result in a disconnect between the high level policy and its practical implementation.

In the context of the NEM Reliability Settings and Standards, our understanding is the AEMC sets the policy and objectives while AEMO, as the technical expert, is responsible for the operational delivery. This separation helps provide a check and balance between those who set the policy and those who implement it. That does not preclude AEMO from making recommendations to the AEMC Reliability Panel; however, where operational changes are expected to have an impact of the overall system restart standard, it is important that the analysis is robust and considered by the policy body responsible for overseeing the regime prior to the policy being put into practice. The policy body is in a better position to consider the trade offs of conflicting objectives compared to the technical experts, particularly when the technical expert is the entity responsible for implementation. In effect, an expert should not determine what constitutes an adequate level of insurance cover as this should be determined by the beneficiary.

In addition, while AEMO has stated it has discussed the scope of the SRAS Review with the AEMC and the Reliability Panel,[9] the Draft Report is not clear on the outcomes of those discussions.[10]

Conclusion and further information

AEMO's proposed changes to the SRAS arrangements are largely unchanged from those discussed in the earlier SRAS Issues and Options Paper. Origin considers these measures are likely to reduce competition in the supply of SRAS services. This could lead to the stranding of generator assets and a degrading of the technical capacity to restart the NEM after a system black event. We do not believe these outcomes support the SRAS objective and could constitute a form of sovereign risk.

We are also disappointed with the approach AEMO has taken in the SRAS Review. While we consider AEMO has a role in procuring SRAS, the overall effectiveness of not only the service standard but the types of services available to deliver that standard constitute a broader policy decision that best sits with the AEMC Reliability Panel. Once that higher level policy is resolved, then AEMO can determine the most appropriate technical

[9] AEMO cited the Panel commenting in the Annual Market Performance Review Final Report that "AEMO was reviewing the SRAS arrangements, and if AEMO identified amendments to the SRS it could raise these with the Reliability Panel." p. 19

[10] The Panel Report stated: '*Should AEMO identify any aspects of the system restart standard that it considers should be amended, it can raise this with the Panel. The Panel would then consider whether a review should be conducted to amend the standard. Any review of the standard would be carried out by the Panel in accordance with the provisions under the rules, which include the requirement to consult with stakeholders';* AEMC Reliability Panel, Annual Market Performance Review, Final Report, Sydney 2013, p. 15.

parameters to deliver the System Restart Standard. The risk of implementing operational changes concurrent with broader high level rule changes or Reviews increases the risk of a disconnect, which is unlikely to be in the long term interests of electricity consumers.

Should you have any questions or wish to discuss this information further, please contact Hannah Heath (Manager, Wholesale Regulatory Policy) on (02) 9503 5500 or hannah.heath@originenergy.com.au.

Yours sincerely,

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