



June 7 2013

Mr Terry Grimwade
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Submitted electronically: SRAS.review@aemo.com.au

Dear Mr Grimwade

System Restart Ancillary Services Discussion

AGL welcomes the opportunity to comment on the Australian Energy Market Operator's (AEMO) System Restart Ancillary Services (SRAS) Discussion Paper.

AGL operates across the energy supply chain and has investments in energy retailing, energy services, coal-fired electricity generation, gas-fired electricity generation, renewables and upstream gas extraction.

In summary, AEMO is proposing to amend SRAS arrangements through:

- Procuring SRAS on a regional black start capability basis instead of NEM wide;
- Reducing the number of electrical sub-networks from ten to seven;
- Procuring one SRAS in each electrical sub-network except Tasmania;
- Creating one SRAS definition;
- Potentially administering the SRAS market to manage non-competitive outcomes – including the possibility of using an international benchmark to set reasonable terms and conditions.

In response to the proposed amendments AGL provides the following comments.

SRAS dilution

AGL considers that the proposed changes contained within the Discussion Paper will significantly reduce the quality of the SRAS that is currently provided. AGL is concerned that this will subsequently mean that, in the event of a system black, the duration of such an event would be substantially longer than would likely be the case today.

Further, the proposed changes focus too greatly on decreasing the costs of SRAS provision without also providing an equivalent focus on the benefits that are provided by this service. Particularly the system, social and economic benefits that are delivered by the SRAS – which currently acts as an effective insurance mechanism.

AEMO's focus on SRAS costs is made clear in the Discussion Paper from the following statement, "AEMO is concerned that the SRAS arrangements might not meet the SRAS objective, which incorporates the NEO and reflects the need to take into account the cost of providing SRAS when determining how to minimise the impact of a black system condition".

As also noted in the Discussion Paper the SRAS objective has two parts "to minimise the expected economics costs to the market in the long term and in the short term, of a major supply disruption, taking into account the cost of supplying system restart ancillary services, consistent with the national electricity objective".

From AGL's perspective, these two elements should be considered in unison and it is detrimental to consider one without the other. For example, focussing solely on the costs of SRAS will likely diminish the quality of the service provided and potentially increase the economic and social costs to the market.

Adverse competition impacts

AGL considers that the changes proposed in the Discussion Paper could actually lead to a reduction in the number of SRAS service providers, thereby reducing competition in the SRAS market. This is due to the fact that SRAS service providers will potentially see greater risk in either not winning the service or see regulatory risk in further changes to the market. The greater the risk the greater the likelihood that SRAS costs will not be incurred in order to meet SRAS procurement guidelines. This outcome would be counter to that being sought by AEMO.

Additionally, AGL notes that AEMO's creation of a single SRAS definition will actually reduce the number of SRAS providers – a point which it acknowledges in the Discussion Paper. This outcome, by reducing the number of market participants, would run counter to AEMO's objective of reducing SRAS costs.

Quantitative and technical analysis

The Discussion Paper makes reference to analysis completed by AEMO in the process of reaching its draft conclusions, particularly technical conclusions and that cost savings do not adversely impact service delivery.

AGL considers that it would be useful for stakeholders to see this analysis in order to gain a better understanding of the implications and impacts of AEMO's proposed changes.

Administered market and cost benchmarking

The proposed benchmarking of SRAS costs where AEMO assesses the tender process as 'non-competitive' is of concern to AGL and adds additional regulatory risk to possible SRAS providers.

The regulatory risk is increased by AEMO's proposed approach to benchmark terms and conditions against international SRAS costs. AGL considers that international SRAS costs are not readily comparable to those in the NEM given the quite different physical and geographical conditions.

AEMO should also not rely on direction powers in order to deliver SRAS as plant owners may not have kept their SRAS capability without a financial incentive to do so.

In conclusion, the capability of rebuilding the generation and the network in a timely manner is of significant importance from a social, economic and market perspective. The changes proposed by AEMO increase the risk of not being able to achieve this objective and increase the likelihood that rebuilding the network will take longer. The provision of quantitative analysis by AEMO

Finally, AGL entered the SRAS market cautiously and incurred set up costs in order to meet the SRAS technical requirements prior to submitting our tender. The proposed changes identified by AEMO increase the riskiness of that investment – an investment which was undertaken in response to a specific signal.



Should you have any questions on issues raised in this submission, please contact me at scamroux@agl.com.au or (03) 8633 6967.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux'.

Simon Camroux
Manager Wholesale Markets Regulation