

7 June 2013

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Australian Energy Market Operator
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Dear Ms Maroney,

System Restart Ancillary Services Review – Draft Report

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to respond to the *System Restart Ancillary Services (SRAS) Review – Draft Report* (the Draft Report) issued in May. As a major generator in the National Electricity Market (NEM) and provider of SRAS, Stanwell has a very keen interest in ensuring the appropriate balance between cost and procuring sufficient SRAS, to restore the system following a system black event, is achieved. This involves formulating a realistic view about the probability of a system black event as well recognising the enormity of the economic loss (which is extremely difficult to quantify) that would be associated with failing to restore the system within an appropriate time period. This would suggest a conservative approach would be appropriate in any consideration of SRAS arrangements.

To this end, we have actively engaged in the current SRAS review process and lodged a submission to AEMO's *Issues and Options Paper* and held a number of meetings with the Australian Energy Market Operator (AEMO). At present, we have difficulty supporting a number of the key recommendations in the Draft Report. Stanwell continues to hold the view that the current outcomes do not reflect widespread market inefficiencies. The Draft Report does not make a strong case for substantial reform of the SRAS procurement arrangements. We acknowledge costs have increased and in some regions substantially. We are concerned, however, that rather than addressing the core issues driving cost, AEMO's recommendations could potentially reduce overall system reliability levels for customers. Further any associated cost reductions are likely to be relatively small in comparison to overall end users' final energy bills.

In response to the Draft Report, Stanwell would prefer a staged and targeted approach to addressing concerns with SRAS before AEMO progresses to more substantive changes. This could involve improving the procurement process by extending the contract time period, defining a framework for contract negotiation incorporating improved information transparency (e.g. derivation of pricing) between the parties and facilitating a process where by AEMO can enter into direct negotiations with suppliers around costs. Additional external SRAS reporting would

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be helpful in providing further information to stakeholders and understanding the drivers in the market. Our other concerns are highlighted below.

- AEMO have provided insufficient information to the market on how the revised procurement levels will continue to satisfy the SRAS objective and what risk assessment processes AEMO have applied in reaching these findings. For example, it is unclear how AEMO has accounted for issues such as an aging generation fleet and whether relying on a single “Trip to House Load” (TTHL) service in a region creates any additional risk.

Given the characteristics of the Queensland system, unless further evidence can be provided, the case has not been made to reduce the number of services procured in Central Queensland (and potentially South Queensland) to a single service.

- The proposed SRAS definition has been too narrowly defined. As currently drafted, it is likely to exclude small gas-fired plant that was developed with the sole purpose of restarting large thermal units. Our considered engineering assessment suggests a minimum of 2 to 3 hours before energy could be delivered to the transmissions system to the extent required to fulfil the requirement of the proposed SRAS definition. This change would provide a more reflective timeframe to be included in the SRAS definition.

Excluding existing plant is inconsistent with the overall objective of facilitating competition and ensuring there are adequate services available to restore the system. Furthermore, these are “sunk” investments and it would be an inefficient outcome if these assets were not utilised in the future.

In the context of Queensland, this is likely to exclude a number of small gas turbines, which would result in only three Queensland based services (two which are TTHL), which is a significant contraction in the number of participants and potentially introduces additional risk in restoring the system.

- AEMO has conducted a narrow assessment of the level of competition in the SRAS market. The methodology applied relates to a “perfectly competitive market”. This does not represent most functioning markets across the world. For example the NEM may not meet the criteria AEMO have utilised to determine a competitive market. We do recognise there are unique characteristics that apply to SRAS, in terms of the number of participants, but would suggest that AEMO redefine its assessment methodology using the work undertaken by Firecone in 2006 as a starting position.
- During the consultation process, as an industry sector, generators have raised valid and relevant points based on practical industry experience. While we appreciate AEMO have ultimate responsibility for SRAS, the consultation process does not appear to have influenced AEMO’s initial position on the key issue of procurement levels and methods. While the outcomes are disappointing, we have appreciated the level of engagement officers at AEMO have undertaken with stakeholders.

The attached table provides more detailed responses below to the recommendations contained in the Draft Report.

Yours sincerely,

A handwritten signature in black ink, appearing to read "T. Mills". The signature is written in a cursive, flowing style.

Tanya Mills
Acting Executive General Manager
Energy Trading and Commercial Strategy

STANWELL POSITION ON AEMO RECOMMENDATIONS	COMMENTS
1 Supports the current SRAS objective	We consider, however, AEMO needs to provide information to the market on how the expected economic costs are defined and how this relates to the overall SRAS costs.
2 No concerns with moving a region-wide approach	Given the characteristics of the NEM, the system is likely to island on the regional basis. Our concerns about system reliability are focused on the number of services procured in each sub-electrical region.
3 Further information is required to form a view	<p>AEMO has provided insufficient information on whether it is appropriate to redefine the electrical sub-networks. In the Queensland context, while we do acknowledge there are limited future providers in North Queensland and that this system should rely on services in Central and South Queensland, Stanwell questions whether it is appropriate to rely on a reduced level of services in Central and South Queensland to restore the North Queensland system. The key issue is whether the network in North Queensland can be confidently restored within the defined timeframes in the event a Central Queensland provider is unavailable. This strengthens the case to retain at least two services in Central and South Queensland.</p> <p>Stanwell recommends that, given the unique characteristics of the Queensland network (in particular North Queensland), unless further evidence can be provided, a prudent approach would be for AEMO to continue procuring two services in Central and South Queensland.</p> <p>If AEMO progresses with its proposed change, the shift to one service would need to be accompanied by an increase in the SRAS reliability level, which would be reflected in higher costs which may result in little or no cost reductions from the current arrangements.</p>

**STANWELL POSITION ON
AEMO RECOMMENDATIONS**

COMMENTS

4 Do not support without further amendment

Stanwell has serious concerns with the change in the SRAS definition. The proposed SRAS definition states:

“An SRAS is the ability to restart generating units without external supply from the national grid, re-energise the local busbar and supply at least 100MW of capacity within 60 minutes.”

With respect to small gas-turbines, which were constructed with the purpose of restarting major thermal units, the application of the new definition could exclude this plant from participating in the tender process. Our understanding of the new definition is not to just energise a restart path and delivery point within 60 minutes, but provide 100MW to the actual transmission system (i.e. outside the power station) within 60 minutes. This means that the related thermal units need to be supplying 100MW to the 275kV network within 60 minutes. This is not the case under the current arrangements.

Currently, providers are only required to energise the delivery point (i.e. within the power station ‘C’ 6.6kV unit board) within 60 minutes.

Based on our technical assessment, the minimal time to deliver 100MW to the transmission system is 2-3 hours, which is based on an estimated a “hot restart” timeline.

Furthermore, the primary focus of asset owners, in a system black event, would be on stabilising their own units. Practically, this is likely to add to the timeframes for energising SRAS plant.

**STANWELL POSITION ON
AEMO RECOMMENDATIONS**

COMMENTS

5

Fundamental change to the tender process is not required

Stanwell does not support this recommendation as insufficient analysis has been presented to determine whether the alternative process (i.e. similar to network control an ancillary services) will deliver more efficient outcomes. We consider a market-based approach is preferable and would recommend changes to the tender process before AEMO moves to a more structured process.

We note Firecone examined this issue in 2006 and AEMO should revisit this analysis detailing how and why it is no longer relevant in the context of the current SRAS market.

See additional comments above regarding AEMO's analysis of competitive markets.

While we do not support a fundamental reform of the procurement method, we do not have any substantial concerns with AEMO gaining a better understanding of the underlying SRAS cost structure. In the event AEMO progresses with the independent benchmarking process, consideration must be given to how generators assess and price risk.

6

Supports this recommendation

7

Support full recovery from via network charges

On market efficiency grounds, Stanwell continues to support the recovery of SRAS from customers or TNSP. AEMO has not provided adequate reasoning why the "benefices pays" approach will deliver more efficient outcomes rather than direct recovery from customers.

8

Supports this recommendation

**STANWELL POSITION ON
AEMO RECOMMENDATIONS**

COMMENTS

9

In principle support subject to maintaining sufficient participant confidentiality

We recognise that markets benefit from good quality information. Given, however, this information is likely to be commercially sensitive, reporting would need to be presented in some aggregated or anonymous form. We recognise in-depth consultation with industry would be necessary to support this change.

In-line with our comments above, this could form part of a package of incremental changes to improve the current SRAS tender process.
