

7 June 2013

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Lodged by email to: [SRAS.review@aemo.com.au](mailto:SRAS.review@aemo.com.au)

Dear Ms Maroney

**Hydro Tasmania's response to Australian Energy Market Operator's (AEMO) System Restart  
Ancillary Services (SRAS) Draft Report**

Hydro Tasmania (HT) appreciates the opportunity to respond to AEMO's SRAS Draft Report (the report).

HT is concerned about the following aspects of the report:

1. the failure to quantify the economic benefit (value) of SRAS to consumers
2. the absence of any recommendation for determining the basis of SRAS pricing for future SRAS tenders that are deemed by AEMO to be non-competitive under the proposed National Electricity Rules (NER) rule amendment.
3. the recommendation to maintain the current basis for SRAS cost recovery
4. the recommendation to reduce the number of electrical sub-regions in Tasmania from two to one.
5. the recommendation that SRAS costs be recovered on a regional basis.

The attached submission comments on the reasons for HT's concerns on the aspects of the report referred to above and recommends AEMO undertake further consideration of HT's submission comments in finalising the report.

Please contact Prajit Parameswar on (03) 62305612 if you would like to discuss any matters associated with the submission.

Yours sincerely



David Bowker  
Manager Regulatory Affairs

**SRAS DRAFT REPORT**  
**Hydro Tasmania's Submission**

Hydro Tasmania (HT) is concerned about the following aspects of AEMO's SRAS draft report (the report):

**1. The failure in the report to quantify the economic benefit (or value) of SRAS to consumers.**

**Recommendation 1** - No change recommended to the SRAS objective.

Hydro Tasmania (HT) is disappointed that the report has not undertaken the required analysis to determine the efficient SRAS price or to quantify the economic benefit (or value) of SRAS to consumers, despite various requests made by respondents to the recent Issues and Options Paper<sup>1</sup>.

In addition HT notes that AEMO continues to argue that the SRAS Objective does not imply that the value and cost of SRAS should be equal or that they are directly comparable and that consequently the value of SRAS should not be used as a basis for determining price.

HT does not agree with AEMO's position on this matter and recommends that AEMO provide the results of AEMO's analysis referred to in section 6.1.3 to allow parties to establish whether AEMO's assertion is supported. The results of the analysis would also be valuable to parties in understanding the assumptions (such as restoration time, value of unserved energy and probability of occurrence) used by AEMO and the actual value (or values) of SRAS determined from the analysis. In this regard, HT notes AEMO's contention that such a value (or values) would be questionable and that this was the reasoning for not providing the results of the analysis in the earlier Issues and Options Paper.

It is HT's view that although a subjective valuation, the value of SRAS to the market together with other methodologies such as new entrant pricing are justifiable measures to base SRAS pricing on.

HT shares the view of other SRAS providers that AEMO remains focussed on the costs of SRAS procurement and has not adequately considered the value to Market Customers and the public of the expected economic costs of a major supply disruption and that this position is reflected in report recommendations.

**2. The absence of any clear recommendation for determining the basis of SRAS pricing for future SRAS tenders that are deemed by AEMO to be non-competitive under the proposed NER rule amendment.**

**Recommendation 5** - AEMO recommends the NER be amended to allow AEMO to manage non-competitive outcomes in the SRAS tender process, similar to the process for network control and ancillary services included in clauses 3.11.5 (h) and (i) of the NER. AEMO would use independent benchmarking information to inform its position on reasonable terms and conditions. At the

<sup>1</sup> Available here: [http://www.aemo.com.au/Consultations/National-Electricity-Market/Open/System-Restart-Ancillary-Services-2013-Consultation/~/\\_media/Files/Other/consultations/nem/SRAS\\_Review\\_Issues\\_and\\_Options.aspx](http://www.aemo.com.au/Consultations/National-Electricity-Market/Open/System-Restart-Ancillary-Services-2013-Consultation/~/_media/Files/Other/consultations/nem/SRAS_Review_Issues_and_Options.aspx)

completion of the SRAS Review, AEMO would develop a rule change to address this recommendation and submit this to the AEMC.

HT notes AEMO's proposal to seek an amendment to the NER to provide AEMO with the power to review future SRAS tenders and if certain conditions are satisfied to deem the tenders to be non-competitive. If so deemed, AEMO has the power to require the tenderer to participate in negotiations on SRAS terms and conditions including SRAS pricing and ultimately if this negotiation is not successful refer the unresolved terms and conditions to the *Adviser* for resolution

In the report AEMO has indicated that it may in the future use outcomes of cost benchmarking for different black start technologies in Australia in situations where negotiations have failed and dispute resolution is required.

HT strongly opposes the use by AEMO of cost benchmarking in any negotiations or subsequent dispute resolution whether the SRAS tender is deemed by AEMO to be non – competitive or not. In this regard HT refers to AEMC's rejection of NEMMCO's 2006 proposal to introduce a cost of service approach to the procurement of SRAS.

HT recommends that the final report makes clear the methodology AEMO will apply to determine SRAS pricing in negotiation or subsequent arbitrated resolution with tenders that AEMO deem to be non-competitive and that this methodology be based on the benchmarking of SRAS pricing in other NEM regions for the same contract period.

### **3. The recommendation to maintain the current basis for SRAS cost recovery.**

**Recommendation 7** - AEMO will not pursue any change to the 50/50 basis for recovery of SRAS costs from Market Generators and Market Customers

HT does not agree with AEMO's recommendation to maintain the current basis for SRAS cost recovery where the costs are split 50/50 between Market Generators and Market Customers.

HT believes that there are strong economic efficiency arguments that Market customers should pay as it can be demonstrated that the Market customers benefit many times more than Market Generators from the provision of SRAS (refer comment Recommendation 7 in NGF's submission on the report). In this regard HT notes AEMO's statement in section 6.1.3 of the report that *'the cost of providing SRAS as a means of restarting the system is ultimately recovered from consumers.'*

HT has found that the practice of having Market Customers pay the full cost of SRAS does occur in countries in the European Union (Italy for example), in Brazil and other Latin American countries and in the USA (New York). Thus the recovery from NEM Market Customers of the full SRAS cost would not be unique and in HT's view, is justified on the basis that Market Customers are the major beneficiaries and ultimately pay.

In view of the above HT requests that AEMO give further consideration in the final report to the approach that Market Customers pay the full cost of SRAS.

**4. The recommendation to reduce the number of electrical sub-regions in Tasmania from two to one.**

**Recommendation 3** - AEMO recommends that the number of electrical sub-networks be re-determined and one SRAS be procured in each electrical sub-network, except for Tasmania where two SRAS should be procured. The following electrical sub-networks should be combined into one electrical sub-network: • North and Central Queensland • North and West Victoria and La Trobe Valley • North and South Tasmania. At the completion of the SRAS Review, AEMO will progress these recommendations by consulting with stakeholders on the Boundaries of Electrical Sub-networks and the SRAS Quantity Guidelines.

HT refers AEMO to section 2 of HT's submission<sup>2</sup> to the Issues and Options Paper where the reasons for retention of two electrical sub-networks and risks associated with reducing the number of electrical sub-networks in Tasmania for the current two sub-networks to one were clearly set out. The report offers no explanation as to why HT's reasoning to maintain two electrical sub-networks was rejected by AEMO.

Further, the report does not address HT's request in the Issues and Options Paper for AEMO to explain why within the space of 18 months AEMO's view on the number of electrical sub-networks required in Tasmania had changed from the recommended two electrical sub-networks to one.

In addition, AEMO has not provided sufficient information in either the Issues and Options Paper or the report, in regard to the system modelling studies for the Tasmanian power system undertaken by AEMO and reviewed by Transend, to ascertain whether the SRAS objective and the SRS can still be met with only one electrical sub- region in Tasmania. HT notes that in discussions with AEMO it was understood that AEMO would make available to HT the their system modelling studies on which AEMO justify the reduction in the number of electrical sub- networks from two to one in Tasmania. HT has not yet received the promised information.

As mentioned in section 2 of HT's submission to the Issues and Options Paper the transmission network connecting the north and south and the north and north west of the State share common corridors for extended lengths which pass through and adjacent to heavily timbered areas that are exposed to significant bushfire activity during summer periods and extreme weather conditions at other times. Thus the coincidence of an event in any of these common corridors with a state-wide system black condition has the potential to result in the north, south or North West of the State remaining without supply for many hours unless there are dedicated SRAS sources in each of these regions.

In reducing the number of electrical sub-networks in Tasmania to one, there exists the possibility that SRAS would only be offered in one region of the State leaving the other region with no SRAS. In such a situation there would be a high risk that in the event of a state-wide system black, the other regions of the State would be vulnerable to extended restoration periods well outside the SRS

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<sup>2</sup> Available here: [http://www.aemo.com.au/Consultations/National-Electricity-Market/Open/~/\\_media/Files/Other/consultations/nem/SRAS\\_Issues\\_and\\_Options\\_Submission\\_Hydro\\_Tasmania.ashx](http://www.aemo.com.au/Consultations/National-Electricity-Market/Open/~/_media/Files/Other/consultations/nem/SRAS_Issues_and_Options_Submission_Hydro_Tasmania.ashx)

requirements. While AEMO could direct a generator in the affected region to provide SRAS there is no guarantee that the directed generator is available or that the black start capabilities have been maintained.

HT does not share AEMO's view that reduction in the number of electrical sub-networks in Tasmania from two to one is justified. HT suggests that it would be prudent for AEMO to undertake necessary network simulation studies to confirm that SRAS based only in the south, north or north west of the State are sufficient to meet the SRS (particularly the tight restoration timeframes) in the regions before proceeding with the recommendation to consider Tasmania as one electrical sub-network.

Further to this, in HT's submission to the Issues and Options Paper under Item 1 (Number of Required SRAS) it was made clear that based on past experience of Tasmanian black system events (both partial and state-wide) a minimum of at least two SRAS was required to ensure acceptable restoration times.

As mentioned in Item 3 AEMO has not yet provided to HT their SRAS system network modelling. As a result HT's view remains that the assumptions in AEMO's modelling are 'best case' assumptions and are optimistic given past Tasmanian black system experience (both partial and state-wide) . It is HT's view, supported by its own system network modelling, that the adoption of a more realistic set of assumptions is needed to ensure an appropriate measure of redundancy and that good electricity industry practice is adhered to; three rather than two SRAS would need to be procured, if the system needs to be restarted as per the tight SRS timeframes.

System black events will most likely be precipitated by, or possibly caused by, multiple non-credible transmission and generation events driven by natural disasters such as bushfires, terrorism or floods. It is consequently highly likely that some critical infrastructure or personnel will be impacted so adopting a minimalist approach to providing services is unlikely to lead to a successful restoration.

As a result HT reiterates its position that procuring only two SRAS is highly optimistic and provides no redundancy to cope with unexpected transmission or switchyard events or failure of SRAS to start and that further consideration should be given to increasing the number of SRAS to three as is the current situation.

## **5. The recommendation that SRAS costs be recovered on a regional basis**

**Recommendation 8** - AEMO recommends SRAS costs be recovered on a regional basis.

HT does not support this recommendation and recommends that the current arrangements where SRAS costs are recovered on a NEM wide basis be maintained.

While HT accepts that under the NEM wide cost recovery arrangement some regions have their SRAS costs effectively subsidised by another region and acknowledging that recovery on a regional basis would address this, reverting to a regional recovery is contrary to Tasmania's view that the National Electricity Market (NEM) is a national market.

There has been a strong push for a national approach to the NEM with regional differences playing only a minor part. At the time Tasmania joined the NEM, there was considerable discussion about

the merits of having different arrangements in Tasmania. In the event we entered with a “plain vanilla” arrangement.

We believe this national approach is a fundamental strength of the NEM. It has meant that Tasmania has been disadvantaged in several respects (eg technical specification of ancillary services are better suited to thermal plant) but the rules are the same for Tasmania as for all other regions. HT recommends that for policy consistency AEMO give further consideration to the recovery of SRAS costs on a regional basis.