

Briefing to NSW Energy Security Taskforce

BACKGROUND

AEMO manages the procurement process for System Restart Ancillary Services (**SRAS**). SRAS is otherwise known as 'black start' and is the process of re-energising and restoring electricity supply following a complete or partial black-out or major supply interruption.

AEMO procures SRAS capability for six regions, corresponding with identified likely 'break points' in the power system, being Queensland North, Queensland South, New South Wales, South Australia, Victoria and Tasmania.

Snowy Hydro had previously been the major SRAS provider for both NSW and Victoria. Snowy Hydro, as the owner and operator of the Snowy Scheme and Colongra Power Station, is an ideal SRAS provider. We are the only provider that can ensure supply is returned in the most reliable, efficient and cost-effective manner ensuring electricity is restored to NSW homes and businesses in the shortest timeframe. The energy stored in Snowy Hydro's dams provides the ideal system restart source, and the diversity and redundancy of independent power stations across Snowy Hydro's generation portfolio greatly reduces the risk of unsuccessful or delayed restart.

By contracting Snowy Hydro to provide SRAS services, AEMO could be assured that Snowy Hydro would retain the capability - through both people and fuel - to provide SRAS and that we would actively plan and practice the steps required to restart the state in the event of a system outage.

Following a review process in 2015, AEMO amended its rules and guidelines for procuring SRAS. Importantly, the amendments were solely determined by AEMO without appropriate consultation with transmission network service providers.

Notably, the evaluation criteria for procuring SRAS was amended to provide that AEMO's key principle is to select the SRAS or combination of SRAS representing the best value for money (cost minimisation) in providing capability consistent with the SRAS for each electrical sub-network. In evaluating services that meet the minimum technical and capability requirements, AEMO will seek to meet this key principle by taking into account commercial and performance criteria.

This move by AEMO to focus predominantly on cost minimisation rather than quality of service and risk minimisation raised concern amongst industry participants as it represents a conflict of interest for AEMO as the market operator. Snowy Hydro believes it raises considerable risks for the state of NSW.

In the event of a complete or partial black-out or major supply interruption the principal objective should be to restore supply as quickly and safely as possible to NSW households and businesses. The social and economic consequences of a major supply interruption that leaves the state or parts of it in blackout would be immense - and only compounded by time. You only need to consider recent events in South Australia to realise the economic and social impact of delays to system restart.

While there is a rule change in the works to address these concerns it will not be made prior to the AEMO awarding the three year SRAS contract for 2015-2018 presenting a very real risk for the NSW Government, economy and community.

ISSUES FOR CONSIDERATION

Snowy Hydro provides a premium and unparalleled black start capability and any SRAS arrangements that do not include Snowy Hydro are not credible and do not have the ability to be tested. Snowy Hydro is concerned that where AEMO awards the NSW SRAS contract to an inferior party (in order to minimise costs) this will create a material risk to the State of NSW. These concerns are set out below.

AEMO assumes it can rely on directing Snowy Hydro

AEMO has adopted the approach of procuring the 'best value for money (minimum cost) SRAS that meets the minimum technical and capability requirements' rather than the 'best or most appropriate SRAS capability available'.

Implied in this shift is that, should the procured SRAS not prove sufficient in a black start situation, AEMO has the ability to direct Snowy Hydro to provide black start capability. Snowy Hydro is concerned that AEMO relying on this assumption creates significant risk for NSW.

While AEMO does have the ability to direct Snowy Hydro, it can only direct Snowy Hydro to provide what the company is capable of. When Snowy Hydro held the SRAS contract we maintained and continually invested in assets, systems and people to have the requisite skills to be able to provide black start capability whenever required.

Without revenue from the SRAS contract to offset the cost of these activities, Snowy Hydro no longer maintains this capability. Consequently, in the absence of SRAS revenue, over time Snowy Hydro's capability to provide SRAS will erode – and with it the ability of AEMO to direct Snowy Hydro to provide black start capability where the procured SRAS proves insufficient to restart the system following a major supply disruption.

The inability for AEMO to bring NSW 'back on line' in a timely manner after a major supply interruption creates a significant risk to NSW.

AEMO has not appropriately considered the economic impact on NSW from procuring only the minimum technical and capability requirements for black start

The Snowy Scheme (in combination with Colongra Power Station) is unparalleled in its capability to bring NSW 'back on-line' after a major supply interruption.

Compared to the second best option, let alone the minimum black start capability procured by AEMO to restart NSW, Snowy Hydro represents a far superior capability both in terms of security and timeframes.

In seeking to minimise cost, Snowy Hydro understands that AEMO may save approximately \$14 million per annum (the expected difference between Snowy Hydro's

SRAS cost and the SRAS procured by AEMO). However the savings to NSW consumers will only be in the order of \$3.5 million per annum.¹

Snowy Hydro is concerned the AEMO has not considered the potential cost to NSW from Snowy Hydro not retaining the NSW SRAS contract. For an annual saving of approximately \$3.5 million to NSW consumers, AEMO is potentially exposing NSW to significantly greater risk. Even a one hour delay in a system restart event could cost NSW well in excess of \$400 million.

With regard to cost of Snowy Hydro providing SRAS capability, there has been no increase to this cost in real terms since 2007. However, this is not about the amount paid for the SRAS contract, but rather a workable and credible solution for NSW.

NEXT STEPS:

Snowy Hydro is of the view that State and Federal Ministers need to consider the broader issue of the approach AEMO is taking to the awarding of SRAS. We do not believe that focusing on cost minimisation alone will deliver the best outcome for constituents.

This is a matter that needs to be considered by Ministers, potentially through the COAG energy council, through which AEMO reports. It should also form part of the deliberations of the NSW Energy Security Taskforce.

¹ The \$14 million savings is across NSW and Victoria and half of the SRAS cost is met by generators and the other half by end consumers