

4 February 2016

Sebastian Roberts  
General Manager – Networks Branch  
Australian Energy Regulator  
GPO Box 520  
Melbourne VIC 3001

Locked Bag 14051  
Melbourne City Mail Centre  
Victoria 8001 Australia  
T: 1300 360 795  
[www.ausnetservices.com.au](http://www.ausnetservices.com.au)

Via email: [AusNetTransmission2017@aer.gov.au](mailto:AusNetTransmission2017@aer.gov.au)

Dear Sebastian

**Impact of FCAS Changes on AusNet Services' Market Impact Component Proposal for 2017-22**

AusNet Services welcomes this opportunity to provide further information in relation to its Revenue Proposal. The purpose of this submission is to raise a material matter that has arisen since the submission of its Revenue Proposal on 31 October 2015.

This matter is the impact of AEMO's recent changes to constraint setting in the FCAS market on AusNet Services' Service Target Performance Incentive Scheme (STPIS) proposal, specifically, the Market Impact Component (MIC).

If no adjustment were made to account for these changes, under current conditions AusNet Services would expect to incur the maximum MIC penalty in every year of the 2017-22 regulatory period as a result of undertaking routine maintenance. This would remove AusNet Services' incentive to respond to the MIC and minimise the market impact of its outages.

**Background**

In late 2015 AEMO made operational changes to constraint setting in the Frequency Control Ancillary Services (FCAS) market. These changes were initiated for a series of outages taken by ElectraNet in October and November 2015 and are expected to apply for all future outages which place the Victorian to South Australia interconnector on single contingency. The rationale for AEMO's change in constraint setting for SA interconnector outages is given in section 3 of the AEMO report "NEM – Market Event Report – High FCAS Prices in South Australia" published in December 2015.

These changes will result in a significant step increase of MIC Dispatch Intervals when AusNet Services takes single contingency outages of the Victorian to South Australia interconnector. During the ElectraNet outages up to 24 MIC DI's were incurred per hour. The changes would apply to all outages covering almost 1000km of AusNet Services' 500kV and 275kV circuit from the South Australian border to AusNet Services' South Morang Terminal Station.

Despite taking measures to mitigate the MIC impact of outages on this part of the network, there remains a requirement to take outages on this significant group of assets to carry out

maintenance. Due to the new FCAS requirements this is expected to lead to approximately 400% per annum increase in the number of MIC DIs incurred by AusNet Services. As AusNet Services' MIC target for 2017-22 will be set based on performance over a time period prior to AEMO's FCAS changes, the new operating conditions will not automatically be accounted for in the target.

### **Possible Solutions**

There are a number of options for dealing with this issue. AusNet Services' preferred option is an adjustment to its MIC benchmark to more accurately reflect the baseline level of constrained outages on AusNet Services' network. This approach has the advantage of continuing to provide networks with an incentive to minimise the impact of its outages across the entire FCAS market, in addition to the wholesale market. The benchmark could be set by estimating the number of FCAS constraints expected to have occurred in previous years, had AEMO applied its current constraint setting approach historically.

A second option would be to exclude the Dispatch Intervals caused by AEMO's new approach from the performance target and measure. This has the advantage of simplicity, but it also reduces the scope of the incentive. However, AusNet Services will still have a strong incentive to minimise outages and market congestion as it will still be liable for the routine FCAS constraints that are invoked.

AusNet Services will continue to engage with the AER on this matter, including if and how the options raised above are supported by the STPIS. We note that the changes to FCAS also affect MIC performance in the current regulatory year, in addition to being an issue for the revenue reset, and we continue to seek clarification from the AER as to how it will treat MIC DIs incurred in 2016 as a result of AEMO's FCAS changes.

AusNet Services looks forward to reading other stakeholder submissions on its Revenue Proposal and continuing to engage with the AER on this matter. Please contact Charlotte Coster, Principal Economist on 03 9695 6309 if you have any questions in relation to this submission.

Sincerely,



Tom Hallam  
Manager Regulation and Network Strategy  
**AusNet Services**