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Submitted online: <https://www.aemc.gov.au/contact-us/lodge-submission>

Submission to ERC0295 / ERC0307 – Operating reserve market directions paper

Delta Electricity (Delta) welcomes the opportunity to respond to the AEMC's directions paper on the operating reserve market which also considers Delta's rule change proposal for the introduction of ramping service market.

In summary, Delta agrees with the AEMC's decision to not implement an out of market operating reserve, however Delta still maintains the concerns it raised in its rule change proposal for the introduction of a new ramping service market, developed some four years ago, are still relevant. Delta encourages the AEMC to reconsider these concerns as new information is likely to come to hand soon regarding delays to key transition milestones, including renewable generation, key transmission, and storage and battery investment.

Delta supports the incremental changes proposed in the directions paper, to:

- develop and publish more information to the market, with a focus on energy-limited plant; and
- procure frequency control ancillary services (FCAS) at a regional level, or alternately limiting the amount of FCAS procured from a single region to increase the amount of FCAS procured in other regions.

Delta's concerns

The AEMC's directions paper acknowledges the concerns raised by both Delta and Iberdrola, but notes the following as giving it comfort these concerns are being addressed:

- '... delivery of the significant pipeline of investment in new flexible and enduring capacity in the NEM, suggesting the current arrangements are likely to also address reserve shortfalls in investment timeframes.'
- 'AEMO's generation information webpage shows there is significant flexible capacity proposed to enter the power system. This provides a degree of confidence that the current market signals and supporting schemes are attracting the right forms of generation and storage capacity which are needed to balance changes in net demand and maintain system security and reliability in operational timeframes.'
- In response to Clean Energy Council's data showing that recent investment may not be aligned with the investment needed to meet the ISP step-change scenario the



AEMC noted ‘...at this stage, there is not enough evidence to suggest that this is part of a broader downward trend’ and that ‘... the scale of potential investment coming down the pipeline is still strong.’

The AEMC does acknowledge that while it understands the number proposed investments will not all progress to commissioned projects, it maintains the amount of investment is still prominent across all NEM regions.

However, Delta’s is concerned that the AEMC is still placing too much weight in the optimistic projections of AEMO, particularly in relation to the next five to 10 years. Delta encourages the AEMC to consider the following:

- The NSW government is currently reviewing a report it commissioned on an independent check-up on NSW’s energy policies, to ensure NSW has the right policy settings to deliver a timely and cost-effective transition of our electricity sector. Delta considers the outcomes of this report need to be seriously considered by the NSW Government, the AEMC, and the other energy market bodies. It is Delta’s expectation that this report will highlight some of the many concerns that have been circulating in the sector for some time, including that the pace of investment in renewable generation, firming storage and transmission is nowhere near the level needed to achieve the goals set by the previous NSW government and Federal government. This could mean that current Integrated Service Plan projections, which are relied on by the AEMC and others, will need to be adjusted to more achievable and realistic targets.
- AEMO is set to release the 2023 ESOO on 31 August 2023. It is Delta’s expectation the ESOO will highlight that the transition is occurring at a much slower rate than is being planned for, and warnings of reliability and system security concerns could be significant if progress on urgent projects is not made.

Delta acknowledges that its concerns may be addressed in the long term when adequate amounts of dispatchable and firming technologies are in place, however it does still consider the power system’s ability to respond to the increasing risk of unexpected changes in variable renewable energy (VRE) output is being inadequately prepared for, for the next five to 10 years.

Delta has notified AEMO and the market of an extension of the technical life of its Vales Point units to 2033. This does not infer the units will be commercially viable to 2033, but that they are able to run until 2033 should the commercial environment support that decision. It is Delta’s strong view that market mechanisms, such as a ramping service market and other essential system security markets (as proposed in Delta’s original rule change request that evolved into the now abandoned Operational Security Mechanism) are needed to signal to the market a need for such services. If strong signals are not present to reward existing providers of firming and dispatchable services, these existing units may plan to retire before the market has sufficient like-for-like replacement capacity. This is of course unacceptable from a consumer perspective and would then result in inefficient intervention and costly government deals to extend retirement dates of some of the existing thermal generation fleet. This is the current situation facing Eraring and the NSW Government, and the recently announced agreement between the Victorian Government and AGL’s Loy Yang A power



plant. These types of outcomes result in less efficient outcomes and higher costs to the system that are ultimately borne by tax payers and energy consumers.

Once the NSW government's independent report and AEMO's 2023 ESOO are published, Delta strongly suggests that the AEMC reconsiders if its position in the directions paper, and other projects considering how to address essential system services, will still maintain reliability and power system security, and be at the lowest cost to the market.

Delta supports the proposed incremental changes

Delta supports the incremental changes proposed in the directions paper.

Developing and publishing more information to the market, with a focus on energy-limited plant will increase transparency of information to the market and allow participants to make better informed decisions. While this proposed change is relatively minor, Delta does not envisage any materially negative or costly outcomes from its implementation.

Procuring frequency control ancillary services (FCAS) at a regional level, or alternatively limiting the amount of FCAS procured from a single region to increase the amount of FCAS procured in other regions should improve the ability for AEMO to respond to sudden changes in VRE output and ramping needs, particularly because of interconnector interruptions and regional separation. It should also remove or at least reduce the time needed for AEMO to rearrange the separated market regions to get adequate FCAS established in each region.

Delta also notes that while regional FCAS provision would improve the coverage for such circumstances, it will also provide experiences for other regional type services such as an inertia market which would probably need some regional or even sub-regional focus.

To discuss further please contact me at joel.aulbury@de.com.au.

Yours sincerely,

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