



Ms Anna Collyer
Chair, Australian Energy Market Commission
Level 15, 60 Castlereagh St
Sydney NSW 2000
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31 August 2023

Dear Ms Collyer,

Operating reserve market Directions Paper (ERC0295)

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission (“the Commission”) in response to the Operating Reserve Market Directions Paper “the Directions Paper”.

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to more than 720,000 retail customer accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

Sub-heading

ENGIE understands the rationale for not pursuing an operating reserve market (ORM) further. If the Commission can see no benefit in terms of orienting the investment mix towards being able to provide additional reserves to the market and responding quickly to the system needs, then the value of an operating reserve market is limited.

Conversely any new market will add to system costs and in turn electricity prices, so there needs to be a clear and significant benefit. ENGIE notes that the Commission has not attempted to confirm the logic of this via a quantitative cost benefit analysis but has arrived at its conclusion via qualitative methods.

While ENGIE does not seek to dispute the conclusion, we consider that some of the underlying assumptions in the qualitative analysis may benefit from further investigation over time, so the Commission can be assured its analysis is based on sound foundations. Of course, such investigation will not occur over a timeframe that will impact the outcome of this rule change but will be important for the Commission’s future work. Among these assumptions are:

- **Increasing diversity of variable renewable generation** – while this is consistent with modelled expectations it will be important to track this for actual deployment.

- **Drivers of investment and whether oriented to market needs** – as government schemes have become the primary driver of new investment, there is less confidence that deployment is consistent with market signals and that therefore it is in aggregate, meeting system requirements. Looking at the level of proposed projects is not a reliable indicator of whether investment will transpire, especially since there is rarely transparency about when a proposal has been formally abandoned.
- **Market behaviour of fast start plant** – Plant operators do not have the benefit of perfect foresight, and so their attempts to optimise their own position may not fully align with market signals (i.e., they may not end up maximising their discharge at times of peak prices). Accordingly, the system may require greater investment in storage and other fast start plant than optimised modelling may suggest.
- **Impact of disinvestment decisions** – the resource mix available to respond to ramping requirements is not just dependent on investment decisions, but also when existing plant closes. Large coal plants are subject to a notice of closure, but other thermal plant is not.
- **Overuse of out-of-market solutions** – the Commission should be wary of AEMO putting too much reliance on regular out-of-market resources (RERT) and non-market solutions (directions and other interventions). Such tools are intended as a last resort and not as a regular part of market operations.
- **Length of the transition** – one rationale cited in the Directions Paper is that the issues leading to greater reserves requirements are merely transitional. However, there are signs that the transition is not keeping pace with government targets, and the full transition is likely to take at least two decades. Accordingly, there is plenty of time to introduce new market arrangements and then sunset them if they are no longer required.

In the light of these issues, ENGIE recommends ongoing monitoring of indicators of whether reserve requirements are continuing to increase and whether reserve supplies remain sufficient. These could include metrics such as demand forecasting errors, frequency and level of LOR notices, deployment and cost of RERT, and whether investment keeps pace with projections.

ENGIE is not suggesting that a new formal report is required, but that the Reliability Panel tracks such indicators in its annual report and if the reserves supply/demand balance deteriorates is prepared to recommend revisiting the ORM. ENGIE expects that this within the Panel's current remit.

ENGIE notes the Commission's proposed alternatives to an ORM. While these do not appear to be a direct substitute, they may be beneficial incremental changes that don't necessarily require a rule change.

Information requirements

The Directions paper notes that AEMO is currently collecting SCADA data on the state of charge of grid batteries. Appropriately, AEMO has committed to maintaining confidentiality of individual asset state of charge. However, ENGIE sees no harm in AEMO aggregating and publishing aggregated data, to the extent this does not reveal individual asset level information. Ideally, the stored resource level of other energy limited plant would be included in this information; however, ENGIE is not clear whether AEMO has such information on the relevant time frames and how it could be published without revealing individual asset information (given how few pumped hydro plants there are in the NEM, for example).

At this point there is no need for new data provision obligations, especially while current rule changes relating to PASA processes are being worked through. There should be a period of time to understand what AEMO can do with the data flows it has following implementation of the new PASA requirements before considering any further information obligations on participants.

Regional FCAS procurement

The Directions Paper explains that AEMO is already empowered to procure FCAS on a regional basis rather than a global basis. In the interim, then, it appears that AEMO could operationalise this approach without any further rule changes. This would aid in understanding the costs and any drawbacks of FCAS procurement at a more localised level.

Nevertheless, the Powerlink proposal is to also allow subregional procurement in order to aid the efficient development of Renewable Energy Zones. This would require a rule change. It also raises a cost allocation issue. Should the costs of subregional FCAS only be raised from generators in that subregion (on the basis that they are the beneficiaries) and how would this be implemented? ENGIE supports further work by the Commission and AEMO to explore subregional procurement.

A refocus on the role of the existing reliability settings

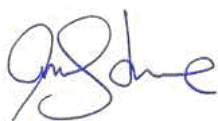
Regardless of the merits of an ORM, the fact remains that this is one of several options proposed to augment the signals of the existing energy only market that have now been discarded. Other options include the Energy Security Board's capacity mechanism (which has been superseded by yet another government scheme which will not provide the same outcomes) and the operational security mechanism.

The upshot may be that, interventions aside, we remain reliant on the energy only market to provide market signals as to the optimal mix of supply-side resources over both dispatch and investment timeframes. At the same time, the tightening of reliability standards has now been confirmed as an enduring component of market governance.

Accordingly, it remains imperative that we refocus on the critical role that the reliability settings play in delivering enhanced reliability and implement the Reliability Panel's recommendations for progressive increases in the Market Price Cap, Cumulative Price Threshold, and Administered Price Cap.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0477 299 827.

Yours sincerely,



Jamie Lowe

Head of Regulation,
Compliance, and Sustainability