

30 August 2023

Australian Energy Market Commission  
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Submitted by email to [aemc@aemc.gov.au](mailto:aemc@aemc.gov.au)

Project number: ERC0295

### **Operating reserve market directions paper, Directions Paper**

Snowy Hydro Limited welcomes the opportunity to comment on matters raised in the Directions Paper from the Australian Energy Market Commission (the Commission) on the Operating reserve market.

The Commission's proposal to not to recommend the implementation of an operating reserve market is welcomed by Snowy Hydro. As we have highlighted from the beginning of the consultation the solution is to address the problem at its source, by adjusting market settings which are currently deterring investment. Adjusting these settings will improve the efficiency of market prices, creating a signal for investment in new plant. It will also significantly reduce the need for costly market interventions by AEMO. It is for this reason the outcomes of the market settings rule changes are critical for existing and future investors.

The operating reserve market is not a tool to provide investment signals as noted by the Commission. The NEM was structured as an energy-only market. Price signals support the free entry of generation capacity. In particular, scarcity rents - when prices temporarily exceed short run marginal cost - underpin new investment. Investment risk is borne by owners of generation plant.

Investment signals in the NEM are currently constrained by market settings, in particular the Market Price Cap (MPC) and Cumulative Price Threshold (CPT). These settings limit demand for hedging contracts and socialise the cost of volatility among peaking generators. Furthermore, AEMO regularly supplies energy from off-market suppliers through its reserve trader (RERT) function at prices well above the MPC. This demonstrates that improved market price incentives would encourage greater availability of, and investment in, dispatchable plant. This will, in turn, obviate the need for an operating reserve. The Commission must take this into account when assessing the outcomes of the market settings and how critical they are.

In addition to this the rejection by Energy Ministers' of a broad-based capacity mechanism means the need to implement the Reliability Panel's recommendations for progressive increases in the MPC, CPT and APC has never been more important to encourage the right investment.

The Commission has identified the *“direct costs, including implementation costs for AEMO and for market participants who may need to upgrade their systems to accommodate trading in a new market”* and the *“indirect costs associated with an operating reserve market, including that it would likely be unhedgeable, creating risks and therefore costs for market participants”* For example the signals for long term investment signals could have been impacted as operating reserves could have been seen as another revenue stream for existing dispatchable resources that would otherwise retire or be mothballed. The callable operating reserve market would hold capacity out of the market, only dispatching when or if needed, impacting the allocation of resources to meet the system needs of reliability and security. It is for this reason Snowy Hydro agrees with the Commission *“that an explicit operating reserve market is not a tool to provide investment signals. Indeed, there is a risk that such a market may dilute investment signals, particularly for fast-start plant”*.

AEMO already has significant backstops it can deploy in times of emergency. This includes the ability to contract for emergency reserves including ‘Short-Notice’ or ‘Medium-Notice’ forms. AEMO is also progressing a number of initiatives to improve net demand forecasts and redevelop the short-term projected assessment of system adequacy (ST PASA).

#### *Two additional incremental improvements*

##### *Incremental improvement 1: Develop and publish more information for the market*

Snowy Hydro understands that greater and more granular information on storage capacity could assist participants to better understand the value of being available over the course of the day. We understand that this information could:

- better ensure the availability of reserves across all timeframes
- allow more efficient decisions about the commitment of reserves at certain times.

The Commission correctly notes that the proposal will lead to new compliance burdens on hydro and batteries however to more effectively understand the impact we would support more detail being provided.

If the requirement of more information is left vague, as is in the Directions paper, then market participants will not know what they are supporting or agreeing to. The paper lacks the detail required on what specific information is required and how this will solve any particular issues with the NEM's operation. This change should not be passed without this additional information. It's important to note that participants have been proactive participants in working with AEMO and providing data leading into the crisis and after it.

Snowy Hydro is subject to regulatory constraints which impact the volume of water storage available for release and generation, and such constraints are not always possible to accurately calculate in advance. For example, air space limitations in

Blowering Dam and the flow level of Tumut River can restrict the volume of accessible storage at Tumut 3 Power Station over a given period. It is critical that comprehensive consultation takes place in advance of any new storage disclosure requirements in order to take into account these types of limitations.

The Commission needs to recognise that there are trade-offs to providing this information, and if this improvement is considered further it will need to be explored in more detail with participants. In considering the publication of aggregated information by region and by technology type (e.g. batteries, pumped hydro etc.) on the available energy in MWh from energy limited capacity the Commission should firstly consider the changes already being made by AEMO. AEMO is likely to receive energy limit information for pumped hydro through ST and MT PASA and these have yet to be implemented or properly assessed.

### *Incremental improvement 2: Procurement of FCAS at a regional level*

We support changes to FCAS that could assist in managing the impacts of an increasing need for reserves and also allow for the more efficient use of existing network infrastructure, improving its utilisation and supporting reduced costs for consumers.

Under current arrangements, FCAS is normally procured globally in the NEM. The Rules do, however, permit AEMO to procure FCAS from within a specific region, rather than on a global basis. AEMO could procure FCAS on a regional basis or limit the amount of FCAS procured from a single region to increase the amount of FCAS procured in other regions. This should allow FCAS reserves to remain commercially viable at the extremities through targeted procurement.

It is unclear in the Directions Paper whether there is any barrier to AEMO immediately implementing Powerlink's suggestion for purchasing regionalised FCAS, and the rules, dispatch processes and settlement mechanisms as they already exist. Snowy Hydro believes there is no need for further Commission action beyond a clear signal to AEMO that it should exercise this capability.

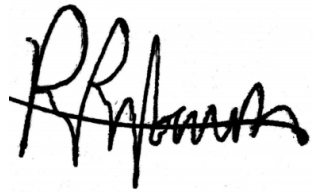
### **About Snowy Hydro**

Snowy Hydro Limited is a producer, supplier, trader and retailer of energy in the National Electricity Market ('NEM') and a leading provider of risk management financial hedge contracts. We are an integrated energy company with more than 5,500 megawatts (MW) of generating capacity. We are one of Australia's largest renewable generators, the third largest generator by capacity and the fourth largest retailer in the NEM through our award-winning retail energy companies - Red Energy and Lumo Energy.

Snowy Hydro appreciates the opportunity to respond to the Directions Paper and any questions about this submission should be addressed to me by email to [panos.priftakis@snowyhydro.com.au](mailto:panos.priftakis@snowyhydro.com.au).



Yours sincerely,

A handwritten signature in black ink, appearing to read 'P. Priftakis', written over a light grey rectangular background.

Panos Priftakis  
Head of Wholesale Regulation  
Snowy Hydro

