



Ms Anna Collyer
Chair
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Dear Ms Collyer,

RE: RESERVE SERVICES IN THE NATIONAL ELECTRICITY MARKET DIRECTIONS PAPER

The Energy and Technical Regulation Division (the Division) of the Department for Energy and Mining thank you for the opportunity to make a submission on the Reserve Services in the National Electricity Market Directions Paper (Directions Paper).

As discussed in the Direction Paper, the Division considers that the current arrangements will not be appropriate as variability and uncertainty continue to increase in the National Electricity Market. As noted by the AEMC, the current framework is relatively inflexible and may not be well suited to an increasingly complex power system with increasing risk of unforeseeable security events occurring.

The Division agrees with the AEMC that there is increased risk of insufficient in-market reserves being available to meet net demand due to forecast uncertainty and net demand variability as the generation mix continues to change rapidly.

The Division considers that these issues are material and if not addressed will continue to increase over time in all NEM jurisdictions as penetration of variable renewable energy continues to grow. Therefore, the Division supports the further development of a reserve service market.

The Division supports the AEMC considering a range of options to address uncertainty and variability, including incremental improvements such as, improved accuracy of demand forecasts, provision of additional information to the market, better integration of emerging flexible resources and adapting system definitions.

In principle the Division supports an operating reserve mechanism and considers it could be designed to provide adequate incentives to deliver the amount and type of investment needed a timely manner.

As described by the AEMC, the Division agrees that the design options considered should aim to procure sufficient reserves to address net demand forecast uncertainty and prevent a contingency event from resulting in involuntary load-shedding.

In relation to the four high level options the AEMC has outlined in the Directions Paper, the Division considers that the co-optimised operating reserve or the co-optimised availability market are likely to have less impact on the existing markets than options that remove capacity from availability in order to be available as reserve. Depending on the nature of capacity that is removed for reserves, such options may also reduce the flexibility of the generation fleet that remains in-market which is not desirable.

Co-optimised markets are also consistent with the current approach utilised for energy and ancillary services markets and should provide consistent pricing incentives for potential providers in each of the markets.



Therefore, the Division supports the AEMC focussing on further development of co-optimised reserve models over other options presented.

The Division also considers it important that any approach should provide for efficient DER and demand side participation. The availability of such resources will continue to increase over time, and appropriate provision for their participation in any reserves market should result in better availability and pricing outcomes than if such a market were supply side dominated.

Thank you for considering this submission. Should you wish to discuss this further please contact Mr Mark Pedler, Principal Policy Officer, Energy and Technical Regulation Division, on (08) 8429 3361.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'Vince Duffy'.

Vince Duffy
Executive Director, Energy and Technical Regulation

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