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Sydney NSW 2000

Anna Collyer  
Chair  
Australian Energy Market Commission  
201 Elizabeth Street  
Sydney NSW 2000

15 February 2020

Dear Ms Collyer,

### **Directions Paper: Reserves Services**

Enel Green Power (EGP) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC's) Directions Paper.

Founded in 2008, and part of Enel Group, EGP builds and operates large scale renewable generation capacity in energy markets around the world. EGP operates in 28 countries on 5 continents with a managed capacity of over 46 GW and over 1,200 plants. EGP is the largest privately owned renewable energy company in the world, generating approximately 100 TWh of renewable electricity from hydro, solar, wind and geothermal resources every year.

While EGP broadly supports the Clean Energy Council submission to this consultation, our preference is for option 1 to be progressed into the detailed development phase, combined with an operating reserve demand curve (ORDC).

### **Advantages of a co-optimised operating reserves market**

If we assume that customers actually value having a reserve service and are willing to pay for it, then it would appear sensible for reserve services to be 'brought into the market', as model 1 does, so that consumers can efficiently trade-off the value of this service against the other possible uses of capacity.

Reserve capacity may include a range of different technologies that can provide multiple services at any point in time (primarily energy and different types of ancillary services). Recognising that by providing more of one service this usually means less of another service can be provided, arrangements should ensure efficient trade-offs are made so that resources are directed to their most valued use at any particular point in time.

For this reason, co-optimisation of energy, reserves and ancillary services is considered best practice in international markets. It would result in the energy price reflecting the opportunity cost of providing reserves and ancillary services (and vice versa) in real time, thus ensuring the pricing of each service remains consistent. Consistency in this regard means that where capacity resources are directed into one market this should mean prices also rise in other markets, as fewer resources are now available in those markets and more expensive resources (i.e. reflecting bids in the reserves market) will need to be called upon so that demand can continue to be met. This ensures adequate price signals are maintained in energy markets.

### **Disadvantages of a callable operating reserve market**

The co-optimised approach considered above, contrasts with the one adopted under option 4, the callable operating reserve market. Under this option reserves sit outside the market, and are called in

only where there is a market failure (much like the reserve trader mechanism). Reserves are not explicitly valued within a market context, rather they reflect a centrally administered out of market arrangement. In our view this could potentially lead to distortions in wholesale prices because when reserves are called upon they will act to suppress prices in the energy market.

Further, if unexpected changes in net demand become a normal and regular feature of electricity markets dominated by renewables, this could lead to frequent out of market interventions through the callable reserve mechanism (and subsequent price distortions) to maintain reliability in real time. It more efficient in our view, to explicitly value reserves as a product or service alongside energy and ancillary services.

### **Operating reserves demand curve**

We support the concept of an ORDC. An ORDC would allow additional reserves over and above minimum reserve requirements to be valued and paid for in the market. This should enhance liquidity of a reserves market, as it would provide access to additional and more stable revenues streams for service providers, strengthening incentives for investments in reserve services.

Please feel free to contact Con Van Kemenade, Head of Regulatory Affairs, on 0439399943 to discuss anything we have raised in this submission.

Yours faithfully,



Werther Esposito

Country Manager

Enel Green Power Australia