

21 October 2021

Mr Stuart Morrison
Mr David Reynolds
Project Leaders
Australian Energy Market Commission

Submitted via website: www.aemc.gov.au/contact-us/lodge-submission

Dear Mr Morrison and Mr Reynolds

**Capacity commitment mechanism and synchronous services markets
(ERC0290 and ERC0306)**

Stanwell Corporation Limited (Stanwell) welcomes the opportunity to respond to the Australian Energy Market Commission's (the Commission) Capacity commitment mechanism and synchronous services markets Directions Paper (Directions Paper).

This submission contains the views of Stanwell and should not be construed as being indicative or representative of Queensland Government policy.

Introduction

Stanwell is a major provider of electricity to Queensland, the National Electricity Market (NEM) and large energy users throughout Australia. While providing reliable and affordable energy for today, we are exploring new generation and storage technologies that will help reduce emissions while also ensuring Queensland's electricity supply remains secure and reliable.

Stanwell supports the Commission's continued work on the essential system services rule changes. Because of its critical impact on any transition to a greater supply of renewable electricity to the market, one of Stanwell's key regulatory reform priorities remains the development of markets for these essential system services. Therefore Stanwell supports efforts to clearly define what these services are, plan for how they will be valued and procured, and identify the interactions between each service and other market reform initiatives underway or planned.

Key issues

Stanwell appreciates the Commission providing an update of its thoughts to date in the Directions Paper. Given Hydro Tasmania's market ancillary services (MAS) approach and Delta's non-market ancillary services (NMAS) approach are in the conceptual stage, Stanwell does not believe there is yet enough detail on how either proposal would operate,

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or how each would respectively interact with related aspects of the existing market design or related proposed reforms, to indicate support for either model at this time.

Stanwell notes that despite the fact that neither of these proposals has been developed or assessed in detail at this stage, the Commission has expressed a preference for the NMAS solution. While Stanwell appreciates the work the Commission has done on these proposed rule changes to date, given the fact that both proposals are still in the early stages of assessment we believe expressing a reference for either at this stage is premature. Our specific concerns with the Commission's position, and Stanwell's preferred approach are detailed below.

The Commission's preferred model

To better understand the Commission's expressed preference for the NMAS Stanwell would like further information as follows:

- 1) Many of the benefits and drawbacks are shared by the proposed MAS and NMAS models. The Directions Paper notes both models:
 - Could facilitate more efficient operation decisions;
 - Should improve transparency;
 - Should, in principle, be able to provide more efficient price signals than those sent through the directions process;
 - Would involve including constraints into the optimisation engine that reflect secure system configurations;
 - Would be broadly similarly suited to evolve to accommodate the unbundling of system services;
 - Would not be co-optimising with the energy and FCAS schedule, and so a degree of inefficiency may be introduced; and
 - Would not produce marginal prices, and in both cases an alternative pricing system would be required.¹

The Directions Paper also notes it is not clear whether either of the approaches better contribute to an improved engineering knowledge.²

The Commission states their preference for the NMAS model is based on the analysis in section 5.4.1 of the Directions Paper, but the content of this section appears to be largely qualitative assertions of relative benefits and drawbacks. Stanwell would be keen to see the supporting quantitative evidence that demonstrates why NMAS is the Commission's preferred model and how NMAS provides greater benefit to consumers (for example, greater net benefits or lower costs to achieve the same benefit).

- 2) The preference for the proposed NMAS model also appears to have been made in the absence of an estimation of the volume of essential system services AEMO would procure to keep the power system secure. Stanwell has a strong preference for in-market

¹ AEMC, Capacity commitment mechanism and synchronous services markets Directions Paper, September 2021, pp 62-64.

² AEMC, Capacity commitment mechanism and synchronous services markets Directions Paper, September 2021, pp 64.

solutions where practicable. However, we acknowledge that in the event the volume of essential system services to be procured is relatively small, direct contracting may be more efficient than establishing a new market. If the Commission has discussed the expected volume of essential system services to be procured through this mechanism with AEMO, Stanwell requests the key points of this discussion be shared with stakeholders at the Commission's earliest convenience. Until the expected volume of services to be procured is established, Stanwell is unable to understand what the most appropriate procurement mechanism might be.

Stanwell's preferred approach

Both MAS and NMAS proposals are based on AEMO being able to define the service being procured and define the volume (by value, formula, rule-set etc) to be procured. It is not clear that either has occurred fully, however we consider that the volume in particular will be informative of which procurement mechanism is preferable. If the volume is small or uncertain, the initial adoption of a NMAS structure may be appropriate. AEMO can start procuring the service and learn by doing. However, we are of the view that if the volume of contracts turns out to be large the creation of a real-time market may be justified.

This staged approach is consistent with Stanwell's support for a minimal Unit Commitment for Security mechanism in its submission to the Energy Security Board's (ESB) most recent Post-2025 Market Design Options consultation paper.³

However, Stanwell remains concerned about the AEMC adopting the ESB's bundling of UCS with the System Security Mechanism (SSM). As per Stanwell's ESB submission:

"The stated remit of the System Security Mechanism is to "procure any system services that are not already provided through a real-time spot market". Given the other ESS developments currently being progressed by the AEMC, Stanwell questions the volume of services other than system strength that would be procured through this proposed mechanism, or how the benefits of any such services procured would exceed the costs of establishing and maintaining this mechanism.

Stanwell fears that the introduction of this mechanism may incentivise generators to withdraw from offering long-term system strength services in favour of pursuing short-term contracts on the supply side, and disincentivise adequate network planning and entering long-term system strength contracts with generators on the demand side.

Stanwell contends that the need for a short-term mechanism would be extinguished if AEMO procured an adequate volume of long-term system strength contracts."⁴

³ Stanwell, Response to the Post 2025 Market Design Options - A paper for consultation, June 2021, p15.

⁴ Stanwell, Response to the Post 2025 Market Design Options - A paper for consultation, June 2021, p15.

When South Australia faced system strength issues, the Commission placed a rules obligation on the Network Service Providers (NSPs) but allowed them to simply not procure if the cost was deemed to be too high (presumably to avoid market power on the provider side). The NSPs evaluated the offers and decided that having the Australian Energy Market Operator (AEMO) issue directions until they could build regulated assets was cheaper and therefore didn't sign up. In practice, AEMO directions were significantly more expensive.

Conclusion

Stanwell appreciates both the Commission's work on mechanisms to value and compensate essential systems services and the update provided in the Directions Paper. However, Stanwell is concerned that the Commission's expressed preference for the NMAS approach is not warranted given the proposed models are still in the conceptual stage and the paucity of supporting evidence presented to date. Stanwell looks forward to engaging with the Commission on the draft rule determination to review the Commission's position once further assessment has been done to land on a preferred option (including the analysis and evidence supporting that option).

Stanwell welcomes the opportunity to further discuss the matters outlined in this submission. Please contact Ian Chapman on (07) 3228 4139.

Yours sincerely



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