EGP Australia Pty Ltd
Level 23.07 One International Towers, 100 Barangaroo Avenue, Barangaroo, Sydney NSW 2000

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Ms Clare Stark
Project Lead
Australian Energy Market Commission

Lodged via the AEMC website

Dear Ms Stark

Draft determination on operational security mechanism

Enel Green Power welcomes the opportunity to provide a submission in response to the AEMC's draft rule determination on Operational Security Mechanism (OSM).

About Enel Green Power

Enel, which celebrates its 60th anniversary this year, is a multinational power company and a leading integrated player in the global power and renewables markets. At global level, it is the largest renewable private player, the foremost network operator by number of end users and the biggest retail operator by customer base. The Group is the worldwide demand response leader and the largest European utility by ordinary EBITDA[1]. Enel is present in 30 countries worldwide, producing energy with around 92 GW of total capacity.

Enel Green Power, within the Enel Group, develops and operates renewable energy plants worldwide and is present in Europe, the Americas, Africa, Asia and Oceania. A world leader in clean energy, with a total capacity of around 55 GW and a generation mix that includes wind, solar, geothermal, and hydroelectric power, as well as energy storage facilities, Enel Green Power is at the forefront of integrating innovative technologies into renewable energy plants.

In Australia, Enel Green Power operates three solar plants with a total installed capacity of 309MW. To learn more about Enel Green Power in Australia and our projects in the pipeline, please visit www.enelgreenpower.com/countries/oceania/australia.

[1] Enel's leadership in the different categories is defined by comparison with competitors' FY 2021 data. Publicly owned operators are not included.

Overview

We do not consider the proposed OSM will achieve the best financial and system security outcome for electricity consumers. The proposal will significantly increase the market power of OSM providers in areas with weak system strength, which will in turn increase electricity bills for consumers.

We recommend the AEMC to

- provide further clarity on how AEMO will enter into security services agreements
- require all system security providers to have a system security services agreement
- set dispatch costs upfront through security services agreements
- incentivise new investments in zero-emission technologies
- explore options to unbundle services and study comparable international electricity markets

Location-specific system strength services should not be procured through region-wide reverse auction

System strength is a local issue and can only be addressed locally. For example, in NSW, a synchronised condenser built in the Hunter region cannot provide support to a three-phase fault in Darlington Point. This is different from other services such as energy and frequency control.

AEMC has recognised the locational characteristics of supply security services in the draft determination (chapter 6.1, p.44). To achieve the objectives of OMS and maintain the *technical envelope*, AEMO must consider the location and the characteristics of each security service before considering price (draft rule clause 3.7G.2). We support this view.

Given each System Strength Service Provider is only required to enter into system strength service agreements to meet requirements at each system strength node, and the process for AEMO to procure additional services is unclear (see **recommendation 2** below), there will be hardly any meaningful competition for each system strength node.

Reverse auction is best suited for homogenous services where there are multiple suppliers and only one buyer. Price must be the primary (if not only) consideration in a reserve auction process. As this is not the case for system security services, we do not consider the proposed reverse auction process is fit for purpose.

We share AEMC's concern regarding the market power of certain OSM providers. The proposed OSM will grant bidders around weak system strength nodes with significant market power. This will result in hurting electricity consumers financially.

Recommendation 1: provide further clarity on how AEMO will enter into security services agreements

We note AEMC envisions the OSM will provide system security services in three ways (clause 3.7G.1 of draft rule):

(a) Market Participants that have security services agreements with TNSPs,
(b) Market Participants that have security services agreements with AEMO,
(c) Market Participants that do not have any security services agreement (*uncontracted security service*).

We support AEMO has a role in procuring security services in planning timeframe. However, the proposed draft rule is silent on how AEMO will enter into these agreements, particularly *system strength services agreement*. The current NER (Chapter 10 - Glossary[2]) requires a *system strength services agreement* to provide service only to *system strength service provider*, rather than AEMO. This will limit, if not inhibit, AEMO's ability in entering into any *system strength services agreement*.

We recommend the AEMC to provide further clarity on how AEMO will enter into these agreements under category (b). AEMO's planning timeframe procurement is crucial to increasing the competition of security systems, as SSSPs have little incentive to procure any additional capacity beyond what's currently required, under category (a).

An AEMO-led procurement process will also have the benefit of providing details to OSM providers on what system security services are required, and the level of these services required at each location.

To provide the best value for money on behalf of electricity consumers, the procurement process should allow sufficient time for bidders to prepare and develop the most competitive bids. This process could be integrated with AEMO's function in publishing the *System Security Report.*

[2] The NER defines System strength services agreement as "an agreement made under which a person agrees to provide one or more system strength services to a System Strength Service Provider".

AEMO, together with TNSPs, should identify and publish what services will be provided by TNSPs directly and what services will be procured from OSM providers.

An example of this type of centralised planning and procurement is the New South Wales electricity infrastructure roadmap. AEMO Services Limited, a subsidiary of AEMO, manages the tendering for generation, long-duration storage and firming infrastructures in New South Wales. This model could be applied to the planning timeframe procurement for system security services.

Recommendation 2: require all system security providers to have a system security services agreement

We consider it is the role of AEMO and TNSPs to plan and procure system security services in planning timeframe. There might be two reasons why a system security service provider does not enter into an agreement:

1. The service is located in an area where AEMO and TNSP do not consider there is a concern for system security
2. It may wish to gain better price through bidding process

We consider reason 1 unrealistic. AEMO and TNSPs are best placed to identify system security services on a system level. We cannot envision any private investor possessing any information that AEMO and TNSPs do not have, to identify weak system security areas.

We consider reason 2 problematic. Without any upfront payment through an agreement, and adding significant risk due to certainty in price, location, service level required and frequency of services required, their bids, if successful, will add a significant financial burden to electricity consumers.

We recommend the AEMC to remove this category from its determination and require all OSM Providers to have a security services agreement with either TNSP or AEMO.

We recommend the AEMC to require AEMO and TNSPs to update system strength planning regularly and procure required system security services as needed.

Recommendation 3: set dispatch costs upfront through security services agreements

Having multiple buyers (TNSPs and AEMOs) at different stages of the bidding processes increase the costs for all parties involved, which will ultimately add to the costs of electricity bills. AEMC has rightly pointed out there is a risk for consumers to paying for the same services twice through OSM and system security services contracts.

The draft determination does not require bidders to put in their actual costs of operating the plants. Without one party evaluating the whole value of the contract, we consider there is a risk of OSM providers artificially raising its bid prices especially when system strength low around their location.

Given the complexity of the bids, we consider it best to agree on dispatch costs through the negotiation of security service agreements. Bidders should nominate not only their fixed costs but also their operating costs. There may be options to include contingency and price escalation. TNSPs and AEMO must evaluate the full offer in selecting successful bidders.

This approach may incur higher initial procurement costs through tender administration and evaluation, but it will ultimately benefit electricity consumers. AEMC should consider the long-term financial benefits of electricity consumers rather than short term administration complexity in determining the most appropriate procurement model.

Recommendation 4: incentivise new investments in zero-emission technologies

We note incumbent fossil fuel power plants, particularly gas plants, may have an advantage over yet-to-be-built (greenfield) zero-emission technologies. This is because greenfield projects still require significant upfront capital costs.

The procurement of system security services should recognise this difference and have mechanisms to incentivise new investments in zero-emission technology. An example of this is to include an emission target at NEM level. This will remove any doubt on Australia's commitment to reducing its greenhouse gas emissions.

Recommendation 5: explore options to unbundle services and study comparable international electricity markets

Australia is not unique in its experience to the challenges it is facing. Chile, for example, has a very long transmission line due to its geography, with a growing number of inverter-based technologies. Chile's electricity market is divided into energy, capacity (power) and

ancillary services. Ancillary services are future unbundled into categories such as frequency control, reduction of loads, voltage control and black start.

Unbundling services provides clarity to AEMO, TNSPs and OSM providers, which will reduce costs and improve efficiency. Electricity consumers will ultimately benefit from this approach.

We recommend the AEMC to closely look at comparable international markets and their approach to procuring unbundled system security services.

Please feel free to contact Chester Li, Regulatory Affairs Manager, on 0400 114 904 or chester.li@enel.com to discuss anything we have raised in this submission.

Yours faithfully,

Werther Esposito
Country Manager
Enel Green Power Australia