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Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Lodged online via www.aemc.gov.au

RE: Minimum system load governance and market arrangements

Neoen welcomes the opportunity to provide our comments on the Minimum System Load Governance and Market Arrangements consultation paper.

Neoen is one of the world's leading renewable energy companies, with expertise in solar and onshore wind power and storage. Neoen plays an active role in accelerating the energy transition in Australia by delivering clean, competitively-priced local energy.

Neoen has contributed over 5GW of renewable energy assets in Australia, and currently operates close to 20 assets including over 1.5GW of storage. Its flagships include Western Downs Green Power Hub (460MW_p, 540MW/1080MWh) in Queensland; Collie Battery 1&2 (530MW/2240MWh) in Western Australia; and the Hornsdale Power Reserve (150MW/194MWh) in South Australia.

Minimum System Load (MSL) is already a clear and present issue for Neoen in Australia. Under the status-quo arrangements, it represents a risk to be managed rather than the opportunity it should be. This stems from a lack of transparency and control, coupled with limited avenues to hedge the associated risks. While this is a small part of a much larger challenge in managing the integration of rooftop solar into the market, Neoen welcomes the opportunity to discuss the role of its batteries in supporting this transition. Our responses to questions from the consultation paper can be found below.

Should you have any questions or seek to follow up this submission at any time, please do not hesitate to contact us. We look forward to engaging with the AEMC and stakeholders further on this.

Kind regards,

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Question 1. The outlook for MSL events in the NEM in the context of the broader reform program

MSL events are already impacting Neoen's operations. Our expectation is that these will continue and possibly worsen in the short-to-medium term, in absence of any factors that will clearly improve the picture.

Over the longer term, several variables have potential to reduce MSL risk, including coal closures, transmission upgrades, and a growing storage fleet. However, strong CER uptake also looks set to continue and could realistically outpace these improvements. A key uncertainty is whether parallel reforms succeed in making CER genuinely price-responsive, as this will materially shape the outlook either way.

Given the uncertainty, we are supportive of an approach that covers a range of scenarios.

Question 2: The case for including an MSL governance framework in the NER

Neoen is supportive of including an MSL governance framework in the NER. While AEMO's current approach has been a reasonable interim response, we would welcome a properly defined, rules-based framework that clearly sets out MSL conditions and AEMO's roles, offering greater certainty and accountability.

Question 3: The potential elements of an MSL governance framework in the NER

Neoen is generally supportive of the proposed elements. This is a new and emerging issue that will continue to evolve with the market over the coming years. As such, we caution against a framework and definitions that might overly constrain AEMO's ability to best manage the risk as it develops.

Question 4: Is the NEM set up to provide effective price signals to support efficient operational and investment outcomes with respect to MSL conditions?

The NEM does not currently provide effective price signals for managing MSL. This will continue to be the case for at least as long as the largest generator and primary cause of MSL - the >25GW rooftop solar fleet – remains insulated from those signals. While the commission has progressed reforms to bring this fleet into the market, their uptake and success remain an uncertainty at this stage.

More fundamentally, if MSL is to be considered as a system security issue rather than a market one, then there is a case that energy price signals alone should not be relied on to address it. We see a case for a transparent out-of-market mechanism to provide security and properly value MSL mitigation services.

Question 5: The Reliability Panel proposes that the NER requires that the energy price be set at the market floor price during MSL3 conditions

- Do you support the Panel's proposal to set the price at the market floor price during MSL3 conditions? In particular, do you have views on the degree to which it would improve market efficiency and energy pricing outcomes in the NEM by sending a stronger scarcity/oversupply signal?
- What potential related unintended consequences should the Commission be mindful of in relation to the Panel's proposal? How could these be mitigated?

Neoen is generally supportive of alternative mechanisms to manage MSL that will reduce reliance on the directions to commandeer batteries. There is value in the simplicity of this approach, however, we echo the concerns on equity and efficiency raised by other stakeholders.

Triggering the MFP at MSL3 risks some unintended consequences. For example, batteries may delay or withhold their charging throughout MSL1 and MSL2 if they anticipate an MSL3 later in the day – thereby worsening the conditions. In the same scenario, batteries that do respond in the earlier MSL levels (whether voluntarily or not) will have less headroom to charge and may be effectively penalised compared to their competition if the MSL3 does eventuate. Furthermore, jumping right to the MFP would heavily penalise generators that must remain on to maintain system security, even in MSL conditions.

We consider that a tiered pricing intervention beginning at MSL2 or lower could address these concerns.

Question 6: Alternative and complementary reforms to improve pricing outcomes in relation to MSL conditions

- What are your views on the potential application of intervention pricing for AEMO interventions to decrease generation or increase demand during MSL conditions?
- What are your views on the role of central dispatch and NEMDE in supporting effective price formation for MSL conditions?
- Are there other reforms that the Commission should consider, that could improve price signals in the NEM in relation to MSL conditions?

Neoen considers that commandeering assets via directions should be a last resort. As indicated in our response to Question 5, we are generally supportive of alternative mechanisms to manage MSL ahead of directions.

As voiced in our submission to the *Improving Compensation Frameworks* rule change (ERC0425), the directions process and its avenues to claim compensation are not fit for this purpose – and without improvement can represent a significant financial risk for BESS assets. We also consider the market would benefit from greater transparency around the pricing and utilisation of transitional services used to manage MSL.

On the topic of managing MSL within NEMDE, we would need to see more detail before we can take a clear position – however our primary concern at this stage is arriving at the same outcome as directions but with even fewer avenues to manage trading risk and claim compensation. While it is clear that MSL limits could be enforced for a single interval using constraint equations, it is less clear how effective this would be for managing load reserves over a longer window.

Question 7: The case for change to the NER to support the provision of load reserves to manage MSL conditions

- How effective and efficient do you consider the existing NEM regulatory arrangements are at supporting investment in and availability of load reserves?
- Do you agree with the CEC that there is a need to change the NER to more explicitly support the provision of load reserves to manage MSL conditions?

Neoen does not consider that the existing arrangements are supporting investment in load reserves. We appreciate the efforts AEMO has made to anticipate and manage MSL as it has emerged, but from the point of view of a BESS asset the current arrangement represents a risk to be managed rather than the opportunity it should be.

BESS operators are given the opportunity to bid for transitional service agreements, but the market operator's ability to fall back on the directions framework undermines fair and efficient price discovery and negotiation. These agreements also lack transparency, both in how they are procured and how they are specified and carry a risk profile that is incompatible with almost all BESS offtake structures. Similarly, exposure to directions and the associated unfit-for-purpose compensation framework represents a material risk for BESS operators – as raised in our submission to the Improving Compensation Frameworks rule change (ERC0425). Overall, we think it would ultimately be appropriate for these arrangements to be reflected in the NER, subject to further discussion on the detail.

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Question 8: The CEC's proposed new MSL market ancillary service

- What are your views on the potential benefits of the CEC's proposal to establish a new MSL market ancillary service?
- What are your views on the CEC's operational vision for a new MSL market ancillary service?
- What are your views on the implementation and operational costs associated with the CEC's proposal to establish a new MSL market ancillary service?

Neoen is closely aligned with the CEC's characterisation of the problem. We share its concerns about the lack of transparency in how transitional services are procured and specified. We also agree that the resulting risk profile is poorly suited to almost all BESS offtake structures.

While much is still to be specified, we consider the CEC's proposed service to be a viable option. More detail will of course be needed to understand it's interaction with real-time price signals and ability to guarantee security. However, given the clear and present nature of the problem today, we have some reservations about the implementation timeline and operational complexity of developing an entirely new market service.

We believe the underlying issues identified by the CEC could also be addressed through reform to the design and procurement of the existing transitional service contracts. This path may be faster and easier to implement.

Question 9: What are your views on alternative or complementary solutions for the pricing and provision of load reserves for MSL conditions?

Neoen doesn't hold strong views on the additional mechanisms raised here, having addressed our key priorities in earlier responses. We'd note only that any option pursued should offer sufficient transparency and allow participants to manage their risk appropriately.

Question 10: Assessment framework

Neoen is broadly supportive of the proposed assessment criteria, though we believe they overlook one important element. In our view, the efficacy of any solution will depend on the genuine commercial opportunity it presents to flexible assets such as BESS, rather than the framework alone. We would encourage the Commission to ensure the criteria explicitly address this area where the existing arrangements have fallen short.