



EnergyAustralia

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Dear Commissioners

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AEEMC, Reliability Frameworks Review, Issues Paper, 22 August 2017

EnergyAustralia is one of Australia's largest energy companies with over 2.6 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We also own and operate a multi-billion dollar energy generation portfolio across Australia, including coal, gas, and wind assets with control of over 4,500MW of generation in the National Electricity Market (NEM).

Governance

EnergyAustralia welcomes the opportunity to comment on the Reliability Frameworks Review (Review). As with the System Security Markets Framework Review process, we note the breadth of this Review and that the Issues Paper covers a multitude of topics. While not limited to recommendations from the Independent Review into the Future Security of the National Electricity Market (Finkel Review), some of those recommendations are directly related to a substantial part of this Review. We also note that this will require a high level of coordination with other related topics being looked at through other processes and by other market bodies.

The AEMC already have some rule change processes on foot that relate directly to matters of reliability. These include the Declaration of Lack of Reserve Conditions rule change and also the Reliability Panel review of the Reliability Standard and Settings. Combined with work already done on the Reliability Standard Implementation Guidelines there have already been some initial steps taken to improve the Reliability mechanisms of the NEM.

Additionally, AEMO have constituted an Expert Panel of which EnergyAustralia is a member. Underneath that panel will sit a variety of working groups also working on recommendations of the Finkel Review. Having multiple processes, overseen by separate organisations, creates a risk of inconsistent findings or diverging approaches to similar issues. We consider that there needs to be much more clarity in terms of the governance of these related projects. While the Energy Security Board has been constituted to provide some level of oversight, further explanation of how any market changes identified as part of this Review will be determined and consulted upon is necessary to give market participants the confidence that the process will be appropriate and engagement will be useful.

Reliability and Investment

One of the key elements for reliability is an environment that is conducive to investment. Broader policy certainty and clear market signals are both needed to ensure that the market can respond effectively. Such certainty has been lacking in recent years and is a key contributor to the forecast tightness of supply and demand.

While not directly in the scope of this Review, increasing government intervention may provide some relief in the short term but is likely to exacerbate issues of supply in the longer term. Private investors are likely to remain unwilling to make substantial investments in such an environment, which could then drive further government intervention. In developing new reliability mechanisms, the Commission should consider whether they adequately cater for jurisdictional differences in the generation mix or ownership structures, and will reduce the incentive for further government intervention.

New reliability mechanisms

The Review has a strong emphasis on the integration of variable renewable energy (VRE) sources in the NEM. This has already been the subject of a high level of scrutiny in terms of system security requirements. As part of that focus, we believe there is a need to balance obligations to provide additional services (such as Fast Frequency Response, Firming services) against having retrospective changes forced onto existing plant. Various obligations to provide a level of dispatchable power have been considered for the integration of VRE sources. We support the continued exploration of the most cost-effective means for meeting required levels of firm or dispatchable generation where this minimises detrimental, retrospective changes.

A key recommendation from the Finkel review was the Generator Reliability Obligation. We support consideration of this recommendation as part of the Review. However, to determine the best means to ensure a level of firm supply, other options should also be explored. Some of the elements that need to be considered when reviewing a potential firming obligation include:

- Whether the obligation to provide or procure firming services, and their underlying cost, matches the actual requirement for those services. Oversupply would add cost for no value.
- Ensuring the obligation can vary over time, linked to the retirement of existing thermal units. Retirements are likely to bring a large step change in the amount of firm generation which would need to be replaced within a short period. Yet having firm generation enter too early would see an oversupply, and additional cost, up until the date of retirement.
- Balancing the risks of imposing new obligations on existing generation against imposing new costs, and thus barriers to entry, on newly connecting generation.
- Whether the obligation for firming services should be imposed on generation or on retailers. Generation obligations are more likely to be priced into bids, and this provides a price signal within the spot market. Retailer obligations may provide better investment signals, by creating a market for these firming services.

In the Issues Paper, the discussion of the role and nature of market interventions raises the question of the balance between the use of these mechanisms against the risk of load

shedding. We have noticed an increasing resistance from governments to accept the use of load shedding as a mechanism for either maintaining system security or as a response to reliability issues. This issue will be assessed in more detail by the Reliability Panel as part of the review of the Reliability Standards and Settings and should provide more clarity regarding the environment against which the reliability standard is set.

Having said that, we do consider that market operator interventions are generally preferable to load shedding, where the cost to consumers is not excessive. However, increasing market intervention by the operator could see further distortion of price signals. As such, there needs to be transparency, consistency and accountability built into the intervention mechanisms to ensure that there can be assessment on an ongoing basis on the appropriateness of their use. Government interventions remain a key concern for private investors and create a real risk of unnecessarily high costs for consumers.

Alternate market structures

Exploration of alternate market structures, including a day-ahead market, is likely to be a far broader topic than covered by the scope of this Review. While a day-ahead market, or other market designs, may be assessed in terms of the ability to increase reliability far more elements are needed to be considered in such an assessment. Issues around network planning and investment, firm transmission access, price impacts, bidding behaviour, settlements and many other factors would need to be taken into account in assessing whether any alternate market design would be preferable to the current design.

The nexus between day-ahead markets and reliability is not clear, particularly as increasing weather dependent variation in load and generation means that real time supply/demand balance will increasingly diverge from day-ahead predictions. Having recently made a Draft Determination to alter the current design to a 5-minute settlement based market, it seems premature for the Commission to assess the need for further structural changes to the underlying market. If such a review was seen to be necessary, it should be a separate process that would allow for proper engagement on the totality of issues raised in redesigning the NEM.

Conclusion

The topics raised in the Issues Paper are numerous and cover a very broad array of policies, principles and mechanisms that all have potentially large impacts on the reliability and affordability of energy for consumers. Set against a transitioning market and a plethora of other reviews, rule changes, expert panels and new governance arrangements there is a real risk of short term approaches being taken that could lock out more effective and efficient solutions to the identified problems.

We look forward to continuing to engage with the AEMC on this Review to ensure the best outcome for consumers is reached. If you would like to discuss this submission, please contact Chris Streets on (03) 8628 1393 or at chris.streets@energyaustralia.com.au.

Regards

Melinda Green

Industry Regulation Leader