

OPERATING RESERVE MARKET DIRECTIONS PAPER

31 AUGUST 2023

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Thank you for the opportunity to make a submission under AEMC's Operating Reserve Market Directions Paper. This submission supports the submission made by Shell Energy on this matter. In addition, the EUAA would like to draw particular attention to:

- The EUAA supports the AEMC's position not to proceed with the implementation of an operating reserve market at this time.
 - We view an operating reserve market as being unnecessary due to the existing processes within the market which signal the need for more supply, including the maintenance of adequate operational reserves, the high Market Price Cap (MPC), the Retailer Reliability Obligation, Short Term Projected Assessment of System Adequacy (STPASA) and Pre-Dispatch PASA (PDPASA) along with the Australian Energy Market Operator's (AEMO) declaration of Lack Of Reserve (LOR) notifications. In addition, AEMO also has access to the Reliability and Emergency Reserve Trader (RERT) as a last resort.
 - An operating reserve market does not appear to add any additional benefits to the market, and would likely impose additional costs on energy consumers to achieve the same results as the current market structure and is unlikely to result in additional reserve capacity.
 - While the Electricity Statement of Opportunities (ESOO) may identify the potential for low reserves in the longer term, this is its role to provide participants with information regarding future opportunities such that the timely provision of additional supply may occur.
 - AEMO have not demonstrated that there is a problem that requires a rule change or market design change to address. It would appear to the EUAA that the AEMO's proposed Operating Reserve Market addresses the symptom rather than the cause of excess forecasted LOR.
 - In its Operating Reserves Technical Working Group, AEMO stated that it is seeing a rising number of forecast LOR events as VRE penetration increases and that creation of an Operating Reserves Market would assist AEMO in managing the NEM.
 - As stated in our submissions to both the Reliability Forecast Guidelines and the Reliability Forecasting and Methodologies papers, EUAA considers that AEMO's forecasting is regularly overstated and that directly leads to unnecessary market interventions that are costly to the end consumer.
 - The EUAA would encourage the AEMC to investigate how the accuracy of LOR forecasts are communicated through a regular report that compares the Forecast and Actual LOR declarations to determine based on actual market real time 5-minute dispatch outcomes if a genuine reserve shortfall occurred and for what 5-minute dispatch periods. A report that verifies that actual LOR events are increasing (as opposed to forecast LOR events) would assist AEMO in arguing its case.

- In line with this, the EUAA encourages the AEMC to investigate embedding in the NER a requirement for a far more regular Forecasting and Accuracy Reports (monthly or quarterly rather than annually) that cover all of AEMO's forecasting requirements and compares against actual market real time 5-minute dispatch outcomes, including a process for improving forecasting where an issue is identified in the report.
- The EUAA would encourage the AEMC to consider how such a report could be prepared by an independent market body (either AER or AEMC) to ensure impartiality in the report's preparation.
- The EUAA supports the AEMC's proposal to limit Frequency Control Ancillary Services (FCAS) in any one region, subject to further consultation on the design and regional limit ranges as well as impacts on system security and consumer costs.
- The EUAA supports the AEMC's proposal to publish more data on the state of charge of storage, including availability and duration to assist in NEM system security.

In summary, the EUAA supports AEMC's position on the Operating Reserve Market, FCAS and information on storage, and would like to see more transparency and regularity on reporting of the accuracy of all forecasting occurring in the NEM - the EUAA believes that market bodies may rely on conservative forecast data rather than real operational data to justify proposals that address symptoms rather than the root cause.

Do not hesitate to be in contact should you have any questions.



Andrew Richards
Chief Executive Officer