

22 October 2021

Anna Collyer
Chair
Australian Energy Market Commission

Lodged online: www.aemc.gov.au

Dear Ms Collyer,

CAPACITY COMMITMENT MECHANISM AND SYNCHRONOUS SERVICES MARKETS – DIRECTIONS PAPER

Origin Energy Limited (Origin) welcomes the opportunity to provide feedback to the AEMC on the Directions Paper for the capacity commitment mechanism for system security and reliability services (ERC0306) and synchronous services markets (ERC0290) rule changes.

We make the following observations for the AEMC's consideration and welcome further engagement on these matters as the rule change requests are progressed.

1. Valuing essential system services

Origin considers the efficient valuation and provision of essential system services (ESS) is critical in minimising the need for market interventions such as directions. We continue to support work programs aimed at valuing these services through market-based mechanisms that allow for price discovery and innovation.

2. Procurement approach

The Directions Paper sets out two approaches –market ancillary services (MAS) and non-market ancillary services (NMAS) and states that the latter is the AEMC's preferred option. Origin considers that these approaches are not mutually exclusive and that both can be appropriate depending on the service in question.

The MAS approach has proven to be suitable for services such as frequency control ancillary services (FCAS) and fast frequency response, whereas NMAS is more appropriate for services where a more structured but competitive procurement mechanism may be needed due to technological limitations (e.g., system strength).

While noting the similarities between the NMAS and the unit commitment for security (UCS), it is not clear the framework should be extended to include contracting in a short-term or operational timeframe as suggested under the system security mechanism (SSM). As an example, for system strength, it is not clear why additional short-term contracting would be needed given that the final rule requires an efficient level of procurement ahead of time. The SSM could increase the risk of over-procurement leading to higher costs.

3. Proposed rule changes

To date, the ESB and AEMC have been progressing the ESS workstream by defining discrete services and assessing the merits and procurement of each on a case-by-case basis. Origin supports this approach while acknowledging it may not always be possible to clearly define distinct services given the rapid changes occurring in the NEM, and the current understanding of power system engineering.

However, the case for a “bundled” or broad “parameterised” service as suggested by both rule change proposals should only be made once options to define distinct services are exhausted; and with appropriate coordination with other workstreams, such as the work on capacity mechanisms and

operating reserves, to avoid duplication. When that is the case, the AEMC should then clearly set out what the parameters of such a service would be, including any governance arrangements around it.

4. Role of directions

Origin agrees that directions should only be used infrequently and the recent over-reliance on this tool to manage system security needs to be addressed – which is the case as more ESS are developed. The AEMC should also consider the role of directions when assessing the need for and procurement of a new service.

As an example, introducing a new “system configuration” service would involve trade-offs. If the costs of introducing the service are high and the benefits relatively low (e.g., if the service is not likely to be needed often), then directions could continue to play a role in providing a backstop to ensure power system security is maintained should any gap occur in operational timeframes. In addition, the reliance on directions could be transitional, while the AEMC and AEMO continue to work on defining distinct services such that they can then be procured at a lower cost through a market approach.

5. Scheduling of non-market services

We support a formalised process to allow for the efficient scheduling of services procured through contracts (e.g., system strength), to the extent this results in net benefits, allows for increased transparency, and facilitates greater co-optimisation of energy and ESS, resulting in lower costs.

Should you have any questions or wish to discuss this submission further, please contact Sarah-Jane Derby at Sarah-Jane.Derby@originenergy.com.au or by phone, on (02) 8345 5101.

Yours sincerely



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