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23rd May 2019

Submitted online to: <https://www.aemc.gov.au/rule-changes/short-term-forward-market>

Dear Mr Calais,

Short-Term Forward Market
Reference: ERC0259

The Australian Energy Council (the “**Energy Council**”) welcomes the opportunity to make a submission in response to the Australian Energy Market Commission’s (“**AEMC**’s”) *Short Term Forward Market Consultation Paper*.

The Energy Council is the industry body representing 23 electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. These businesses collectively generate the overwhelming majority of electricity in Australia, sell gas and electricity to over ten million homes and businesses, and are major investors in renewable energy generation.

Introduction

The Energy Council acknowledges the Finkel Review recommended assessing the suitability of a day-ahead market,¹ and the AEMC’s subsequent Reliability Frameworks Review found that, “there would be benefits to the introduction of a voluntary, contract-based short-term forward market ...”.² The Australian Energy Market Operator’s (“**AEMO**’s”) rule change request has been lodged to give voice to these recommendations, and while the Energy Council appreciates that the proposal was fashioned quickly to meet the end of 2018 timetable set out in the Reliability Frameworks Review,³ the limited detail and the absence of any cost evaluation makes consideration difficult, and therefore it is not clear how it can be evaluated against the National Electricity Objective. The Energy Council also believes that with the impending introduction of Five Minute Settlement,⁴ the contemplation of three demand response rule change requests,⁵ and the Energy Security Board’s investigation into Post-2025 Market Design for the National Electricity Market,⁶ the suggested rule change may lack relevance to the future wholesale market structure. In addition, should the Retailer Reliability Obligation be triggered and in operation,⁷ the utility of the proposed rule change will be further diminished.

Discussion

The rule change request seeks to establish a short-term forward market (“**STFM**”) in order to:

- provide additional risk management options for intermittent generators and wholesale demand response providers;
- improve the coordination between the gas supply and electricity generation markets;
- broaden the participation from clearing and settlement systems; and
- provide stronger investment signals.

¹ Dr Alan Finkel AO *et al.*, *Independent Review into the Future Security of the National Electricity Market: Blueprint for the Future*, June 2017, Recommendation 3.4, p.23

² Australian Energy Market Commission, *Reliability Frameworks Review Final Report*, 26th July 2018, p.xii

³ *Ibid.*, p.144

⁴ National Electricity Amendment (Five Minute Settlement) Rule 2017 No. 15

⁵ ERC0247 Wholesale Demand Response Mechanism, EC0248 Wholesale Demand Response Register Mechanism, and ERC0250 Mechanisms for Wholesale Demand Response

⁶ See <http://www.coagenergycouncil.gov.au/publications/post-2025-market-design-national-electricity-market-nem>

⁷ Energy Security Board, *Making of National Electricity Amendment (Retailer Reliability Obligation) Rule 2019*, 3rd May 2019, available at <http://www.coagenergycouncil.gov.au/publications/retailer-reliability-obligation-rules>

The language of both the rule change request and the Consultation Paper is very qualified, indicating that the benefits identified may or may not be realised.

Stage of Development

The Energy Council considers AEMO's proposal is not yet at a stage of development where it should be proposed for a rule change. Key matters, such as the way it will need to be designed with respect to financial services legislation licensing, instrument types and tenors remain to be resolved after the rule change is made. Such matters are not an implementation detail, as they keenly affect the ability for different parties to participate. Instead these design matters should have been resolved before the rule change was lodged, and the assessment of costs, benefits, and the rule change request's satisfaction of the National Electricity Objective carried out using the preferred design.

AEMO should develop, through its own consultative processes, a cohesive and comprehensive proposal that can be reasonably considered by the AEMC against the National Electricity Objective. By undertaking meaningful consultative development, AEMO is also likely to gain much more industry acceptance of the proposal than it has achieved to date, or AEMO itself may come to the view that other approaches will achieve the desired outcomes.

Risk Management Options

The rule change request suggests that implementing the STFM will provide additional risk management options for intermittent generators and wholesale demand response providers. While *prima facie* this is true, the need for additional risk management options is not apparent, and the Energy Council is concerned that adding an additional market will increase market participants' complexity and optimisation load, leading to more sophisticated market participants being favoured by the rule change, rather than providing a platform for impartial participation.

In addition to these reservations, the Energy Council does not find the need for additional risk management options proven, for several reasons.

Firstly, the volume of new intermittent generation capacity being commissioned is declining. While in its most recent report AEMO still shows 7,201MW of generation committed to connect,⁸ the Large-Scale Renewable Energy Target will shortly reach a plateau and,⁹ as the uncertainty of national emissions policy continues, investment is reducing.¹⁰

Secondly, intermittent generators (both renewable and conventional) are using existing and developing technologies to mitigate their risk. For example Acciona's Mortlake Wind Farm is installing a battery energy storage system,¹¹ while AGL Energy's Barker Inlet Power Station will be dual-fuelled,¹² removing the shackles between electricity generation and gas supply, and in the process diminishing the utility of an STFM for risk mitigation purposes.

In addition, variable renewable energy proponents are partnering with other generators,¹³ in order to offer firmer products than has historically been the case.

Nevertheless intermittent generators will continue to prefer long-term power purchase agreements in preference to a day-ahead market like an STFM, in order to provide certainty of revenue, reduce project risk and command lower financing costs to improve project viability, particularly as both the electricity forward

⁸ Australian Energy Market Operator, *Generator Information Page* updated 21st January 2019, available at <https://aemo.com.au/Electricity/National-Electricity-Market-NEM/Planning-and-forecasting/Generation-information>, accessed 26th April 2019

⁹ See <http://www.cleanenergyregulator.gov.au/RET/Scheme-participants-and-industry/the-renewable-power-percentage>

¹⁰ ABC News, *Renewable energy investment looks to be going from boom to bust as prices collapse*, available at <https://www.abc.net.au/news/2019-04-26/renewable-energy-investment-maybe-heading-from-boom-to-bust/11041964> accessed 26th April 2019

¹¹ See, for example, Acciona's *Mortlake Wind Farm Procurement Fact Sheet*, available at http://media.acciona.com.au/media/6183749/mortlake_procurement_sheet_0419.pdf, accessed 26th April 2019

¹² AGL Barker Inlet Pty Ltd, *Electricity Generation Licence Application*, August 2017

¹³ See <https://www.energycouncil.com.au/analysis/firming-renewables-the-market-delivers/>

curve,¹⁴ and Large-Scale Generation Certificate prices (and hence the total returns available to generators) are in decline.¹⁵

The Energy Council therefore submits that the demand for the risk management opportunity provided by the STFM is reducing, while at the same time the market has innovated to provide the solutions project proponents require.

Demand Response

The rule change request suggests that its introduction will facilitate demand response. The Energy Council does not believe this claim can be properly assessed, given the impending introduction of Five Minute Settlement (which was pursued, in part, to facilitate demand response), and the AEMC's current consideration of three separate wholesale demand response rule change requests:

- ERC0247 Wholesale Demand Response Mechanism;¹⁶
- ERC0248 Wholesale Demand Response Register Mechanism;¹⁷ and
- ERC0250 Mechanisms for Wholesale Demand Response.¹⁸

While this Five Minute Settlement market change is being implemented, and these demand response rule changes are being contemplated, it would be speculative to ascribe any value to the proposed STFM rule change from a demand response perspective, and without further analysis there is the possibility there may be a detriment.

Role of AEMO

Under the National Electricity Rules, AEMO's role is to operate and administer the National Electricity Market.¹⁹ While there is necessarily a breadth of responsibilities in AEMO conducting this operation and administration, the Energy Council does not believe that AEMO's activities should extend to operating a forward market.

Firstly, there are significant financial licence and markets issues to be overcome, as highlighted in the rule change request.²⁰ Secondly, while there may be minor synergies from AEMO operating the market, there is no unique requirement for AEMO to be the operator, and exchange trading in the manner suggested should be offered to interested buyers and sellers in a competitive manner. Certainly if AEMO were interested in providing the service it could do so, but it should have to compete on the basis of price, service level and volume availability with other qualified exchanges. This opening up of the exchange to other platforms would also encourage other trading entities, which may not be registered with AEMO as market participants, to join and trade, thereby stimulating liquidity and increasing economic efficiency.

¹⁴ See, for example, <https://www.aer.gov.au/wholesale-markets/wholesale-statistics/quarterly-base-futures-prices>

¹⁵ Clean Energy Regulator, Large-scale generation certificate market update - February 2019, 1st March 2019, available at <http://www.cleanenergyregulator.gov.au/RET/Pages/About%20the%20Renewable%20Energy%20Target/How%20the%20scheme%20works/Large-scale%20generation%20certificate%20market%20update%20by%20month/Large-scale-generation-certificate-market-update---February-2019.aspx>

¹⁶ <https://www.aemc.gov.au/rule-changes/wholesale-demand-response-register-mechanism>

¹⁷ <https://www.aemc.gov.au/rule-changes/wholesale-demand-response-mechanism>

¹⁸ <https://www.aemc.gov.au/rule-changes/mechanisms-wholesale-demand-response>

¹⁹ National Electricity Rule 3.2.1


²⁰ p.4

Conclusion

Based upon the rule change request and the Consultation Paper, the Energy Council does not believe an STFM should be contemplated at this time. Not only is there significant market change imminent and being contemplated via rule changes and the ESB's Post-2025 Market Design for the National Electricity Market, but the need has not been proven, nor the costs estimated, or even identified. The Energy Council does not believe there is sufficient justification for an additional, voluntary market of undecided design to be made available.

Any questions about this submission should be addressed to the writer, by e-mail to Duncan.MacKinnon@energycouncil.com.au or by telephone on (03) 9205 3103.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Duncan MacKinnon', with a long horizontal flourish extending to the right.

Duncan MacKinnon
Wholesale Policy Manager
Australian Energy Council