

Mr Ben Hiron
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000



11 November 2019

Re: ERC0274 – Consultation Paper – Primary Frequency Response Rule Changes

Dear Mr Hiron

The Energy Efficiency Council (EEC) thanks you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) Consultation Paper on Primary Frequency Response Rule Changes.

A range of technologies can provide both primary and contingency frequency services, including the governors of generators, batteries and demand response. While governors have historically provided the majority of both primary and contingency frequency services, since 2017 batteries and demand response have provided a significant share of contingency frequency services. As the generation mix in the National Electricity Market (NEM) continues to change, there will be fewer governors available to provide frequency services, and the NEM will rely more on other technologies, including batteries and demand response.

The EEC has significant concerns that the proposal to mandate that generators use their governors to provide Primary Frequency Response (PFR) will undermine the National Electricity Objective (NEO). The NEO is *"to promote efficient investment in, and efficient operation and use of, energy services for the long term interests of consumers of energy with respect to price, quality, safety, reliability and security of supply of energy."*

The EEC there is a significant risk that the proposal will undermine efficient investment in energy services, because mandating that generators offer their governors to provide PFR:

- Is a significant departure from the current general direction of the energy market to use market-based signals and technology-neutral approaches where possible. This undermines the energy industry's confidence in the overall regulatory direction of the NEM and increases the perception of the risks of investing in the NEM, which reduces the overall efficiency of investment;
- Will significantly reduce the returns that batteries and demand response can secure from providing frequency response services for several years. While the value of providing frequency response services will increase again as generators exit the NEM, undermining the value of investments for several years could result in a significant drop in both short-term and long-term investment in batteries and demand response. This is extremely concerning since these technologies will provide increasingly vital services to the NEM.

This second point is critical. The economics of both batteries and demand response are often based on being able to secure a 'stack' of various value-streams. If one of these value-streams is dramatically reduced, the investment may no longer be viable. This will not only impact on service providers (e.g. demand response aggregators) but also energy users, who may be unwilling to consider further investments in demand response. This would have negative short and long-term impacts on the NEM, as demand-response can provide reliable emergency capacity, wholesale capacity, network capacity and frequency services.

Accordingly, the EEC asks that the AEMC consider the impact of this proposal on demand response investments, and either significantly amend the proposal or determine how it can proceed without undermining the emerging markets for demand response services. We look forward to continuing to engage with the AEMC on this matter. For further information please contact me on rob.murray-leach@eec.org.au or 0414 065 556.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Rob Murray-Leach', with a stylized flourish at the end.

Rob Murray-Leach
Head of Policy
Energy Efficiency Council