



Ausgrid Response

AEMC Directions paper on Frequency Control Rule Changes
February 2020



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Ms Anna Collyer
Chair
Australian Energy Market Commission
PO Box A2449
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Submitted online

Dear Ms Collyer,

Ausgrid is pleased to provide this submission to the Australian Energy Market Commission's (AEMC) directions paper on *Frequency Control Rule Changes*.

There are significant changes occurring across the energy market in Australia. We are moving from a system dominated by one-way flows of energy from large-scale thermal generators towards a more renewable and distributed energy market, where small-scale generation forms an important part of the energy mix. This shift has seen consumers of energy take greater control of their energy bills and have more influence on the energy supply chain. Customers' expectations that the upstream network can reliably operate to absorb, transfer and/or supply energy are high, and frequency control is a key factor in this regard. Dependable and efficient ways of providing frequency response are an important element in meeting these customer expectations at lowest cost.

The key points we wish to raise are:

- The development of fast frequency response (FFR) services are key to the evolving NEM and establishing a new framework to incentivise investment in these services will support a more reliable and secure power system. This includes unlocking additional value from existing network assets and new solutions (such as batteries and virtual power plants) that Ausgrid is already exploring to use for network support through ongoing trials.
- As part of assessing any cost impacts, the assessment principles should consider how customers value the resulting benefits.
- As technology advances and smart electronics increasingly become part of the fabric of the network infrastructure across NEM, the ability to extract additional value from network assets for relatively low marginal cost will also increase. As this trend continues market only based approaches will increasingly result in network assets unable to be used for the roles they are capable of, decreasing their value to customers and resulting in higher overall energy supply costs than are strictly necessary. Accordingly, we believe it is important for the AEMC to consider the role which non-market solutions should play in efficiently delivering FFR and PFR (Primary Frequency Response), along with the appropriate regulatory oversight to ensure that provision of such services by networks does not distort the existing NEM markets.
- There are currently eight markets and retrofitting an existing market or adding a potential ninth will potentially introduce more complexity, along with the risk of potential overlap and

confusion for market participants because of the similarity of FFR services with some of the existing frequency controlled ancillary services, especially the six second raise and lower FCAS markets. This position is supported by the Energy Security Board, which has already outlined as part of its post 2025 work¹, that some services required for the NEM to operate reliably and securely are not best achieved through a spot market. In this context, the problem definition and reform objective of the FFR rule change may be incorrect as they assume, without broader consideration of the issues, that it is the lack of a market that leads to the existing arrangements not providing efficient FFR services.

- If a purely market-based solution is determined as the best approach it should be technologically neutral. This will help keep the costs as low and efficient as possible. We agree that the existing arrangements for contingency frequency control ancillary services provide an appropriate starting point for the development of a market for FFR if this is determined as the best approach. We also support the AEMC undertaking further work to determine the best approach to the costs of any new market, including updating the causer pays framework, as well as looking at building in performance-based multipliers into the pricing arrangements for FFR services.

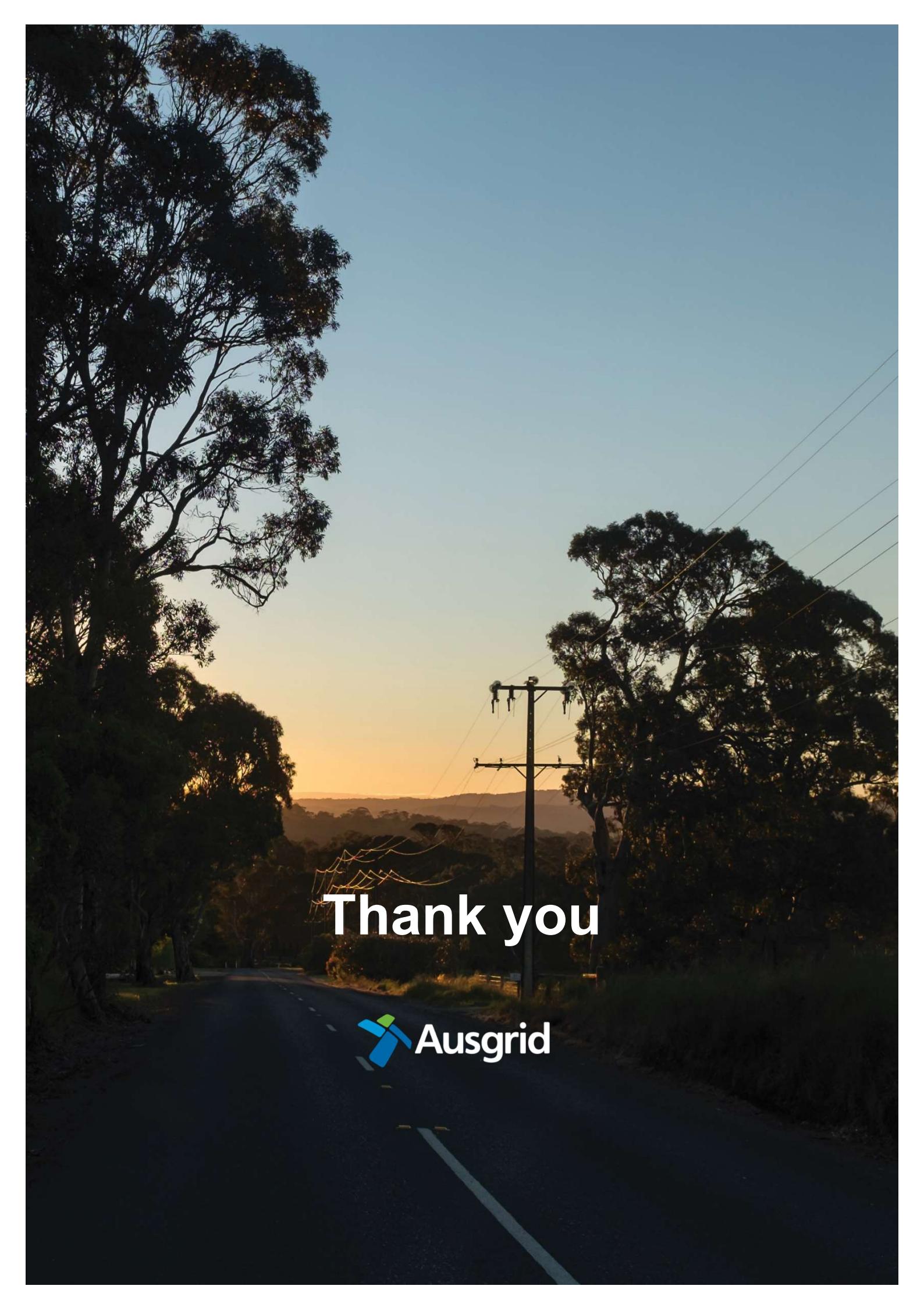
Should the AEMC have any questions in relation to this submission, please contact Nathan Laird, Planning Policies and Procedure Manager on 02 9160 6853 or nathan.laird@ausgrid.com.au.

Yours sincerely



Junayd Hollis
Executive General Manager – Asset Management

¹ See Essential System Services Market Design Initiative in the ESB's Post 2025 Market Design Consultation Paper, Sept 2020



A photograph of a road at sunset, framed by large eucalyptus trees on both sides. The sky is a gradient from blue to orange. In the distance, hills are visible under the setting sun. Power lines and poles are visible along the right side of the road.

Thank you

