

22 October 2021



David Reynolds
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
Sydney NSW 2000

Dear Mr Reynolds,

Capacity commitment mechanism and synchronous services markets

The Public Interest Advocacy Centre (PIAC) is leading social justice law and policy centre. Established in 1982, we are an independent, non-profit organisation that works with people and communities who are marginalised and facing disadvantage. PIAC builds a fairer, stronger society by helping to change laws, policies and practices that cause injustice and inequality. The Energy and Water Consumers' Advocacy Program (EWCAP) represents the interests of low-income and other residential consumers of electricity, gas and water in New South Wales. The program develops policy and advocates in the interests of low-income and other residential consumers in the NSW energy and water markets

PIAC welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) consultation on two rule change proposals:

- Hydro Tasmania's rule change request is to create a market for 'synchronous services', including inertia, voltage control and fault level/system strength.
- Delta's rule change request is to introduce a capacity commitment mechanism to provide access to operational reserve and other system security and reliability services.

A market for new flexibility

In this submission PIAC reiterates points made in our engagement with the ESB's Post-2025 reform process as we believe they are relevant to any consideration of system services.

PIAC supports the direction established in the ESB's post 2025 to move towards a spot market for unbundled system services. More broadly, PIAC considers a market for flexibility services, including those identified in the rule changes proposed, is needed.

Flexibility services might include:

- fast response
- fast ramping, up and/or down
- reserve storage capacity
- new ancillary services
- network support capability.

As part of a move to a market for unbundled flexibility services (including system services), the market price cap should be altered to reflect that new generators would be incentivised by the flexibility market. Currently, all generators are paid the same spot price irrespective of whether they are dispatchable and scheduling

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depends on the outmoded measure of their nameplate capacity, not whether they are available for dispatch when needed.

Participation in the flexibility market should be limited to new entrants to ensure additionality and encourage new resources. Much new flexibility would be expected to come from batteries, other energy storage systems, and demand response.

Flexibility market options

PIAC presents two options for incentivising more fast ramping dispatchability with minimal disruption to the existing arrangements: moving to a two-tier wholesale energy price, and introducing a flexibility payment and reducing the market price cap.

Option 1: A two-tier wholesale energy price

Under Option 1, the current scheduling and settlement arrangements are modified so generators are classified and incentivised based on their ability to be dispatched and ramped up and down. The new 'scheduled' participant category may:

- include dispatchable sources such as batteries, hydro, some gas generators, and demand response;
- apply to single or aggregated units totalling 5MW and above and be dispatched by AEMO on a 5-minute basis; and
- apply the current Market Price Cap arrangements.

The new 'non-scheduled' participant category may:

- include generators that cannot be centrally dispatched on and off as needed;
- not be dispatched by AEMO, although some obligations and 'semi-scheduling' arrangements may apply in the interest of good behaviour and grid stability; and
- be subject to a lower price cap, that would apply uniformly to all generators in the category.

Option 2: A flexibility payment and lower market price cap

Under Option 2, new flexible generators, storage and demand response providers compete for fixed annual payments to provide flexible services such as:

- fast ramping, up and/or down;
- fast response, either automated or centrally dispatched; and/or
- reserve capacity, including reserve storage capacity.

Under Option 2, a spot market would remain, but the Market Price Cap and Cumulative Price Threshold should be lowered to reflect that new generators would be incentivised by the flexibility market.

A key challenge of a flexibility market is managing its interaction with the existing spot market and RERT. Managing this may require closing the spot market to new entrants and requiring them to participate in the new market, however this would limit investor choice with respect to risk, which may increase costs to consumers.

Prices and cost recovery for inertia

If an inertia market is created, its prices and its cost recovery should reflect the changing need for and beneficiaries of inertia over time. For some years, there will be a wide range of resources demanding inertia, including:

- groups of asynchronous generators;

- individual synchronous thermal generators with units of sufficient size to impact system frequency when they cut out unexpectedly;
- some electronic generators that are particularly sensitive to the rate or magnitude of changes in frequency;
- some individual large energy users; and
- mass-market energy users.

While the mix of resources demanding inertia is large, it is likely appropriate for its costs to be recovered through energy market pool fees levied on all market participants.

Over time the grid will likely comprise smarter electronics on both the supply and mass-market demand side, high levels of Distributed Energy Resources, and two or three remaining large thermal generators. Under this scenario, the main beneficiaries of inertia services – those whose presence impose a need for inertia – will probably be remaining large synchronous thermal generators and some individual large energy users.

In this case, recovering costs from benefitting generators and large users with 'causer pays' payments would be more efficient and fairer than socialising the cost of an inertia market across all consumers.

Prices for inertia should also not be ramped up in perpetuity as demand for it will decrease over time and its beneficiaries will be fewer. Consequently, inertia prices should adjust downwards in future and the design of any market or payments today should reflect that.

PIAC would welcome the opportunity discuss these matters further with the AEMC.

Yours sincerely,

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