



Mr Ben Hiron
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Submitted via online portal

28 October 2021

Dear Mr Hiron,

Primary frequency response incentive arrangements, Draft determination (ERC0263)

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission (“the Commission”) in response to the Draft rule determination on Primary frequency response incentive arrangements (“the draft determination”).

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE has interests in generation, renewable energy development, and energy services. ENGIE also owns Simply Energy which provides electricity and gas to more than 720,000 retail customer accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

Short term savings at the cost of long-term dynamic efficiency

ENGIE is disappointed that the Commission appears to no longer see the value in incentivising adequate provision of primary frequency response (PFR) over the long term through market processes rather than regulatory fiat. At a time in which the Commission and the Energy Security Board (ESB) are promoting the development of markets and other procurement processes for other system security services to ensure they are appropriately valued and that a sufficient supply is available as the electricity system transitions, it appears inconsistent to insist on mandatory, uncompensated provision of PFR as the primary means of ensuring adequate provision.

ENGIE notes the Commission’s characterisation on p36 of the draft determination of the technical advice received from GHD and AEMO “that widespread (mandatory) PFR within a tight (narrow) band around 50Hz is required to provide a secure and resilient power system”. Mandatory and widespread are not synonyms. ENGIE considers that widespread PFR is achievable through appropriate procurement mechanisms that value this service accordingly.

The technical advice from GHD and AEMO, which the AEMC quotes extensively and thus is resting its case for the draft determination on were only completed in September and August respectively. This is several months after the previous round of consultation. This is poor process on the Commission’s part. It would



have been preferable for the Commission to hold another round of consultation after receiving and publishing this technical advice before proceeding to the draft determination. By contrast, the industry response has been informed by analysis made available to all stakeholders

The advice – at least as presented by the Commission – rests heavily on the improvement in frequency outcomes since the implementation of the temporary mandatory PFR rule. This comes as no surprise to market participants and other stakeholders, but hardly constitutes evidence that a mandatory approach is the best long-term solution.

The analysis on costs of mandatory provision is cursory at best. It's in the nature of "wear and tear" costs that they are typically only evident in the longer-term so there has been insufficient time to evaluate these costs since the introduction of mandatory PFR. Little if any weight appears to be given to the opportunity cost entailed in providing headroom.

It is evident that the requirements for frequency regulation will continue to increase. The Commission's analysis is that the required level of regulation services will double by 2026 under the ISP step change scenario. At the same time, traditional major suppliers of frequency regulation, such as coal-fired plant are progressively exiting the system. The GHD report notes that market arrangements may be necessary to incentivise PFR provision from new entrants from around 2030. Given that new markets (or material changes to existing markets) in the NEM can have a lead time of several years, this rule change represents a missed opportunity to progress such "market arrangements" to be capable of implementation well before 2030, in the event that the NEM transitions at a faster pace than anticipated.

Reforms to causer pays should mitigate the supply problem

ENGIE is broadly supportive of the move towards more effective "causer pays" recovery of frequency control costs. This has the potential to effectively address the "demand"-side of the frequency equation. Importantly, under the Commission's proposals, generators who can help to reduce regulation service requirements are incentivised to do so, so there is a modest supply-side impact as well. ENGIE supports moves to apply the enhanced causer pays approach to as wide an array of participants as is practical.

Nonetheless, given the industry, through the aegis of the Australian Energy Council, has invested substantial resources into developing its double-sided causer pays approach, it is disappointing that at this late stage, the Commission is seeking to push through a different version that still requires substantial detailed development. It is also disappointing that these details will not be addressed in the rule but be handed to AEMO to develop via a "Guideline". ENGIE recommends that the detailed elements of this aspect of the draft rule be consulted on further in conjunction with other stakeholders to ensure the most appropriate design.

Reporting and implementation

Given ENGIE's concerns outlined above, further consultation is recommended before confirming the final rule. Subject to this point, the implementation timelines, which are anchored to the final rule date appear appropriate. Additionally, the reporting requirements on AER and AEMO appear proportionate to the value such information can provide to the market.



Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, (03) 9617 8415.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Jamie Lowe". The signature is fluid and cursive.

Jamie Lowe

Head of Regulation,
Compliance, and Sustainability