Clare Stark
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000

Lodged through online portal

21 July 2022

Dear Ms Stark,

Efficient provision of inertia (ERC0339) and Essential system services in the NEM

ENGIE Australia & New Zealand (ENGIE) appreciates the opportunity to respond to the Australian Energy Market Commission ("the Commission") in response to the joint paper on Essential system services in the NEM ("the paper").

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 740,000 retail customer accounts across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

Consideration of future inertia procurement is timely

ENGIE appreciates the paper's consideration of the wide range of initiatives that stakeholders have to engage with as the electricity rules and other legal and regulatory instruments are adapted for the energy transition that is occurring in Australia. To that end, it is sensible to consider reform priorities and to estimate how long a new market would take to develop (should that be the outcome of the relevant rule change process).

ENGIE notes that reform work on other system services, such as system strength and primary frequency control, has not commenced until issues have emerged. This has then "forced the pace" of solution and design and has potentially constrained the range of options to those that could be implemented relatively quickly. In this respect we may have sacrificed long-term efficiency and sustainability for expedience. In both cases, there has been subsequent consideration of longer-term approaches, but in doing so, the required input from stakeholders is approximately twice as high as if an impending problem had been identified in advance and solutions had been oriented around an enduring approach.

The cost of additional regulatory resources is likely to be an order of magnitude less than the costs to the market of having to manage inside existing or interim approaches that did not maximise long-term efficiency. With that in mind and given that a rule change request has been lodged, it would seem prudent to begin consideration of the technical system needs in the first instance sooner rather than later.

There are clear trends in the generation mix that indicate a decline in the level of inertia that will be naturally provided by synchronous generators in the market, and while there are existing tools for addressing specific shortfalls inertia, they are unlikely to be optimal in a future state where there is an ongoing NEM-wide requirement for inertia provision.

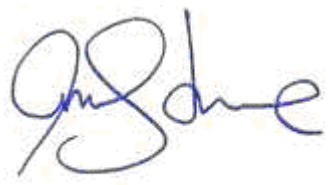
ENGIE notes that several other rule change processes and reviews that are in train and which may have some bearing on the design of an inertia market are expected to be concluded over the next 12 months (as set out in the paper) and so will be determined in a timeframe that allows their outcomes to be taken into account during this process. ENGIE is not aware of any need to delay consideration of any of these existing processes in order to ensure they are compatible with the outcomes of this rule change process.

Adequate benefits have been identified to justify investing regulatory resources into this project

ENGIE agrees with the paper's assessment of the range of potential benefits that can arise from a well-designed market to procure inertia co-optimised with FCAS, i.e., that it can deliver savings to consumers compared with existing options for managing inertia, such as increased FCAS, dispatch constraints and regional procurement by TNSPs that does not leverage competitive national markets. Consistent with the Commission's assessment of net benefits for other reforms that improve market efficiency, there is no need to quantify the value of these benefits or the costs of setting up a new market at this stage of the process. ENGIE notes that the most expensive NEM reform to date, five minute and global settlement, was justified on the basis of a qualitative assessment that the benefits of greater market efficiency would assuredly outweigh the substantial implementation costs. To that end, the timing of when the benefits are likely to occur is a secondary matter and in any case is hard to estimate given the dynamic environment of the NEM in which coal closure dates are regularly updated. As the paper notes, a well-designed market will result in a clearing price approaching zero if market start occurs before a scarcity of inertia has manifested. As noted above, this is a better outcome than waiting until scarcity arises to begin considering solutions.

Should you have any queries in relation to this submission please do not hesitate to contact me on, telephone, 0477 299 827.

Yours sincerely,



Jamie Lowe
Head of Regulation,
Compliance and Sustainability