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Australian Energy Market Commission

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Efficient Provision of Inertia Draft Determination

AGL Energy (AGL) welcomes the opportunity to respond to the Efficient provision of Inertia Draft Determination.

Overview

AGL has strong concerns regarding the AEMC's decision not to progress a rule change in response to the Australian Energy Council's (AEC) proposal for a spot market mechanism to price, bid, and dispatch inertia as a distinct real-time service.

Creating a dedicated market for inertia is likely to provide a discrete and transparent price signal specifically for inertia. This ensures that the value of inertia is clearly recognised and incentivised, without being conflated with other services or treated as an incidental by-product.

The AEMC can only make a rule if it is satisfied that the rule will or is likely to contribute to the achievement of the relevant energy objective, which, in the case of this rule change, is the National Electricity Objective (NEO). However, the AEMC's determination appears to be at odds with several important elements of the NEO.

The AEMC acknowledges that operational procurement of inertia:

- has the potential to improve allocative and dynamic efficiency by introducing price signals, supporting co-optimisation, and broadening participation
- has merit, and it would result in net benefits that may become more material in the longer term
- may deliver better levels of price discovery than under the current framework

Despite recognising these advantages, the AEMC has not clearly demonstrated how its decision aligns with the NEO, particularly in relation to:

- the long-term interests of consumers;
- the safety, security, and reliability of the electricity system;
- principles of market efficiency;
- innovation and flexibility in system operation.

By not recognising the differing qualities of energy services, the current approach incentivises investment in the cheapest megawatts to build. This has, in recent years, conflicted with the evolving needs of grid security and system resilience. In our view, the absence of a market mechanism for operational inertia risks undermining the NEO's core objectives and may hinder the transition to a secure, efficient, and low-emissions electricity system.

Need for a coordinated approach to Procurement of Inertia

The AEMC has indicated that new sources of inertia are expected to emerge from developments such as new interconnectors (e.g. Project Energy Connect), synchronous condensers, and grid-forming plant. While these projects should help contribute to future system strength, AGL considers that further clarity is needed on how they will be coordinated and incentivised to address inertia shortfalls across the NEM. In particular, given that Project Energy Connect spans two regions likely to experience the most severe inertia gaps, it is not clear how this interconnector provides sufficient certainty that it will be able to help address the system-wide need for inertia.

AGL also considers that a dedicated market mechanism for inertia could play a valuable role in supporting the timely and efficient rollout of technologies such as synchronous condensers and grid-forming plant. Without appropriate incentives, investment in these assets will not align with system requirements where additional costs are required. For instance, retrofitting a synchronous generator with flywheels to enhance its inertia capability can involve significant additional cost. If inertia continues to be treated solely as a by-product without being explicitly valued or compensated, there is insufficient certainty that such investments will be made in a timely or coordinated manner. A dedicated mechanism to value and procure inertia would help incentivise timely investments that are aligned with system needs. System strength is a non-negotiable prerequisite for a resilient energy system. Inertia must be deliberately planned for and appropriately valued, rather than left to incidental outcomes or uncertain future developments.

Near-term priorities for inertia management

AGL observes that the need for inertia is becoming increasingly urgent in the short to medium term, particularly as thermal generation continues to exit the system and renewable penetration accelerates—especially during shoulder seasons. The pace of change is rapid, and similar international markets have experienced system strength challenges under comparable conditions. In this context, AGL considers the AEMC's proposal not to progress a dedicated market mechanism for inertia may limit the ability for market participants to respond proactively potentially placing the NEM's system strength at risk.

We consider that establishing a market mechanism to value and procure inertia would strengthen the economic case for generators to remain in the market for longer, where appropriate. This approach may offer a more efficient and transparent alternative to relying solely on heavy handed frameworks such as the Orderly Exit Management Framework, which may require generators to remain in the market without clear commercial incentives or fair compensation. Without timely investment in synchronous or grid-forming technologies, there is a risk that the system could face critical shortfalls in inertia, particularly if thermal generation retires faster than expected.

Clarifying TNSP's responsibilities in inertia provision

Under the current framework proposed by AEMC, Transmission Network Service Providers (TNSPs) are responsible for ensuring suitable levels of inertia by installing adequate number of synchronous condensers However, we believe there are practical challenges associated with the current framework. TNSPs have a natural incentive to favour network-based solutions, which align with their regulated investment model and return structures. While exploring non-network alternatives would likely improve the efficient provision of inertia, ultimately the most efficient option would be to establish a market mechanism to value and procure inertia.

Within the existing arrangements, TNSPs retain discretion in determining how inertia shortfalls are addressed. When such solutions are deployed, the resulting inertia is both quantified and financially compensated. This has led to a two-tiered system in which certain providers—primarily TNSPs—receive remuneration for inertia services, while others are not compensated, as their contributions are considered incidental byproducts. This disparity highlights the need for a more consistent and equitable framework that recognises and values all sources of inertia. Establishing such a framework would promote fairness and support the broader objective of the rule change -- to facilitate the efficient and economically sound provision of inertia across the NEM.

AGL considers that greater transparency and accountability in the delivery of inertia services would strengthen confidence in system outcomes. For instance, delays in the deployment of synchronous condensers in South Australia have highlighted the risks of relying solely on network-led approaches. In addition, the current reliance on TNSPs and AEMO-led procurement may not always deliver timely or cost-

effective outcomes. A more balanced framework that includes market-based mechanisms would help ensure inertia is delivered efficiently, at scale, and in alignment with system needs.

If you have queries re this submission, please contact Darshitha P P on DPuthoorPisharam@agl.com.au

Yours sincerely,

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About AGL Energy

At AGL, we believe energy makes life better and are passionate about powering the way Australians live, move, and work. Proudly Australian for more than 185 years, AGL supplies around 4.5 million [1]energy, telecommunications, and Netflix customer services. AGL is committed to providing our customers simple, fair, and accessible essential services as they decarbonise and electrify the way they live, work and move.

AGL operates Australia's largest private electricity generation portfolio within the National Electricity Market, comprising coal and gas-fired generation, renewable energy sources such as wind, hydro, batteries and other firming technology, and storage assets. We are building on our history as one of Australia's leading private investors in renewable energy to now lead the business of transition to a lower emission, affordable and smart energy future in line with the goals of our Climate Transition Action Plan. We'll continue to innovate in energy and other essential services to enhance the way Australians live, and to help preserve the world around us for future generations.

[1] Services to customers number is as at 31 December 2024.