Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2001

07 August 2025

Dear Ms Collyer,

Efficient provision of inertia – draft determination

ENGIE Australia & New Zealand (ENGIE) welcomes the opportunity to respond to the Australian Energy Market Commission (the Commission) regarding its draft decision not to develop measures for creating a market for the operational procurement of inertia.

The ENGIE Group is a global energy operator in the businesses of electricity, natural gas and energy services. In Australia, ENGIE operates an asset fleet that includes renewables, gas-powered generation, and battery energy storage systems. ENGIE also provides electricity and gas to retail customers across Victoria, South Australia, New South Wales, Queensland, and Western Australia.

ENGIE is disappointed with the Commission's draft decision not to progress arrangements to create an inertia market. ENGIE considers that quashing the Australian Energy Council's (AEC) rule change is a missed opportunity to more appropriately and efficiently address growing system security concerns. While the Commission's desire to maintain the status quo may offer a perception of short-term certainty, it does so at the expense of competition, efficient price signals, and innovation that have historically led to market-driven consumer benefits in the National Electricity Market. Instead, current arrangements preferred by the Commission ultimately lock in a non-contestable model that is unlikely to deliver long-term value for consumers.

With this context in mind, the remainder of this submission sets out ENGIE's more detailed response to the draft determination. ENGIE provides feedback on areas of concern associated with:

- the adverse impacts of the Commission's decision on consumers and energy bills;
- how the Commission's decision promotes an uneven playing field across inertia providers and;

- the need for clearly defined triggers as to when the Commission would progress a market-based procurement mechanism for inertia.

Impacts on consumers and competition

Placing inertia technologies within the regulated asset base (RAB) means that consumers cannot benefit from innovation or market competition

The rising cost of energy bills has been the subject of intense scrutiny in recent years. While wholesale electricity prices have somewhat moderated since 2022, electricity bills remain elevated, largely driven by rising network costs. In the Australian Energy Regulator's Default Market Offer 2025-26, network costs were the largest component of the total cost stack, accounting for up to 48 per cent.[1] ENGIE is concerned that the Commission's draft decision to entrench inertia assets within the RAB risks further exacerbating this issue.

As it stands, the Commission's draft decision means that consumers will be funding the installation of approximately 36 synchronous condensers over the next nine years[2], each valued at around $160 million.[3] These asset costs would be recovered through the RAB and passed through to consumers, meaning that the network costs component of the consumer electricity bill will continue to burgeon. More concerning still is the absence of any firm incentive for Transmission Network Service Providers (TNSPs) to deliver these solutions in a timely or cost-efficient manner, as the RAB model allows full cost recovery regardless of whether the investment represents the most efficient solution.

By contrast, ENGIE contends that a contestable, market-based procurement mechanism for inertia would introduce a level of competition that would likely go some way to placing downward pressure on the network cost component of bills. This solution would more closely align with the National Electricity Objectives, as well as the Commission's own guidance in regards to regulating for efficiency.[4]

The draft decision cements an uneven playing field across inertia providers

ENGIE is concerned that the Commission's decision effectively condones the competitive disadvantage experienced by existing generators that provide inertia. As it stands, existing generators that provide inertia as a by-product of synchronous generation receive no compensation for their delivery of inertia services, while TNSPs are eligible for cost recovery measures for inertia-producing assets through their revenue determinations. This asymmetry undermines the principle of competitive neutrality and fails to reward the most efficient provision of inertia (the title of this rule change).

[1] AER, *Default Market Offer Prices 2025-26 – Final Determination*, 2025. Link.

[2] AEMC, *Efficient Provision of Inertia – Directions Paper*, 2025. Link.

[3] Transgrid, *Meeting System Strength Requirements in NSW*, 2025. Link.

[4] AEMC, *How the National Energy Objectives Shape our Decisions*, 2025. Link.

The Commission's decision is inconsistent with current and previous market-based reforms

The Commission's draft decision also raises broader concerns about the consistency of its approach to bundling and unbundling system security services. The success of the Frequency Control Ancillary Services market demonstrates the value of market-based procurement in driving efficiency that leads to better cost outcomes - yet inertia remains an outlier.

Frustrating still is that the Commission has a current appetite for market development given its desire to expand the Wholesale Demand Response Mechanism, which has accommodated only two market participants over its four-year tenure.[5] This contrasts with AEC's inertia market proposal, which has attracted extensive industry interest from many parties with a clear willingness to participate, but instead has been quelled.

Next steps

The Commission should clearly define triggers for when, in its opinion, an inertia market would become viable

The AEMC's own Reliability Panel has emphasised that the risks associated with over-investment or early investment in system security services are significantly lower than the risks of under-investment or delayed investment.[6] Given this expert discourse, ENGIE contends that if the Commission is unwilling to yield on its current draft decision, the Commission should clearly define triggers that would justify revisiting the need for a market-based procurement mechanism for inertia so that investment is not delayed. Absent this clarity, ENGIE is concerned that there is a genuine risk that the creation of an inertia market will be deferred indefinitely, or be reactive to system security issues that may arise.

Concluding remarks

Should you have any queries in relation to this submission please do not hesitate to contact me, by telephone, on 0400 731 274.

Yours sincerely,

Ronan Cotter

Ronan Cotter
Regulatory Advisor

[5] AEMC, *Review of the WDRM - Draft Report*, 2025. Link.

[6] AEMC Reliability Panel, *Comments on AEMO's 2024 Transition Plan for System Security*, 2025. Link.