



10 August 2017

Mr John Pierce  
Chairman  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Submitted online: [www.aemc.gov.au](http://www.aemc.gov.au)

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Dear Mr Pierce

**MANAGING THE RATE OF CHANGE OF POWER SYSTEM FREQUENCY / INERTIA – DRAFT  
RULE DETERMINATION 2017**

Origin Energy Limited (Origin) welcomes the opportunity to comment on the AEMC's draft rule determination on minimum levels of inertia to manage rate of change of frequency (ROCOF) throughout the NEM.

Origin maintains its position made previously to the AEMC's System Security Review, that AEMO is best placed to procure the minimum levels of inertia given its responsibility for maintaining and improving system security (NER 4.1.1.1(b)) and its experience in both tendering and evaluating competing offers through the SRAS procurement process. An AEMO managed procurement process is likely to drive lowest cost outcomes for consumers, given that it would allow for:

1. Greater transparency where TNSPs and other market participants can compete equally to secure inertia contracts with the most cost effective provider being awarded the contract.

Under Clause 5.20B.4 of the draft rules the TNSP must secure the minimum levels of inertia through either CAPEX investments (synchronous condensers) or third party contracts, whichever meets the required inertia level at the lowest cost to the consumer. A tendering process would be undertaken and evaluated by the TNSP for any contract up to \$6 million, above that a RiT-T would apply with AER scrutiny.

Origin believes that there is an inherent bias (whether real or perceived) in this process whereby the organisation administering the tender is also a competing entity. In addition to this there is an incentive for a TNSP to favour capital expenditure because it attracts both a return on debt and a return on equity for the business over the life of the asset. Whereas a third-party contract would effectively be a pass-through mechanism which is expensed and recovered within the regulatory year that it is incurred. An AEMO led contract tendering process would remove this potential conflict of interest and allow for all parties to compete effectively for contracts. This process would drive lowest cost outcomes for consumers.

2. A more dynamic and efficient response to changing levels of inertia (up or down) as contracts can be awarded to successful applicants over shorter timeframes than can be achieved by TNSPs building synchronous condensers. This avoids consumers paying additional charges through the TNSPs regulated asset base (RAB) on stranded assets that are excess to requirements.

The current outlook is that inertia levels are likely to decline over time due to the closure of synchronous generators and the increasing entry of non-synchronous generation, resulting in a higher minimum inertia requirement over time. Notwithstanding this, there may be instances in the

future where the identified inertia requirement decreases, due to technological advancement or new synchronous generators being built within a sub-region.

Given the above, the AEMC should consider how excess inertia capacity that has been installed by TNSPs, is treated if the minimum level of inertia is reduced below previously identified levels. Under this scenario TNSPs will continue to receive a regulated payment under the RAB, however the asset is now surplus to requirements. Origin would argue that an AEMO led process that looks to procure contracts over a multi-year period would better deal with fluctuations in inertia requirements and not lock in a payment system over many decades for stranded assets. This again would lead to least cost outcomes for consumers while addressing the potential fluctuating nature of inertia.

If the AEMC determines that the TNSP should remain as the tendering agent, Origin would like to ensure that the AER scrutinises any capital expenditure by the TNSPs by comparing total annual cost (including the RAB) over the life of the asset against competing third party contracts.

Origin looks forward to the final market design, and should you have any questions or wish to discuss this information further, please contact James Googan on [james.googan@originenergy.com.au](mailto:james.googan@originenergy.com.au) or (02) 9503 5061.

Yours sincerely,



Steve Reid  
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