

8 August 2017

Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

**SUBMISSION ON THE AEMC'S DRAFT RULES RELATING TO:
MANAGING THE RATE OF CHANGE OF POWER SYSTEM FREQUENCY (ERC0214)
MANAGING POWER SYSTEM FAULT LEVELS (ERC0211)**

Spark Infrastructure is pleased to provide this submission to the AEMC's draft rules in relation to both managing the rate of change of power system frequency ('system inertia') and managing power system fault levels ('system strength'). Both of these draft rule changes accompany the AEMC's system security market frameworks review.

Spark Infrastructure is an infrastructure fund listed on the Australian Stock Exchange with a market capitalisation of approximately \$4 billion. Its current investment portfolio includes 49% interests in SA Power Networks, CitiPower and Powercor and a 15% interest in TransGrid. TransGrid will be subject to both draft rules, while the three distribution networks will be subject to the system strength draft rule.

Spark Infrastructure broadly supports the draft rules, which recognise that the network service providers (NSPs) are uniquely positioned to cost-efficiently ensure the provision of system strength and system inertia. Cost-effective provision of these services will promote the objectives of the Finkel Review:

- **Secure supply of energy** – the draft rules directly address two requirements for energy security in the presence of variable renewable generation
- **Reduced emissions** – the draft rules enable the growth in variable renewable generation, by ensuring that security is maintained
- **Lower energy prices** – by enabling the growth of variable renewable generation, the draft rules promote competition in the energy market and facilitate new generation to replace retiring thermal generation.

Spark Infrastructure believes that two further regulatory changes should be made to maximise the benefits from the draft rule changes.

1. Regular review of system strength and system inertia thresholds

To ensure that the costs of providing system strength and system inertia are minimised, the technology requirements set by AEMO need to be regularly reviewed as technology improves, and as evidence accumulates regarding the capabilities of non-synchronous technologies. This may be addressed by the Frequency Control Framework review, which has recently commenced.

It is similarly important that the implementation of the proposed new rules works with other regulatory processes. In particular, sufficient time is needed to ensure that the best solutions are implemented, rather than restricting the options to those that can be completed in a prescribed time period.

2. Energy storage

Energy storage is one tool that NSPs could use to assist in the provision of system strength and system inertia. However, the current regulations potentially restrict the capacity and incentive for NSPs to use this tools.

NSPs ought to be regarded as a potential source of increased competition in areas where they are able to offer cost-effective and reliable solutions. Spark Infrastructure notes in particular the ACCC's reported comments on 31 July 2017 that more competition in energy generation could reduce 'gaming' by particular operators.

The ability to participate fully in energy storage would also enable NSPs to manage their own risks and create efficiencies within the regulated elements of their businesses that can then be passed on to all customers.

Energy storage should be created as its own asset class distinct from generation, transmission, distribution and retail. We believe this would have the effect of maximising reliability, minimising electricity prices and promoting renewable generation:

- All entities (including generators, NSPs, retailers and customers) should be permitted to register energy storage, to maximise the competitive benefits of energy storage.
- Energy storage providers should be able to provide the full range of services that the technology enables – including system strength and system inertia, demand management, energy dispatch and NSP capital expenditure deferral. By enabling the full use of energy storage the costs of providing system strength and system inertia would be minimised, which would also enable faster deployment of variable renewable energy.

We appreciate the opportunity to comment and invite you to contact Luke Kameron on 02 9086 3600 if you have any questions or wish to discuss this submission further.

Yours faithfully,


Rick Francis
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