

8 December 2017

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

Lodged online via: www.aemc.gov.au

Dear John,

EPR0059 Issues Paper: Frequency Control Frameworks Review

TransGrid welcomes the opportunity to respond to the AEMC's issues paper in relation to its frequency control frameworks review.

TransGrid is the operator and manager of the high voltage transmission network connecting electricity generators, distributors and major end users in New South Wales and the Australian Capital Territory. TransGrid's network is also interconnected to Queensland and Victoria, and is instrumental to an electricity system that allows for interstate energy trading.

As recognised by the AEMC, the electricity sector in Australia is undergoing profound change, with a transition towards renewable generation and the increasing importance of distributed energy resources. These changes raise complex issues in relation to the design of the National Electricity Market (NEM) and the security of supply. The Rules need to provide a robust framework which can adapt to these changes, and which provide the basis for reliable supply at the lowest cost to customers over the long run.

At the same time, a National Energy Guarantee (NEG) policy is being developed, and its interaction with existing market arrangements is currently unclear. Until more detailed information about the NEG is available and stakeholders have been consulted, it is not possible to understand whether its introduction will require fundamental changes to the Rules governing the wholesale energy market and associated ancillary services.

In this context TransGrid is concerned that it is premature to redesign the frequency control framework, and to implement associated incremental Rule changes. It is important to first establish clarity about the design of the NEG and whether this will be accompanied by a more fundamental redesign of the wholesale electricity market, including ancillary services markets.

We note that as the proportion of renewable generation rises, the complexity involved in ensuring system stability also increases, and as such there is an increasing reliance on a range of ancillary services. Responding to this complexity by relying on a suite of individual ancillary services markets creates risks including:

- » The risk that a series of individual markets targeting specific types of ancillary services may not be optimised to provide the lowest cost outcome for customers in the long run;
- » An increased risk to system security given the concurrent operation of a large number of disparate ancillary services markets;

- » The risk that individual ancillary services markets will not have sufficient participants to ensure effective competition, and this could lead to market power and excess prices, particularly given that ancillary services need to be provided at specific locations where an issue arises.

In resolving these issues, it is important to develop a framework that will provide the required services at the lowest cost. It should not be assumed that the current framework of fragmented markets (potentially expanded to include additional services such as fast frequency response) will provide the best solution, in terms of either security of supply or lowest cost. An alternative approach which has not been raised by the AEMC, but which is worthy of assessment, is that transmission network service providers coordinate, procure or provide a range of ancillary services, for a commensurate return for the risks managed and services provided.

In light of these concerns TransGrid encourages the AEMC to avoid pursuing piecemeal changes to the Rules without first understanding whether more fundamental changes to the design of the NEM are required, given the significant changes that are occurring in the electricity sector. Decisions taken now should not foreclose the adoption of more efficient, integrated solutions within an overarching framework for redesign of the NEM. We will be pleased to work with the AEMC and other stakeholders to consider these issues and develop a robust framework which offers the lowest cost reliable supply to customers in the long run.

If you would like to discuss any matter raised in this submission, please contact me on 02 9284 3300.

Yours sincerely,



Anthony Meehan
Executive Manager, Regulation