



4 October 2017

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

Submitted online: www.aemc.gov.au

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Dear Mr Pierce

INERTIA ANCILLARY SERVICES MARKET RULE 2017 – CONSULTATION PAPER

Origin Energy Limited (Origin) welcomes the opportunity to comment on the proposed rule change that seeks to implement a market for inertia above minimum levels provided by TNSPs.

Origin is supportive of a market based inertia mechanism where generators can make commitment decisions based on clear price signals. We believe this will enable inertia to be provided at the least cost to the consumer and incentivise participants to make commitment decisions based on market derived pricing outcomes.

This submission will focus on the following points made in the consultation paper:

- Clear price signals should be provided to participants to enable confident commitment decisions to be made.
- The inertia payment mechanism should be recovered from all consumers **within the affected region** through either a separate levy or TUOS charges.
- TNSPs provision of additional inertia should not be funded through the RAB.
- Clarifying the Fast Frequency Response (FFR) and inertia interaction.

At present the energy price does not value the additional benefit that providers of inertia contribute towards system security. This mechanism goes some way to addressing this value. However, inertia providers need a clear price signal to make commitment decisions and Origin suggests that the best way to provide this clarity is through a separate inertia price for each region. We would envisage that this would be similar to the way an energy or FCAS price is displayed, with pre-dispatch and ST-PASA showing prices up to 7 days. Sensitivities could also be included that would capture the inertia price if additional units were to be committed.

Origin does not support the use of inter-regional settlement residue (IRSR) to fund the inertia payment mechanism. We believe that this will result in a devaluing of SRA's which are used by the market as an important non-firm inter-regional hedging instrument. The AEMC also highlights the potential for an SRA hedging market to offset the loss of SRA volumes. Origin would suggest that this approach is overly complex and relies on an uncertain hedging market outcome. Of the other funding mechanisms put forward by the AEMC, Origin supports the use of SRA auction proceeds, further funded by TNSP TUOS charges. This allows the value of SRAs to be maintained which would potentially result in higher auction proceeds that could contribute towards the payment of the inertia mechanism.

Under the System Security Frameworks Review, the AEMC recommended that TNSPs would be responsible for supplying minimum amounts of inertia in each region with levels identified by AEMO. TNSPs would be compensated for the inertia provision either by a cost pass through mechanism or allowing synchronous condensers to be included under their Regulated Asset Base (RAB). The AEMC should explore regulations that will prevent the TNSP from receiving additional inertia revenue streams from assets that are under the RAB. Any additional inertia provided by the TNSP will have

market impacts, whether on the inertia price or the energy price between two regions. This results in market distortion and increased costs on consumers who would be doubly subsidising inertia within their region.

The consultation paper¹ suggests that the AER have a regulatory mechanism that reduces annual revenue amounts based on unregulated revenues. However, Origin agrees that cost recovery would be problematic and would not curtail the underlying issue that regulated assets should not be competing within the inertia market. TNSPs should be allowed to compete within the inertia market if it is funded independently of any RAB assets. Clear distinctions would need to be made between RAB and non-RAB assets.

Finally, there was some debate at the recent industry teleconference about the interchangeability of FFR and Inertia. Under the recent 'managing the RoCoF' determination, the AEMC concluded that TNSPs can contract services such as FFR but only with approval of AEMO. Origin believes that consistency should be applied here, in that only FFR services approved by AEMO should be allowed, but also that caution should be exhibited.

FFR is not completely substitutable for inertia, this is because inertia works to reduce the level of RoCoF and must be present before any contingency event occurs. FFR will work quickly, after a contingency event occurs. Without sufficient reserves of inertia available, there is a possibility that frequency will drop quicker than protection systems (such as FFR) can be brought online to arrest the frequency change. Origin suggests that the early stages of the inertia market be open only to inertia providers, and that AEMO investigate the interchangeability of FFR and inertia within this market.

There is a secondary consideration with regards to timeframes and payments. FFR is essentially a short-term solution (1-2 seconds) whereas the commitment of a generator or condenser is a longer-term solution (hours/days). One would anticipate that FFR providers would receive lower overall payments based solely on the length of time they can provide services to the inertia market. Thus, the market price will still determine which service will be dispatched (subject to AEMO determining if both services are interchangeable) with providers making dispatch decisions based on their anticipated return from the inertia market. This is a preferable outcome with the market determining which services should be dispatched based on lowest priced outcomes, which ultimately leads to cost efficient outcomes for consumers.

Should you have any questions or wish to discuss this information further, please contact James Googan in the first instance via email james.googan@originenergy.com.au or phone, on (02) 9503 5061.

Yours sincerely,



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