

19 December 2017

Ms. Anne Pearson
Chief Executive
Australian Energy Market Commission
PO Box A2449
Sydney South NSW 1235

Attention: Ms. Christine Reen

AGL's Inertia Ancillary Service Market rule change - Draft Determination: 7 November 2017 (ERC0208)

Energy Networks Australia (ENA) welcomes the opportunity to make a submission to the Australian Energy Market Commission's (AEMC) Inertia Ancillary Service Market Draft Determination released on 7 November 2017.

Energy Networks Australia is the national industry body representing businesses operating Australia's electricity transmission and distribution and gas distribution networks. Member businesses provide energy to virtually every household and business in Australia.

Energy Networks Australia supports the AEMC's draft determination to not make a Draft rule. This seems a reasonable and well-considered regulatory position, and we particularly endorse the following AEMC statements, made as part of the draft determination:

"... given the current power system operating conditions, the need to understand practical outcomes from new regulatory frameworks recently introduced, and assess outcomes from various programs of work on foot by the Commission and the Australian Energy Market Operator ... the Commission is not satisfied that the introduction of a market mechanism for additional inertia for market benefit will meet the national electricity objective (NEO)"¹

"regulatory or policy changes should not be implemented to address issues that arise at a specific point in time or in a specific jurisdiction only" (page 12).

"To date, the focus for an additional inertia requirement has been on South Australia. It is not apparent at this stage, the extent to which other regions of the NEM may require the provision of additional inertia and therefore it is not clear that the alleviation of the inter-regional RoCoF constraints would provide an accurate value of inertia in regions other than South Australia" (pages 27-28).

¹ Draft Determination, Executive Summary, page i.

We also support the view of the South Australian Department of Premier and Cabinet's recent 7 December 2017 [submission](#) to the AEMC's Frequency Control Frameworks Review. It states at pages 4 and 5 that:

“Fundamentally, the purpose of a market mechanism for inertia provision would be to price the relevant constraints in AEMO's NEM Dispatch Engine. The Division understands that AEMO is still working to understand the limits of power system operation with low levels of synchronous capability and is considering how system security constraints can be developed. It would not be sensible to seek to develop a mechanism for pricing inertia constraints while there is still uncertainty as to how these constraints would be formulated”.

In addition, Energy Networks Australia concurs with the AEMC's four identified factors accurately summarising stakeholder positions underpinning its draft determination, as:

1. The establishment of minimum levels of inertia has recently been addressed in the AEMC's 19 September 2017 Final Determination on the South Australian Energy Minister's *Managing the rate of change of power system frequency (inertia)* Rule change. As a result, there is no urgency to introduce a complementary mechanism. In addition, the design of such a market is embryonic.
2. The minimum levels of inertia will be determined by AEMO by end of June 2018.
3. Constraints applied by AEMO to manage low system strength issues in South Australia have had a consequential impact on the alleviation of the inter-regional rate of change of frequency (RoCoF) constraint on the Heywood Interconnector, suggesting limited market benefits could be obtained through the provision of additional inertia at this stage, and
4. Further consideration should be given as to how to accurately value inertia with the application of constraints to manage other system security requirements, e.g. system strength and system stability, and to potentially co-optimize the provision of alternative frequency control services, such as fast frequency response.

Energy Networks Australia has also argued in its recent 5 December 2017 [submission](#) to the AEMC's *Frequency Control Frameworks Review* Issues Paper, that:

“The interplay between inertia services and the various frequency control ancillary services is complex. Modelling, and experience and analysis for the likely South Australian implementation of [Fast Frequency Response] (FFR) should help inform the value that may (or may not) be created by establishing shorter time-frame FCAS markets ... It is expected that such conditions are unlikely to dramatically change during the Review's consultation period to warrant a move away from such a position. However, given the role of network service providers to provide minimum levels of inertia, Energy Networks Australia considers it imperative that if any change in the current position on this issue evolves through this review, that it be involved in industry discussions on how such a market may be further developed”.

Energy Networks Australia would also like to note that as part of the more holistic *Frequency Control Frameworks Review*, any future assessment of any new inertia

ancillary services markets or arrangements must include the potential role of Transmission Network Service Providers (TNSPs). This is to allow for a fulsome examination of all potential low-cost 'market-based' frequency control solutions to be considered, and then potentially implemented.

Such analyses should not exclude or foreclose NSPs from the design or co-ordination of future inertia markets, ancillary services procurement functions, and/or how Distributed Energy Resources (DER) frameworks evolve from a frequency control perspective. This is especially the case if such involvement by NSPs leads to the lowest-cost solution for consumers in the long run (in alignment with the National Electricity Objective).

Should you have any additional queries, please contact Norman Jip, Energy Network Australia's Senior Program Manager - Transmission on (02) 6272 1521 or njip@energynetworks.com.au.

Yours sincerely



Andrew Dillon
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