

20 April 2017

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

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

Dear Mr Pierce,

### **System Security Market Frameworks Review Directions Paper**

TransGrid welcomes the opportunity to respond to the AEMC's directions paper outlining proposed changes under its System Security Market Frameworks Review, including its proposed approach to the management of frequency, and the management of system strength in a power system with reduced levels of synchronous generation.

We understand that the AEMC's proposed changes would introduce new requirements on transmission network service providers (TNSPs) to procure and invest in inertia and fast frequency response (FFR) services. These requirements would be implemented through two packages:

- an immediate package, under which TNSPs would be responsible to provide and maintain an operating level of inertia and provide FFR services; and
- a subsequent package that introduces an incentive framework to guide TNSP investment in inertia and a market for the provision of FFR services based on the existing markets for Frequency Control Ancillary Services (FCAS).

Concurrently, the rules in relation to the TNSP's responsibility to ensure robust operation of system protection and to provide the services to maintain system strength will be reviewed and clarified.

TransGrid is supportive of these proposed arrangements. TransGrid agrees that TNSPs are well placed to assume responsibility for the provision, investment and procurement of inertia and FFR services to maintain energy security given our expertise in power system security and stability, and thorough understanding of the planning and operation of the power system.

In further developing the arrangements, there are a number of points that TransGrid would like to draw the AEMC's attention to, including:

- The transition from the immediate package to the subsequent package could be further clarified. It is not clear how the market sourcing approach under the subsequent package would interact with a TNSP's obligations, incentives and market functions.
- The incentives and cost recovery mechanisms under the framework need to be clearly thought through, and be proportionate to the importance of system security, to properly compensate TNSPs for the risks they are asked to assume.

- The roles and responsibilities of TNSPs and the Australian Energy Market Operator (AEMO) under the framework need to be clearly defined and well understood.
- There is a need for urgent action to ensure the security of the system – additional transitional arrangements may be needed for the immediate package that enable the timely procurement of inertia and FFS services. One option the AEMC could consider is AEMO leading an initial process to procure services, similar to its approach to procuring Network Support and Control Ancillary Services.

Further information in relation to these points can be found in the submission by Energy Networks Australia which TransGrid supports. We would welcome the opportunity to discuss these points with the AEMC, AEMO and other stakeholders in order to find practical solutions which better promote the National Electricity Objective.

If you would like to discuss these issues further with TransGrid, please contact me on 02 9284 3088. We look forward to engaging further with the AEMC and other stakeholders on this important review.

Yours sincerely

A handwritten signature in black ink, appearing to read 'G. Reiter', with a stylized flourish extending to the right.

Gerard Reiter  
**Executive Manager, Network Planning and Operations**