



Ms Merryn York  
Acting Chair  
Australian Energy Market Commission  
Online submission via [www.aemc.gov.au](http://www.aemc.gov.au)

13 August 2020

Dear Ms York,

### **System services rule changes consultation paper**

The Clean Energy Investor Group (**CEIG**) would like to take this opportunity to comment on the Australian Energy Market Commission's (**AEMC**) consultation paper on seven different system services rule change requests (**the AEMC's Consultation Paper**):

- [\*\*Synchronous services markets\*\*](#) (Hydro Tasmania) — a proposal to create a market for synchronous services such as inertia, voltage control and fault level (also known as system strength).
- [\*\*Operating reserve market\*\*](#) (Infigen Energy) — a proposal to introduce a reserve market to operate alongside the existing energy and frequency control markets, to help AEMO manage new and emerging operational challenges.
- [\*\*Fast frequency response market ancillary service\*\*](#) (Infigen Energy) — a proposal to introduce new fast frequency control services to efficiently manage power system risks associated with reduced system inertia.
- [\*\*Efficient management of system strength on the power system\*\*](#) (TransGrid) — a proposal to allow networks to be more proactive in the provision of system strength in the NEM. The request proposes to abolish the "do no harm" obligation and substantially amend the minimum system strength requirements.
- [\*\*Capacity commitment mechanism for system security and reliability services\*\*](#) (Delta Electricity) — a proposal to introduce an ex-ante, day ahead capacity commitment mechanism and payment to provide access to operational reserve and other required system security or reliability services.
- [\*\*Introduction of ramping services\*\*](#) (Delta Electricity) — a proposal to introduce 30-minute raise and lower "ramping" services using the existing framework for frequency control ancillary services (FCAS) market design. These services help maintain the frequency of the NEM.



- [Incentives for primary frequency response](#) (Australian Energy Market Operator (AEMO)) – a proposal to remove some existing disincentives for the provision of PFR as required to meet the future needs of the power system.

The CEIG represents a substantial group of renewable energy developers and investors, with a major focus on institutional investors. CEIG strongly advocates for an efficient transition to a clean energy system from the perspective of the stakeholders who will provide the capital to achieve it. The CEIG welcomes the opportunity to provide comments on the AEMC’s Consultation Paper from an institutional investor’s perspective. When viewed in the context of the requirement for 26-50GW of new utility-scale wind and solar capacity and 6-19GW of new dispatchable capacity in the National Electricity Market (NEM) by 2040<sup>1</sup>, it is likely that a sizeable portion of the new generation capacity to enable this transition will be developed and funded by the members of the CEIG.

### Importance of the issues raised in the AEMC’s Consultation Paper

As investors in long-term generation and storage assets, CEIG members are very engaged in the issues raised by the seven rule change requests. It is critical to a stable investment environment that the physical power system can be operated in a secure and reliable way whilst undergoing the massive transformation of its underlying technology. While obviously as an industry generators rely on the stability of the power system to deliver our product to the market, we also rely on the stability of the power system as a key foundation of our social licence – to ensure consumers enjoy secure, reliable supply of electricity at least cost. For these reasons CEIG will provide input to NEM reform that aims to ensure the delivery of essential system services.

### Energy Security Board post-2025 market design & interaction with the AEMC’s Consultation Paper

The Energy Security Board (ESB) is developing advice on alternative high-level market design options for the NEM post-2025, with recommendations expected to be provided to the National Cabinet by December 2020. CEIG has discussed these reforms with the ESB and looks forward to providing further input following publication of the ESB’s forthcoming consultation paper and ahead of recommendations to National Cabinet.

In contrast with the top-down overarching methodology of the post-2025 review, the seven rule change requests covered in the AEMC’s Consultation Paper are bottom-up views by different market participants on different subsets of the broader system services topic. All of the rule change requests could fit within the ESB’s workstreams on essential system services, ahead markets, resource adequacy mechanisms and an ageing thermal generator strategy.

In light of the ongoing post-2025 overarching review, unless there is an immediate need for a particular rule change, and one that can be made on a “no regrets” basis, then the rule changes should not be progressed until the higher-level post-2025 framework has been agreed. This is because:

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<sup>1</sup> AEMO Final 2020 Integrated System Plan

1. If the high-level future framework and strategic direction for the NEM is agreed first with political buy-in, then the detailed designs can be worked out subsequently with the benefit of a strategic direction.
2. The post-2025 review is a process driven by the independent ESB, coordinating input from the AEMC, AEMO and the Australian Energy Regulator, as well as industry rather than a process borne out of specific rule changes sought by individual market participants with their own agendas. The impartiality of the post-2025 review process will bring important credibility to its conclusions.
3. Waiting until the post-2025 review is complete before resolving individual rule change requests (other than urgent no-regrets changes) will avoid the need for multiple rule changes on the same topic, and the associated investment uncertainty that would bring.
4. The reform landscape in the NEM is already complex and uncertain, as investors are grappling with more variables than ever in their decisions whether to proceed with 25-year assets. Reform is important but must be coordinated in an overarching pathway, and overlap should be avoided, so that the process of reform itself does not disrupt an orderly roll out of new energy infrastructure.

### Which rule change requests from the AEMC's Consultation Paper should be progressed ahead of the ESB's post-2025 review?

A rule change request should not be delayed if it is clear that it would facilitate better achievement of the National Electricity Objective under any feasible post-2025 market redesign.

Of the seven rule changes covered in the AEMC's Consultation Paper, in our view only one such rule change fits in that category – the proposal for efficient management of system strength on the power system promoted by TransGrid.

TransGrid's proposal addresses the core problems with the current "do no harm" and minimum system strength frameworks, which CEIG identified in its submission to the AEMC on the discussion paper into system strength (EPR0076). The current system strength frameworks are reactive, lengthy, piecemeal and ultimately costly for consumers. TransGrid's proposal for a proactive and centralised approach to managing system strength is a reform that in our view is urgently needed and one that will need to be a key part of any post-2025 market design. We would welcome the opportunity to engage further on the specifics of that rule change.

The other six rule change requests address important topics and are worthy of consideration, but in our view they are appropriately assessed in the context of the overarching post-2025 framework.

### Conclusion

CEIG is very cognisant of the need for reforms to ensure the security and reliability of the NEM as it undergoes a significant transformation. Review of the system services regulatory framework should occur top down, with first a focus on agreeing fundamental market principles.

In the context of the ESB's ongoing post-2025 overarching review, unless there is an immediate need for a particular rule change, and one that can be made on a "no regrets" basis, then in our view



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individual rule change requests should be subsumed into the post-2025 review or put on hold until the higher-level post-2025 framework has been agreed.

TransGrid's proposal for efficient management of system strength on the power system is the one "no regrets" reform of the seven covered in the AEMC's Consultation Paper and it is one that we would support progressing immediately. The other six rule change proposals would be more appropriately dealt with once the post-2025 NEM design is confirmed.

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Matthew Dickie".

**Matthew Dickie**

*on behalf of the Clean Energy Investor Group*