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Mr Ben Hiron
Australian Energy Market Commission
South Sydney NSW 1235

By online submission
AEMC code: ERC0263

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Dear Mr Hiron

Directions Paper, Frequency Control Rule Change

AEMO welcomes the opportunity to respond to the Directions Paper, Frequency Control Rule Changes, which is investigating the regulatory and high-level policy direction for Fast Frequency Response (FFR) and Primary Frequency Response (PFR).

Fast Frequency Response

Section 4.5.3 of the AEMC Directions Paper states:

- The existing market and regulatory arrangements do not explicitly provide for effective utilisation of fast frequency response (FFR) services in the NEM to help control system frequency at the lowest cost.
- This constitutes a missing market and does not provide adequate price signals to support efficient investment in the equipment needed for future power system operation.
- This issue is particularly the case for system intact operation and is expected to drive increasingly inefficient market outcomes as system inertia levels decline over the period from 2020 through to 2035.

AEMO agrees with this problem definition and considers the AEMC is proceeding in the right direction. It is sensible to consider a spot market for FFR integrated with the existing FCAS markets. The AEMC paper outlines different options regarding this, however, because AEMO will provide Technical Advice on FFR implementation options in the next few weeks, this submission does not respond to those options in any detail.

At a high-level, AEMO notes FFR could be added as a separate Contingency FCAS in addition to the existing services but it may be more efficient to implement FFR by re-specifying existing FCAS. In either case much work is needed before being able to conclude one way or the other.

AEMO notes that in the interim the Inertia framework and possibly the NSCAS frameworks can be used to contract for these FFR services. This may allow for considered assessment of the additional benefits associated with creating spot markets for FFR.

Primary Frequency Response

The Mandatory PFR Rule brings AEMO in line with well accepted good industry practice in terms of active power controls by:

- Establishing stable control of power system frequency, especially within the normal operating frequency band (NOFB);
- Increasing power system resilience to disturbances, especially those that are more complex, or larger than expected;
- Increasing predictability in generating system performance, supporting the analysis of power system performance, and the design of control and protection systems; and
- Reducing the risk of load shedding or generation shedding following power system frequency events.

Therefore, the availability of near universal, tight speed control is more than a valuable safety net, but an essential characteristic of good frequency control.

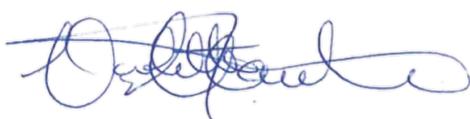
The aim of the Mandatory PFR is not to supplant FCAS markets, nor reduce the need for good dispatch systems and compliance, by relying on excessive PFR duty to correct all errors in dispatch. AEMO values the availability, consistency and predictability of near universal, tight speed control as part of good frequency control and a resilient system, where PFR duty forms only part of the overall response from a suite of tools that manage power system frequency.

The level of PFR duty under the MPFR Rule is affected by other regulatory settings, not limited to secondary, integral control, the design of FCAS markets, dispatch errors, dispatch compliance and cost allocation mechanisms. AEMO respectfully suggests the direction from herein should focus on assessing these other regulatory settings to reduce unnecessary PFR duty, rather than reverting from the availability of tight speed control through universal PFR. This is because reducing the availability of tight speed control will reintroduce poor control, to the detriment of consumers.

The AEMO Frequency Work Plan has a series of actions, including a PFR incentivisation feasibility report, which will provide AEMO's views on the technical feasibility of the policy options identified in the Directions Paper for enduring PFR arrangements. Finally, having introduced mandatory PFR across the generation fleet to the extent feasible, the benefits of valuing the provision of PFR through a market mechanism become less clear and would require detailed examination.

We welcome the opportunity to provide further input as this rule change process progresses. Should you wish to discuss any of the matters raised in this submission, please contact Kevin Ly, Group Manager – Regulation, on kevin.ly@aemo.com.au.

Yours sincerely



Violette Mouchaileh
Chief Member Services Officer