

Our Ref: 11258989
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11 August 2020

Ms Merryn York
Acting Chair
Australian Energy Market Commission
PO Box A2449
SYDNEY SOUTH NSW 1235

Dear Ms York

Submission to Consultation on System Services rule changes

Thank you for the opportunity to comment on the Australian Energy Market Commission's (**AEMC**) consultation on the System Services rule change process.

We acknowledge that the National Electricity Market (**NEM**) is undergoing a period of rapid change, including the exit of synchronous generation capacity which is largely being replaced by asynchronous, inverter-connected generation capacity. As a result of this, a range of system services that have historically been provided in abundance as a by-product of synchronous generation, such as inertia and system strength, will now need to be secured through defined service and procurement arrangements.

Additionally, the intermittent nature of most inverter-connected generation along with the penetration of distributed energy resources has also increased the need for system services such as fast frequency response, operating reserves and ramping services. There are currently frameworks in place which govern the provision of many of these services. However, we acknowledge that:

- a) Not all essential system services are currently governed by a framework;
- b) The “siloes” nature of these frameworks inhibits increased efficiencies in coordinating the provision of some services, and;
- c) Some of these frameworks may not be fit for purpose in an evolving NEM.

We support the consideration of the rule change requests in order to resolve these challenges and look forward to hearing stakeholders' views on how these amendments could impact the operation of the NEM.

These rule changes are also relevant for work being carried out by the Energy Security Board (ESB), which the AER is a member of. As the AEMC consultation paper notes, the ESB has been tasked with developing advice on a long-term, fit-for-purpose market framework that could apply from the mid 2020's, known as the NEM 2025 project. The provision of essential system services, including those being considered in this rule change consultation, is a key focus of the NEM 2025 project, including procurement and the potential for ahead scheduling.

We consider that it is important that there is significant coordination between the AEMC and ESB on the interactions between these rule changes and the NEM 2025 process, and we note that this inter-relationship is recognised in the AEMC's consultation paper.

Coordination between these two streams of work is vital to ensuring that consistent rules and policy outcomes are achieved across the projects. For example, it is not clear at this stage how the timetable for the consideration of the various system services rule change proposals will map to the ESB's objective of delivering market design recommendations to Ministers by mid-2021. Effective coordination is also needed to ensure that stakeholder interaction is not diluted across the two consultations, and that implementation costs are minimised where possible.

The AER also notes that it is unclear how the AEMC will be able to consider the rule change requests in a holistic manner given the interrelationship of the rule change requests with several of the NEM 2025 Market Design Initiatives, including those governing Essential System Services, Resource Adequacy Mechanisms and Scheduling/Ahead Markets. The AER notes, for example, that policy issues around operating reserves are relevant to all of these MDIs, and not just those relating to the Essential System Services MDI. We therefore request that the AEMC gives careful consideration to this and the role of the ESB in developing recommendations to Ministers by mid-2021.

We thank the AEMC for the opportunity to make this submission to its consultation. If you have any questions about our submission, please contact Mark Feather, General Manager, Policy and Performance on 03 9290 6958.

Yours sincerely

A handwritten signature in blue ink that reads "Jim Cox". The signature is written in a cursive style with a large initial "J" and "C".

Jim Cox
Deputy Chair