



Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

By electronic lodgment

18 August 2020

System Services Rule Changes - Consultation Paper

Alinta Energy welcomes the opportunity to respond to the Commission's consultation paper on the system services rule changes proposed by Hydro Tasmania, TransGrid, Infigen Energy and Delta Electricity.

Alinta Energy, as an active investor in energy markets across Australia with an owned and contracted generation portfolio of nearly 3,000MW and more than 1.1 million electricity and gas customers has a strong interest in rules that will help the energy market transition to a low carbon future and integrate new and less centralised sources of electricity generation in the NEM.

We support the Commission's approach assessing the rule changes as a package and would encourage a flexible approach to the implementation and timing for each as appropriate – each should be assessed for their individual costs and benefits and complement the work already underway through the Commission and the Energy Security Board.

At a high level, Alinta Energy is supportive of the rules proposed and the assessment approach of the Commission through time-based work streams (investment, commitment and dispatch horizons). We also support the assessment framework that the Commission intends to apply and during this initial consultation phase, presentation of the problem the proposal seeks to address, the description of its operation and mechanism and the likely costs and benefits that will occur. We recognise that by their nature, elements of the proposals are high level in scope. The rule change process itself will test the merits of each, which will assist impacted stakeholders to better judge their net benefits.

While each of the proposals individually are likely to provide better signals for system services, integrating them into the current rules and market processes may present significant policy and implementation challenges and once these (and their costs) are better understood, the decision to proceed with the rule change can be weighed against alternatives (for example, incorporating them into the post 2025 market design).

Dispatch

Infigen Energy – Fast Frequency Response (ERC0296)

Alinta Energy is supportive of the fast frequency response (FFR, raise and lower) proposal put forward by Infigen Energy to address rate of change of frequency (RoCoF), which will continue to become more volatile following a contingency event as synchronous generation exits the market. Technologies that can provide FFR under two seconds will help address RoCoF following system contingencies and FFR may accelerate investment in batteries in the medium term. The proposed rule change is likely to have a low implementation cost of all the rule changes contained in the package and for this reason may warrant prioritisation.

Commitment

The three rule changes proposed under the commitment workstream - Operating reserve market (Infigen Energy), Introduction of ramping services and Capacity commitment mechanism for system security and reliability services (both Delta Electricity) closely align with the scheduling and ahead market design work being undertaken by the ESB. While each have merit and can be implemented alongside the energy-only market, if they are to proceed how they interact with the broader post 2025 market design model will be required.

Infigen Energy – Operating Reserve Market (ERC0295)

Infigen Energy's proposed operating reserves market model would likely incentivise the provision of operating reserves. The changes may reduce the incidence on emergency or intervention mechanisms relied upon by AEMO. Intervention in the market will always be second-best to a market-based solution and result in higher cost. Getting the Reliability and Emergency Reserve Trader (RERT) scheme to operate more efficiently may resolve the problem the proposal seeks to address.

It is probable that implementing this proposed change will be complex and the mechanism may not be used in a material way ahead of any new market design implemented post 2025. Alinta Energy agrees that Infigen's proposal could provide investment signals ahead of any further significant tightening of the demand-supply balance (to the extent this might be best met by dispatchable generation). However, the costs of implementation require full assessment and alternatives may better meet the objectives of the rule change proposal.

Delta Electricity – Introduction of ramping services (ERC0307)

The problem of ramping to support the impact of variable renewable energy identified in Delta Electricity's rule change proposal is more pronounced in Queensland at this time than in other regions of the NEM, though the challenge is likely to grow elsewhere in the future. The proposed solution adds flexibility for operators of large, synchronous generators to optimise their operation. It may avoid the need for a choice between continued dispatch at certain times of the day and week and decommitment. Arguably incentives to ramp up and down are already in place given the existence of the Market Price Cap and floor.

While the new services may only be called upon when needed, there are complexities in designing the rules around the ramping mechanism (as is the case for the operating reserve market). Managing differing ramp rates of participating generating units, how the benefit of the new services filter across the NEM (intra and inter regionally) and stated performance against actual outcomes.

Alinta Energy is supportive in principle of the rule change proposal, however, as with the operating reserve market, expects a thorough assessment of costs and benefits is undertaken.

Delta Electricity – Capacity commitment mechanism for system security and reliability serves (ERC0306)

Again, Alinta Energy would indicate in-principle support for Delta Electricity's proposed rule change to encourage the continued commitment of base load synchronous generators through an "ahead-markets" capacity incentive.

The proposal does complement Delta Electricity's proposed rule change for ramping services discussed above. The determination of the operating reserve and participation in contributing to this requirement will present some complexity in specification and design. We understand that participation in the minimum operating reserve market would be voluntary for generators able to provide the required services.

Like the other rule change proposals in the 'commitment' horizon work stream, it may be determined that elements of this rule change proposal find their way into the broader post 2025 market design process. Alinta Energy understands that implementing this (and the ramping and operating reserves proposals) ahead of 2025 may support beneficial outcomes and lower the cost of electricity in the NEM for consumers. Design considerations and the allocation of cost recovery are key matters the Commission will need to address in determining if it is appropriate to proceed with the changes at this time.

Reducing the need for AEMO to trigger the Reliability and Emergency Reserve Trader or intervene due to the provision of capacity at prices below the value of customer reliability is an objective that we support. However, all stakeholders will need a better understanding of the costs and benefits and implementation process of this, and the other system services rule change proposals (particularly the commitment horizon changes proposed).

Investment

Hydro Tasmania – Synchronous services markets (ERC0290)

Alinta Energy supports the intent of Hydro Tasmania's rule change to address intervention via directions for synchronous services by AEMO. The proposal to coordinate dispatch of energy and incentivise the provision of synchronous services for system security if implemented would likely reduce the need for directions by AEMO. Altering the dispatch engine to accommodate the proposal requires careful consideration however and as with the other proposed changes, Alinta Energy understands the Commission's approach to be flexible (and at this stage of consultation, agnostic on the net benefits of this and the other rule changes in the consultation paper).

When the NEM began, most generators provided synchronous services automatically. As the availability of such services becomes scarce with retirement of these generators, there is merit in pricing such services.

The timing of this rule change, given the changes to the NEMDE that it implies, will also require careful consideration by the Commission. We comment below on the timing and potential prioritisation of the rule change proposals collectively.

TransGrid – Efficient management of system strength on the power system (ERC0300)

Alinta Energy supports the intent of TransGrid's rule change proposal to reduce the complexity for generators connecting to the network under the "do no harm principle". TransGrid's proposal is aligned with the centrally coordinated (model 1) described in the *Investigation into System Strength Frameworks Discussion Paper*. Alinta Energy supports Models 1 and 2 and sees TransGrid's proposal for network planning and separate (and not in opposition) to other initiatives that might be categorised under Model 2.

Accounting for the potential impact of future generation investment on the setting of fault level nodes with reference to the Integrated System Plan would contribute to improvements in system strength over time. The Regulatory Investment Test (transmission) should continue to play a role in validating a new planning standard set by the Reliability Panel (under TransGrid's proposal) – for example in determining the solution to meet a minimum fault level at a node via a network or non-network solution.

Timing and prioritisation

Each of the proposals address specific problems identified with the provision and proper valuation of procuring efficient levels of system services. At a high level, it is possible that fast frequency response (for example) could be implemented relatively quickly, while other proposals will require further planning and consideration by market participants and AEMO to determine the benefit of their implementation in the medium term.

As each rule moves to a draft determination stage, there will be the opportunity for the Commission to consider them in the context of the ESB's work and develop a clearer concept of the likely costs and benefits of the rule changes and if alternatives, including a more preferred rule change would be appropriate. While Alinta Energy acknowledges the Commission is bound by its statutory obligations and will consider each proposal against its assessment criteria and the NEO, there may be an opportunity to align the proposals to the post market design recommendations between now and mid-2021.

This does not mean that individual rules proposed should not be considered for implementation ahead of 2025, particularly if they demonstrate clear net benefits and a relatively simple to implement. Alinta Energy agrees with each of the proponents that the challenges identified that their proposals seek to address are of concern now and that the cost of ignoring these challenges will grow over time as VRE investment continues to grow and synchronous generation is retired. At the same time, the net benefits of each need to be fully assessed.

Alinta Energy welcomes further participation in the consultation process on the rule changes proposed and would be pleased to discuss any of the matters raised in this response with Commission further. Please contact David Calder (Manager, Regulatory Strategy) on (03) 9675 5359 in the first instance.

Yours sincerely,



Jacinda Papps
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