



Government  
of South Australia

Department for  
Energy and Mining

Our Ref: DEMC21/00983

Ms Anna Collyer  
Chair  
Australian Energy Market Commission  
PO Box A2449  
SYDNEY SOUTH NSW 1235

  
Dear Ms Collyer

Thank you for the opportunity to make a submission on the Capacity Commitment Mechanism and Synchronous Services Markets Directions Paper.

South Australia is leading the National Electricity Market in its transition to a generation mix made up of non-synchronous inverter-based assets such as wind, solar (both large scale and small scale behind the meter distributed resources) and batteries. As such, South Australia has faced challenging operating conditions for a number of years.

This has resulted in the Australian Energy Market Operator (AEMO) increasingly using market interventions, such as directions for system security, in South Australia in order to ensure that the system remains in a secure operating state.

The Division considers that the development of a framework which appropriately values essential system services is a critical reform which is required to incentivise the provision of these services for the transitioning electricity sector.

The Division does not consider that ongoing market interventions by AEMO to manage system security is the most efficient way to manage the evolving nature of the power system.

The Division notes the challenges facing AEMO in defining power system requirements and translating these requirements into services and that this work is currently underway through its Engineering Framework. While this work is being undertaken, and noting the pace of the energy transition, the Division considers it appropriate that system configurations which maintain a secure technical operational envelope are initially procured while technical and operational knowledge and understanding improves.

The Division still considers that there is a need to transition from system configurations to specific service-based procurement over time. This would be consistent with the Energy Security Board's (ESB's) long-term vision for essential system services, which is supported by the Division.



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The Division notes the two broad approaches being considered by the Australian Energy Market Commission (AEMC), the market ancillary services (MAS) approach and the non-market ancillary services (NMAS) approach, could represent an improvement on the status quo arrangements.

The Division is of the view that the implementation of either approach should ultimately transition to procuring unbundled system services, consistent with the ESB's long-term vision.

Both approaches, in principle, should improve the transparency of the market by providing improved price signals and providing market participants with greater information on system requirements.

Given the high-level approaches outlined in the directions paper, the Division does not at this point in time have a view on which approach is preferable and looks forward to the AEMC providing further analysis on each approach.

The Division, however, does have concerns in relation to the ability for transmission network service providers (TNSP), and even AEMO, to be able to contract directly with market participants for the provision of essential system services. This may be particularly problematic in regions, such as South Australia, with relatively concentrated generation markets. As such it is important that the AEMC take into consideration how individual jurisdictional market structures may impact the effectiveness of each approach.

Further, the Division has significant concerns with a TNSP led coordinated solution for system strength, such as that proposed for the Efficient Management of system strength on the power system rule change, which draws on existing economic regulatory and planning frameworks.

South Australia's experience is that TNSPs face significant challenges delivering the necessary investment to address system strength gaps in a timely manner.

The current regulatory framework adds a considerable time barrier into the process, as once specific solutions are identified, they would be still be progressed through individual regulatory investment test for transmission (RIT-T) processes, treated as reliability corrective actions.

Based on the high-level description provided in the Directions paper, the ability for TNSPs and AEMO to successfully negotiate and contract with market participants for essential system services is a fundamental requirement for the NMAS approach to result in a more efficient and secure dispatch.

The Division would therefore be interested in the AEMC's further consideration on whether the challenges noted above would affect the relative merits or drawbacks to either approach. In particular, whether the MAS approach is less likely to be impacted as resources would be able to indicate their preference to provide various services through their bids, and not necessarily be contracted with a TNSP or AEMO.





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Thank you again for the opportunity to make a submission. If you have any further queries, please contact Mark Pedler on (08) 8429 3361.

Yours sincerely

A handwritten signature in blue ink, appearing to read "Vince Duffy".

Vince Duffy

**EXECUTIVE DIRECTOR, ENERGY AND TECHNICAL REGULATION**

19/10/21



