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ERC0339 – Essential System Services and the Efficient Provision of Inertia

Alinta Energy welcomes the opportunity to respond to the Joint Paper from the AEMC and AEMO on Essential System Services and Inertia in the NEM.

We are pleased to see a broad overview and update of each of the essential system services being considered under the ESB's ESS workstream. We agree it is important to continue to assess these services together because of the interdependencies and intricacies between them. We also note that it will be important to assess ESS services alongside the market design for a capacity mechanism, particularly as the NEM transitions to ensure that sufficient new inertia service providers are established before incumbent thermal plants exit the market.

However, we are deeply concerned that the joint paper has been presented as the shared views of the AEMC and AEMO – as independent regulators in the NEM, we acknowledge that each will have a view on the design or operation of policy and market settings, but these views should not unnecessarily bias the views of each other. It is the role of the AEMC to independently assess rule changes (and undertake market reviews) to deliver a market design which delivers reforms in the long term best interests of consumers.

While we understand the need to seek advice on technical matters, this should not be limited to the views of the market operator. A clear level of independence should be present at all times to maintain industry confidence in the market and the role of the rule maker.

The role of inertia

Alinta Energy strongly supports the Australian Energy Council's rule change to create a co-optimised spot market for inertial services. Drawing on the recent experience associated with mandatory primary frequency control, it is clear that starting work to unbundle inertia now will be less risky and cheaper the earlier it is commenced. It will also ensure that new developments have the capability to contribute to the service.

Although we understand the ESB's desire to cautiously approach inertia by unbundling the service gradually over two-stages (i.e. structured procurement, followed by progression to a spot market), we remain unconvinced of the need. In our view, all of the risks and requirements associated with inertia, such as building a technical understanding and valuing the service, as well as implementing systems are prevalent irrespective. We are therefore of the view that structure procurement will not provide net benefits.

In addition. We note that AEMO's recent Integrated System Plan predicts that incumbent thermal plants (the traditional provider of inertia services) will close earlier than otherwise planned. Noting that the AEC suggests the rule change may take at least four years to design, test and implement, we strongly urge the AEMC not to delay consideration of this important rule change.

We have provided the following responses to the questions on the AEC's rule change and broader implementation considerations:

- *What factors should we consider in establishing the materiality of the impact of reducing inertia on the system?*

Alinta Energy believes the ISP and existing frequency control service provisions (particularly fast frequency response), should be used to inform the likely timeframe for system inertia requirements. Alinta Energy notes that inertial issues will be observed in the short to medium timeframe as more incumbent baseload generators leave the grid.

Noting the increasing level of risk, the best way to deal with growing materiality to implement a co-optimised market service to address the problem before it becomes an unmanageable risk. Creation of a market service is also likely to provide broad net market benefits and would eliminate the need for system directions under AEMO's interventions framework which would be expensive and distortionary.

- *What are the net benefits to market participants and consumers for providing an incentive for unbundled procurement of inertia, and when do they arise?*

Alinta Energy considers that a range of net benefits can be delivered through the unbundled service. For example, a clear discoverable pricing signal would optimise investment signals for assets seeking to offer this service, and an increased participation pool will minimize risks of an inertia shortfall which will be critical as the NEM transitions to a zero emissions grid. Further, timeliness and uniformity of settlement processes would also assist retailers and market customers understand the true costs of system stability and manage cash flow risks via targeted hedging.

- *Is there an opportunity for material efficiencies or net benefits from establishing an inertia spot market before significant inertia shortfalls are experienced in the system?*

Yes. As we noted above, commencing the design and finalising the rule over the next 12 months would support faster implementation. Operating on an advanced timeline would minimise inertia shortfall risks expected to arise in the late 2020s.

- *Are there important implementation considerations?*

Alinta Energy considers that the AEC's rule change should be progressed as an immediate priority reform. We note that a number of other related ESS rule changes (such as fast frequency response, and very soon, the enduring mandatory primary frequency arrangements) are finalised. We expect this should free up some technical resources at the AEMC, in addition to the engagement of independent consultants as required.

In assessing the AEC's rule change, the AEMC should consider the interactions of fast frequency response and inertia. The AEMC should also review the recently finalised RoCoF Control Market policy design in Western Australia's energy market. While we note it is not operational until Q4 2023, we believe that it would be worth exploring how inertia services have been valued and how AEMO is implementing the reform, including updates to its technical parameters.

Should you wish to discuss our views further, please contact me on 0475 943 365 or at Dan.Mascarenhas@alintaenergy.com.au.

Yours Sincerely

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