

28 September 2023

Nomiky Panayiotakis - Project Lead
Australian Energy Market Commission
GPO Box 2603
Sydney NSW 2000

Submitted online: <https://www.aemc.gov.au/contact-us/lodge-submission>

Submission to ERC0290 – Improving security frameworks directions paper

Delta Electricity (Delta) welcomes the opportunity to respond to the AEMC's directions paper on the newly named improving security frameworks, previously the operational security mechanism.

Delta does hold some concerns over the approach outlined in the directions paper, as it moves away from unbundling system security services and more efficient real-time market-based solutions. While this direction may be necessary in the short term, as concerns have been raised by both the AEMC and AEMO with the difficulty in unbundling services, the proposed way forward does not put enough emphasis or requirement on AEMO to solve these issues. While Delta is generally supportive of some of the proposed changes, we strongly recommended that the AEMC considers requiring more specific obligations on AEMO to solve these issues over a shorter timeframe than the proposed 10 years.

Existing system security frameworks

Delta supports introducing an inertia floor for the mainland NEM for interconnected operation and the alignment of the inertia and system strength procurement timeframes. This approach would likely improve security outcomes in the long term, as fewer and fewer synchronous machines will be available to ensure the power system remains secure.

Subject to AEMO testing and ensuring synthetic inertia can be a readily interchanged and demonstrably provide the same safe and reliable services as synchronous machines, Delta agrees with the Commission's proposal for:

- TNSP to be able to procure synthetic inertia to meet the minimum threshold level; and
- The requirement on AEMO to consult and publish a specification of synchronous and synthetic inertia.

As a practical and flexible solution to avoid directions and to ensure there is a backstop arrangement to procure these services where a shortfall emerges in the near term, Delta supports the Commission's proposed approach to remove the current exclusion on inertia and system strength in the NSCAS framework.

Delta notes the AEMC's proposal for a RIT-T exemption on inertia and system strength service solutions where a shortfall arises within 18 months may expose customers to more costly solutions but considers this should be rare if the other proposed changes to the framework are



effective at addressing these issues first. If a RIT-T exemption is applied to these short-term solutions the AER should still be required to assess the efficiency and approve the transmission investment, similar to the existing approach for how the AER assesses contingent projects.

Non-Market Ancillary Service Framework (NMAS)

Delta supports the need for a transitional services framework, however, there needs to be a clearer pathway and set of obligations on AEMO to deliver the transition to unbundled system security services.

Delta agrees with points made by the AEC, that 10 years is excessively long and a much shorter timeframe, like three years, should be imposed on AEMO.

Enablement

Delta supports the AEMC's proposal to place the responsibility of enabling inertia and system strength contracts on AEMO, with an ability to enable NSCAS and transitional services if it is beneficial.

Delta does however highlight the possibility of a conflict between two objectives for AEMO's enablement, which are to:

- enable only if the enablement of system strength contracts results in an overall increase in dispatched IBR; and
- enable a combination of contracts that meet the required level of the security services at lowest cost.

In the event when these two objectives conflict, an overarching enablement principle of maintaining operational security should override the promotion of dispatchable IBR.

Directions framework

Delta is strongly against the proposed change of using the market suspension compensation framework in lieu of the current directions compensation framework. While Delta agrees with the sentiment to improve the transparency and efficiency of the framework, if changes are made, a new framework needs to give consideration to the opportunity cost on directed generators particularly in relation to fuel scarcity. During the public forum, the AEMC noted an outcome of the proposed change is for generators to be indifferent to being directed. Delta strongly advises that it is definitely not the case that generators would be indifferent to being directed under the proposed change.

Delta considers the proposed compensation regime would be inadequate and would punish generators that would be directed. The current framework of using the 90th percentile price over the preceding 12 months does somewhat attempt to value opportunity costs, albeit very bluntly and is agnostic of the cost differences between generators. It is only reasonable, if there is a change to the directions compensation framework, that this element is maintained and tailored for different technology and input costs, but most importantly includes a valuation of the reason why the generator is not available.



An approach that considers and values the conditions faced by generators would better contribute to achieving the NEO as it would ensure services provided by directed generators are more efficiently and appropriately valued, instead of undervaluing these services which could create inappropriate incentives and risk allocation, as well as a lack of confidence in the market, which would result in poorer reliability and security outcomes for customers.

Delta notes the AEMC are currently considering a methodology for assessing opportunity costs through the assessment of APC compensation claims. This could serve as a guide for an additional input into the proposed directions compensation approach.

Delta supports the proposals presented by the AEMC to increase transparency and accountability, particularly the proposal to provide greater detail being published in market notices.

To discuss further please contact me at joel.aulbury@de.com.au.

Yours sincerely,

Joel Aulbury
Regulation and Strategy Manager