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Sebastien Henry
Australian Energy Market Commission
PO Box A2449
Sydney South, New South Wales 1235

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Dear Sebastien

Inertia Ancillary Service Market Review

Meridian Energy Australia Pty Ltd and Powershop Australia Pty Ltd (MEA Group) are pleased to provide comments to the Commission in relation to the design of a market-based mechanism to reward the value of inertia.

As you are aware, MEA Group is the owner and operator of the Mt Mercer and Mt Millar Wind Farms as well as Powershop Australia, an innovative retailer committed to providing lower prices for customers, which recognizes the benefits for customers of a transition to a more renewable-based and distributed energy system.

MEA Group recognises that there is nothing more important to producers and consumers of energy than safe, secure and reliable supply. Debates around pricing, generation composition, network costs and design, and market processes are irrelevant if the energy that customers rely on is not being delivered when they need it. This is not to say that all of the above issues are not important but ensuring there is a framework for the safe, secure and reliable delivery of energy is critical in protecting customer interests and meeting the National Electricity Objective (NEO).

There is a tendency for the industry and its participants to focus on technical issues relating to reliability without keeping the core focus of reliable delivery of energy for customer use front of mind. Customers do not use frequency,¹ inertia, spot markets or financial markets. They use energy to do the work they need to achieve their objectives. The purpose of any inertia ancillary service market would be to ensure that energy fit for customer purpose is available as and when required.

The NEM has always benefitted from a focus on being an “energy only” market. This does not mean that other factors and processes are not relevant but it does highlight that at the end of the day, it is the effective, reliable and cost-effective delivery of energy that sits at the core of the NEM. The recent focus on reliability, which the current transition to new generation formats and increased customer participation in the NEM has produced, should not cause the focus of NEM reform to move away from this core objective. Particular care should be placed on any decision to create additional markets which have the potential to distract from the core objective of delivering safe, secure and affordable energy to consumers. We have already seen occasions where the ancillary markets have led to perverse outcomes contrary to the interests of consumers and are concerned that this proposal could produce similar outcomes.

¹ Other than in the trivial case of frequency based time keeping systems which the Reliability Panel has discussed removing from the Reliability Standard.

In response to the Commission’s consultation, we have set out answers below to the questions posed by the Commission in its consultation paper.

Question	Comment
<p>1. Do you consider a market sourcing approach to be preferable to a TNSP incentive scheme for providing inertia? If so, do you consider the use of IRSR funds accruing as a result of RoCoF constraints to be an appropriate mechanism for funding inertia payments?</p>	<p>It is unclear how a valid comparison of these two options could be considered without further data regarding how the market might develop and how TNSPs may respond. The Australian energy market is undergoing fundamental change and it would be inappropriate to introduce a new complex market unless there was a clear compelling need and/or the benefit clearly outweighed potential costs. Given the management of inertia is still developing it is unclear whether either of these tests have been met. This requirement is consistent with the Finkel Review Recommendation 2.2. We note that this Finkel Review Recommendation has been endorsed by all Governments and most industry participants.</p> <p>While it is possible that the use of IRSR funds might be an efficient approach we believe this question is secondary in importance to the requirement to demonstrate the need for the market in the first place.</p>
<p>2. Do you consider any of these alternative methods of payment for inertia to be preferable to the proposed IRSR funding approach? Are there any alternative funding arrangements that are not discussed, which you would consider to be preferable?</p>	<p>There are a number of possible payment methods. Clearly, a method that ensures payment obligations genuinely falls on those who will achieve the benefits and are in a position to influence the cost would be preferable. Given our uncertainty about the need for this market, we have not considered all of these options in detail.</p>
<p>3. To what extent would the proposed IRSR funding approach diminish the effectiveness of SRAs as an inter-regional hedge? Do you agree that inertia hedges could be used to assist with inter-regional hedging and would this provide increased certainty to providers of inertia?</p>	<p>Change in the IRSR funding approach does have the potential to diminish the effectiveness of the SRAs. Any changes that have the potential to increase complexity and the interactive nature of various market tools have the likelihood of reducing participation and undermining customer benefits. While it is possible that inertia hedges may develop over time there is no certainty and even if they do there is little likelihood that such tools will achieve their objective without significant costs to consumers.</p>
<p>4. To what extent do you see there to be a need to address inter-regional RoCoF constraints versus intra-regional RoCoF constraints or other types of constraints?</p>	<p>It is clear that inter-regional RoCoF constraints are the current matters of concern. However, the fact that issues such as these develop over time highlights the futility of trying to develop a market that is genuinely technology neutral at a time when technological changes are likely to lead to new RoCoF constraints (or removal of existing constraints) which are unforeseeable at this stage.</p>
<p>5. What do you see as the main concerns with TNSP participation in a market sourcing approach? How can these issues be resolved?</p>	<p>While there are always concerns with involving regulated businesses in competitive markets, the most important test is will their involvement improve customer outcomes. The market does not exist to ensure that all market participants can participate but rather to deliver outcomes consistent with the NEO. Failure to enable TNSP participation has the potential to preclude optimum solutions being provided at least cost.</p>

Question	Comment
<p>6. To what extent do you see it as desirable to co-optimize inertia with energy and FCAS through the NEM dispatch process?</p>	<p>It is very important that co-optimisation to reduce consumer costs remains a key element of the market. However, while co-optimisation is a necessary means of seeking to maximise consumer benefits, it is not in itself sufficient. The continued fragmentation of the market away from “energy only” makes this more important. Even with co-optimisation, small regional markets with limited participants and limited opportunity for new entrants only leads to unnecessary consumer costs².</p>
<p>7. Do you see a need to delay implementation of the proposed IRSR funding approach? If so, do you see value in adopting an alternative funding approach in the interim?</p>	<p>We believe that there should be a delay in implementing the proposed IRSR funding approach and that no alternative funding approach would be required as the need for the market has not yet been fully demonstrated at a level sufficient to justify its implementation.</p>

If you have any further questions please feel free to contact me.

Yours sincerely



Ed McManus
 Chief Executive Officer
 Meridian Energy Australia Pty Ltd

2 Recent experience within the South Australian FCAS market has highlighted the risk to consumers from small fragmented markets.