



**AGL Energy Limited**  
ABN: 74 115 061 375  
Level 24, 200 George St  
Sydney NSW 2000  
Locked Bag 1837  
St Leonards NSW 2065  
t: 02 9921 2999  
f: 02 9921 2552  
agl.com.au

---

**Sebastien Henry**

**Australian Energy Market Commission**

**PO Box A2449**

**SYDNEY SOUTH NSW 1235**

**11 October 2017**

Dear Mr Henry

**Inertia Ancillary Service Market Consultation Paper**

AGL welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) Inertia Ancillary Service Market Consultation Paper (Consultation Paper).

AGL is one of Australia's leading integrated energy companies and largest ASX listed owner, operator and developer of renewable generation. Our diverse power generation portfolio includes base, peaking and intermediate generation plants, spread across traditional generation fuel sources as well as renewable sources. AGL is also a significant retailer of energy, providing energy solutions to over 3.7 million customers throughout eastern Australia.

The views expressed in this submission leverage on AGL's considerable market experience.

AGL notes that this Consultation Paper interacts with the *Managing the rate of change of power system frequency* draft rule (draft rule). The draft rule describes two levels of inertia: the minimum level of inertia that is required to maintain the islanded system in a satisfactory operating state and the additional inertia above this minimum level that will allow for more unconstrained operation of the islanded system or additional interconnector flows – of inertia – when not islanded.

AGL does not support the design of this rule change outlined in the Consultation Paper.

AGL considers that more work is required to assess whether an inertia market mechanism will actually be required:

- given the possible introduction of the draft rule – of a minimum regulated inertia requirement;
- other system security requirements (including those being set by the South Australian Office of Technical Regulator, the South Australian Government's own investments in battery storage capability, diesel generation capacity and open cycle gas turbines and AEMO's market management given wind levels in SA); and
- to fully consider the impact of using settlement residues to fund inertia services.



---

Furthermore, modelling would reveal whether inertia – in a market environment – would be valued in a non-islanded region. Interconnector flows would mean that inertia would be readily available, likely delivering a very low price for the inertia service. This was envisaged in AGL's rule change, which noted that when framing the inertia market consideration had to be given to the supply of inertia in an islanded region. Otherwise there was a real risk of price for inertia being lower than the necessary economic rate of return. Modelling would reveal whether this is, in fact, the case.

AGL is unconvinced that the two rules – one a mandated requirement for the provision of minimum levels of inertia via TNSPs and the other a market mechanism for additional levels of inertia – will work in concert. Rather it is more likely that the minimum requirement set for TNSPs, in combination with other regulatory requirements, will mean that there will be no need for an additional inertia market mechanism.

For example in South Australia, the combination of a minimum provision of inertia by TNSPs and the system security requirement to have at least three synchronous generators operating at all times, means that synchronous generators will most likely be directed on before any market need for inertia arises. Accordingly, AGL considers that more analysis should be undertaken on whether an additional market for inertia services will eventuate in this environment.

Finally, AGL is concerned that the use of settlement residue to fund inertia services is in conflict with the AEMC work on the second round settlement residue auction. The AEMC identified, in that rule change, that using settlement residue would mean that TNSPs' charges to end use customers would have to increase – which would be detrimental to them.

If you have any queries about the submission or require further information, please contact Brigid Richmond at [brichmond@agl.com.au](mailto:brichmond@agl.com.au) or on 03 8633 6631.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Simon Camroux', written in a cursive style.

Simon Camroux

Senior Manager, Wholesale Regulation