



EnergyAustralia

LIGHT THE WAY

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Dear Commissioners,

NATIONAL ELECTRICITY AMENDMENT (FAST FREQUENCY RESPONSE MARKET ANCILLARY SERVICE) RULE 2021 (ERC0296)

EnergyAustralia (EA) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC's) Draft Determination on Fast Frequency Response (FFR) Market Ancillary Services in the National Electricity Market (NEM). EA is one of Australia's largest energy companies with around 2.4 million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. EA owns, contracts and operates a diversified energy generation portfolio that includes coal, gas, battery storage, demand response, solar and wind assets. Combined, these assets comprise 4,500MW of generation capacity.

EA is dedicated to building an energy system that lowers emissions and delivers secure, reliable and affordable energy to all households and businesses, which requires being a good neighbour in the communities we operate in. As part of this, we recognise Aboriginal and Torres Strait Islander peoples as the traditional custodians of this country and acknowledge their continued connection to culture, land, waters and community.

EA Agrees FFR Markets Will Be Net Beneficial

EA is appreciative of the AEMC's efforts to investigate whether new regulatory settings for FFR are appropriate in light of ongoing and significant market, technological and operational change. Based on the rate of change seen to date, EA agrees with the Australian Energy Market Operator (AEMO) that the industry is already in or beyond the Step Change Integrated System Plan (ISP) scenario. As such, we agree with the AEMC that there will likely be a material, future cost increase in R6 service provision and consider there will be net economic benefits to implementing an FFR market compared with a 'do-nothing' alternative.

But It Is Unclear If FFR Markets Will Be Optimal

As noted in EA's previous submission to the Directions Paper, there are several reforms afoot that could also halt the decline in system inertia and thereby mitigate the inefficiency associated with increased future R6 requirements beyond an FFR market. Indeed, the interactions between FFR and inertia are expressly recognised by the AEMC in the Draft Determination. That is, with further consultation on the viability of inertia markets occurring via Hydro Tasmania's Synchronous Service and Delta Energy's

Capacity Commitment Mechanism rule change proposals. However, other relevant reforms that could bear on the question of the optimal R6 cost mitigant(s) include:

- consultations relating to the technical standards and access regimes of Renewable Energy Zones (REZs) such as the ESB's Stage Two REZ consultation, the New South Wales' Energy Roadmap and Victorian Renewable Energy Zone Development Plan;
- the new System Strength Framework which would see requisite levels of system strength being maintained at all times rather than at minimum levels, and which could also be applied to inertia;
- the Engineering Framework being developed by the Australian Energy Market Operator (AEMO), which will prioritise solutions to technical system issues such as inertia in different parts of the grid; and
- changes from other, related frequency control developments such as Primary Frequency Response (PFR) obligations, generator technical performance standards, and the forthcoming review of the Frequency Operating Standard (FOS).

In light of these developments, EA previously recommended that a comparative Cost-Benefit Analysis (CBA) be undertaken. This is so that the relative merits of the FFR market could be verified against other potential options in alleviating the projected future rise in R6 costs. To date, this has not occurred.

This is somewhat surprising given such analysis would not require any lengthy delay. EA notes that the finer details of many of the alternate solutions would largely be known by the end of the year. This is well before any required need of an FFR service based on AEMO's R6 modelling outcomes and is also consistent with the FFR rule timetable, which envisions a potential three-year implementation window. It would also be in keeping with other excellent analyses the AEMC has undertaken in recent times. The evaluation of ramping requirements under different scenarios that show no need for an operating reserve mechanism for security purposes being the first-class exemplar.

Conversations with AEMC staff on the lack of a comparative CBA have indicated that implementing FFR is seen as a no or low regrets action. That is, with FFR providing an economically net beneficial solution that will not undermine or impede the implementation of other potential future solutions. For example, the establishment of inertia markets.

EA does not disagree that FFR markets may be a net beneficial solution or will impede the implementation of other solutions. However, without comparative analysis, it is unclear whether FFR will be an optimally efficient one for customers. For example, it would seem counterproductive to overall market efficiency if FFR was implemented as proposed, with all the associated costs, but was then superseded by an alternative solution currently also under consideration. EA suggests that if other factors would argue against undertaking such a comparative CBA, these be made clear in the Final Determination.

EA Supports the FFR Market Design Details

Putting aside the question of the optimality of an FFR-based R6 solution, EA agrees with applying the existing Frequency Control Ancillary Services (FCAS) arrangements to any FFR spot market that eventuates. That is, in respect of registration, scheduling, dispatch,

pricing, settlement and cost allocation requirements. We consider this will result in the greatest transparency and consistency at the lowest cost and result in the simplest implementation pathway.

EA also agrees with the decision not to apply performance scalars via speed factor parameterisation and not to combine the 6 and 60-second FCAS markets as part of this rule change. These are complex issues with potentially large operational, administrative, financial and technical implications for AEMO and market participants. EA, therefore, supports these issues being explored collaboratively in other fora. For example, as part of a future Market Ancillary Services Specification (MASS) review.

EA supports the transitional timeframe outlined in the paper. Placing a maximum term on the delivery window will provide certainty to participants while providing flexibility to AEMO to implement the new market arrangements. This should help to minimise the risk of poorer outcomes that may be seen if implementation occurs too quickly. For example, by ensuring robust technical investigation along with a considered, comprehensive review of the Market Ancillary Services Specification (MASS) takes place.

In terms of inertial valuation, EA concurs with the additional AEMO analysis and supports this being explored via other processes. EA and other members of the Australian Energy Council (AEC) are currently working on an options paper to assist with this analysis. We look forward to sharing the outcomes of this work with the AEMC and would welcome the opportunity to discuss that work and this submission further with you. Should you have any questions, please contact me via bradley.woods@energyaustralia.com.au or on 0435 435 533.

Regards,

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