

22 December 2017

John Pierce, Commissioner
Australian Energy Market Commission
Lodged Electronically

Dear John,

RE: AEMC Draft Determination on Inertia Ancillary Service Market Rule Change

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia. We represent and work with hundreds of leading businesses operating in solar, wind, energy efficiency, hydro, bioenergy, energy storage, geothermal and marine along with more than 4,800 solar installers. We are committed to accelerating the transformation of Australia's energy system to one that is smarter and cleaner.

We welcome the AEMC's decision not to make a draft rule relating to the introduction of a market mechanism for power system inertia. As outlined in our submission to the Consultation Paper, we do not view the proposed rule change to be consistent with the AEMC's assessment framework. We presented detailed arguments to support the expectation that the proposed rule would increase costs and present opportunities for market power for generators in South Australia. We welcome the AEMC's appreciation of the need to defer this rule in the context of ongoing work on system security in the NEM, such as the Frequency Control Frameworks Review, and assert that the implementation of an inertia market mechanism would present long-term costs and risks greater than potential benefits.

Although we support the AEMC's decision not to make a rule, we would like to provide some comments on the discussion presented in the draft determination. Please refer to our submission to the Consultation Paper for detailed views on the proposed design of the market mechanism.

The mechanism will not contribute to the NEO

The inefficiencies which are likely to arise from designing a market to encourage a specific service is realised when considering the mechanism against the NEO. We disagree with the AEMC's view that this proposed rule change could contribute to the NEO in the future as it is currently designed. As lowering consumer costs is a key principle of the NEO, the AEMC states that synchronous generators would have the ability to co-optimize provision of energy and inertia, which is expected to lower overall costs. We fail to see how providing synchronous generators with an additional revenue stream lowers costs to consumers, and expect the impact on TUOS charges to be passed through to consumers.

The continued consideration of inertia as the desired service is problematic

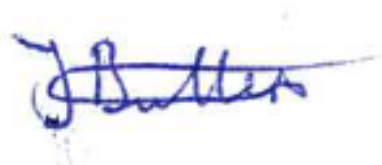
Although the AEMC acknowledges that further consideration must be given to how inertia can be valued with the provision of additional frequency control services, the determination continues to pre-suppose market outcomes in assuming inertia above the minimum threshold is required for system security. It is unclear why inertia is the desired service above the minimum threshold and secure operating levels. The AEMC's view that inertia cannot be accurately valued with the future potential of additional frequency control services such as FFR is correct. The CEC encourages the AEMC to continue considering FFR and flexible technologies in the future generation mix and critical to ensuring system security is maintained.

The concept should be abandoned

Although the CEC is supportive of market-based solutions for the power system, this strong focus on required levels of inertia will likely create inefficiencies in the market, as subsidy-like payments are made to synchronous generators in preference to flexible and fast-response technologies. Moving forward, the AEMC should not consider the design of a market mechanism to provide a particular service, but rather consider the system security outcomes it is seeking, and design any future markets based on these outcomes. As such, the concept of an inertia market should be abandoned from the current system security work program underway.

We trust that this submission assists the Commission in its deliberations and welcome continued discussion of important issue. Please contact the undersigned or Emma White (03 9919 4107) for any queries regarding this submission.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Tom Butler', with a stylized flourish at the end.

Tom Butler, Director Energy Transformation

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