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Clare Stark
Australian Energy Market Commission
PO Box A2449
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21 July 2022

Dear Clare,

Efficient provision of inertia

AGL Energy (AGL) welcomes the opportunity to comment on the Australian Energy Market Commission (AEMC) and Australian Energy Market Operator (AEMO) joint paper on Essential system services and inertia in the NEM.

About AGL

AGL is a leading integrated essential service provider, with a proud 184-year history of innovation and a passionate belief in progress – human and technological. We deliver 4.2 million gas, electricity, and telecommunications services to our residential, small and large business, and wholesale customers across Australia. We operate Australia's largest electricity generation portfolio, with an operated generation capacity of 11,208 MW, which accounts for approximately 20% of the total generation capacity within Australia's National Electricity Market.

Joint paper

AGL considers that a joint paper by the AEMC, as rule maker, and AEMO, as market operator, to be inconsistent with the principle that these two functions can be better achieved if each is done by a separate organisation. We therefore hope that this practice is not adopted for other consultations and that the AEMC review the Australian Energy Council's rule change request for an inertia market on an independent basis.

Rule change initiation

AGL strongly suggest that the AEMC initiate an inertia rule change request immediately. We had the opportunity to engage in the AEC's rule change proposal and support its objectives. AGL submitted an Inertia ancillary service market rule change request of our own in 2016, which was not implemented partially because the AEMC was in the midst of a frequency control frameworks review. Our desire for a market mechanism to value inertia has not changed, and we see no reason why this necessary rule change process should be delayed. It is already six months since the AEC submitted its rule change request and we agree with their assessment that it will likely take at least four years for the AEMC and AEMO to complete the assessment and implementation such a rule. We see no reason why the commencement of this rule change request need be delayed.

Concurrent rule changes

We consider that commencing an inertia rule change now would align well with concurrent system services rule changes processes. The AEMC System strength and Fast Frequency Response rule changes, which are the two system services most relevant to inertia, have been completed which should make assessing an inertia market easier. The design of the Operational Security Mechanism (OSM) is only in its early stages, but we suggest it would be beneficial to understand the likely inertia market design prior to the final design of the OSM to ensure it appropriately schedules and procures inertia which has different characteristics to other system services.



We do not consider that the timing of the ESB's consideration of a capacity mechanism, or the AEMC consideration of an operating reserve, are relevant to the consideration of the timing of an inertia market rule change request, since we consider these mechanisms are not suitable for direct procurement or incentives for the provision of system services. We note that it would be preferable that the operating reserve was being considered now concurrent with the ESB's consideration of the capacity mechanism rather than delaying it's the draft determination until June 2023, since we consider the operating reserve to be a potential option to the capacity mechanism rather than a separate mechanism that may be needed in addition to a capacity mechanism (provided the capacity mechanism is appropriately designed).

Inertia market benefits

The joint paper asks what the net benefits are to market participants and consumers for providing an incentive for unbundled procurement of inertia, and when would the benefits arise.

The benefits of an incentive for the procurement of inertia are clear, they will ensure that the decision of a firm to enter, exit, or remain in the market will include consideration of their provision of this essential system service and ensure that its supply is efficiently driven by the market. It will therefore be the most efficient solution to ensuring the inertia requirements of system security are met, to the benefit of all electricity consumers. We support unbundled procurement since it reduces barriers to entry as it increases potential supply and competition of this service because it means that a provider is not bound to provide an associated service which they may not be able to efficiently provide.

The benefits of a market which provide further value for the provision of inertia would commence once the market expects the market will come into existence i.e., by mid-2020. The mere knowledge of the future market may impact the decision of an investor to enter, exit, or remain in the market and therefore provide a signal and benefit. The joint paper questions whether benefits could accrue before significant inertia shortfalls are experienced in the system, we suggest it should be an AEMC objective to ensure that the market is created to ensure that significant inertia shortfalls are not experienced, and that therefore the benefits must accrue prior.

Implementation

We agree that there may be implementation challenges in creating an inertia market, but that these challenges are a reason to commence the rule change request, so that they can be fully explored, rather than a reason to delay this important rule change.

If you have any queries about this submission, please contact Anton King on (03) 8633 6102 or aking6@agl.com.au.

Yours sincerely,

Chris Streets

Senior Manager Wholesale Markets Regulation