

Mr Ben Hiron
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
Sydney NSW 2000



13 February 2020

Re: ERC0274 – Draft Rule Determination – Primary Frequency Response Rule Changes

Dear Mr Hiron,

The Energy Efficiency Council (EEC) thanks you for the opportunity to comment on the Australian Energy Market Commission's (AEMC) Draft Rule Determination on Primary Frequency Response (PFC) Rule Changes.

The EEC acknowledges that the AEMC has tried to balance the perceived urgent need for additional frequency control with the EEC's significant concerns about introducing a mandatory requirement for generators to activate an existing capability to provide PFC to the National Electricity Market (NEM). However, we do have significant concerns about an approach that can be summarised as:

- Introducing a mandatory requirement for generators to activate an existing capability to provide PFC but sun-setting the mandate in 2023; and
- Developing incentive arrangements for PFC to come into force before June 2023.

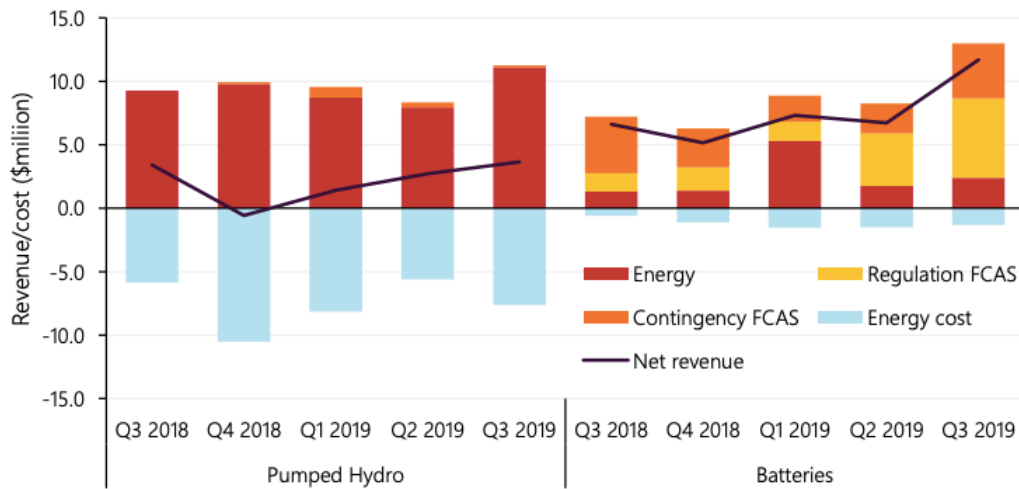
We welcome the AEMC recognising that the NEM needs significant investment in new sources of frequency control, including batteries and demand response. We also welcome that the AEMC recognises that a technology-neutral market-based approach will be essential to drive this investment. The EEC's concern is that, on their own, the proposed interim arrangements will impede investments that need to start immediately to meet the shortfall in frequency control services arising from the decreased reliability and impending closure of thermal generators.

We are concerned that there is a real risk that, once the mandate is introduced, governments and institutions will be tempted to extend this mandate beyond 2023. However, even if the mandate sunsets in 2023, the introduction of this temporary mandate:

- Is a significant departure from the current general direction of the energy market to use market-based signals and technology-neutral approaches where possible. This undermines the energy industry's confidence in the overall regulatory direction of the NEM; and
- Could set back investments in batteries and demand response by three years or more, through both the short-term removal of incentives and longer-term undermining of confidence in these emerging markets. As the AEMC acknowledges, the temporary mandate will likely reduce the returns that batteries and demand response can secure from providing frequency response services. While the value of providing frequency response services will increase again as generators exit the NEM, undermining the value of investments for several years could result in a significant drop in both short-term and long-term investment in batteries and demand response.

This second point is critical. The economics of both storage and demand response are often based on being able to secure a 'stack' of various value-streams (see Figure 1). If one of these value-streams is dramatically reduced, an investment may no longer be viable. This will not only impact on service providers (e.g. demand response aggregators) but also energy users, who may be unwilling to consider future investments in demand response. This would have negative short and long-term impacts on the NEM, as demand-response can provide emergency capacity, wholesale capacity, network capacity and frequency services.

Figure 1: NEM pumped hydro and battery market revenue by source



Source: Australian Energy Market Operator 2019, *Quarterly Energy Dynamics Q3 2019 – Market Insight and WA Operation*, Australian Energy Market Operator, Melbourne.

Accordingly, if the AEMC continues with this proposal, the EEC strongly recommends that the AEMC engage with generators, demand-side aggregators, energy service providers and energy users to identify ways to maintain incentives for new forms of frequency control over the period that this mandate runs. Incentives could be delivered by a range of measures, such as:

- Allowing generators that would be affected by the mandate to instead arrange with another form of frequency control (e.g. demand response) to provide PFC;
- Expanding the market for contingency frequency control while the mandate is in place, to maintain incentives for new providers of frequency control; and
- Providing grants to support the development of non-traditional frequency control.

We look forward to continuing to engage with the AEMC on this matter. For further information please contact me on rob.murray-leach@eec.org.au or 0414 065 556.

Yours sincerely,

Rob Murray-Leach
Head of Policy
Energy Efficiency Council