

18 June 2021

Ben Hiron
Australian Energy Market Commission

Submitted electronically.



Dear Ben,

System strength rule change draft determination

The Public Interest Advocacy Centre (PIAC) is an independent, non-profit legal centre based in New South Wales. Established in 1982, PIAC tackles systemic issues that have a significant impact on people who are marginalised and facing disadvantage. We ensure basic rights are enjoyed across the community through litigation, public policy development, communication and training. The Energy + Water Consumers' Advocacy Program represents the interests of low-income and other residential consumers, developing policy and advocating in energy and water markets.

PIAC welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) draft determination regarding the efficient management of system strength on the power system rule change.

We broadly support the AEMC's draft determination to introduce:

- A new obligation on transmission network service providers, working with AEMO, to provide system strength when and where it is needed.
- New access standards for relevant generators, loads and market network service providers to have minimum performance of plant in relation to system strength into the future.
- A charging mechanism for system strength, so those parties who use the service pay for it.

We consider these measures will help ensure the low-cost provision of system services and allow the timely and efficient connection of new generation. We have concerns, however, around the allocation of costs for system strength and the processes around setting system strength standards and nodes, which we provide further details of below.

Costs

PIAC supports the AEMC taking an approach whereby system strength is supplied where demand is anticipated rather than reactively where it already exists. We agree the costs of a shortfall in system strength are much greater than the cost of overprovision and that forward certainty around sufficient system strength supports a solid investment pipeline and efficient operation of existing assets. However, we do not support the costs of the service being recovered from consumers as they are not the sole, or even primary direct beneficiaries.

PIAC considers costs of investments should be recovered according to who benefits from them and risks should be allocated to those best-placed to manage them. The majority of the potential benefits of the draft determination arrangements accrue to new generators, who will have more certainty over having sufficient system strength to connect and operate, and will face fewer barriers to connecting. As such, the cost should be

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recovered from generators as they are the major beneficiaries of reliable system strength.

PIAC stresses, while recovering costs from generators may be opposed by generators, there is no evidence to suggest the costs would discourage new investment. As noted, generators get a range of benefits under the new arrangements and these would maintain the business case for investment in new, renewable generation.

The AEMC should prioritise the interests of consumers, who do not wish to shoulder and are not the primary beneficiaries of these costs of system strength procurement.

System strength standards

The draft determination proposes the system strength standard be based on AEMO forecasting system strength requirements at nodes according to minimum fault level required to be provided, and level and type of inverter-based resources (IBR) and market network service facilities. These form the basis of System Strength Service (SSS) Providers' obligations under the system strength standard.

PIAC considers there must be transparency over how the system strength requirement is determined, particularly whether it reflects consumer preferences, or generator or AEMO preferences for system strength. Under the proposed draft determination, neither generators nor AEMO bear the risk of over-procurement, while both parties may prefer a standard above what consumers would prefer.

Nodes

Like the system strength standard, the determination of system strength nodes is left largely at AEMO's discretion under the draft determination. PIAC is concerned, given generators are encouraged to develop close to nodes, this may give AEMO some ability to shape the development of the energy system through its specification of nodes. As such we urge transparency, predictability and accessibility over the process of determining nodes.

PIAC is also concerned the combination of proscribing nodes and encouraging (through various incentives and costs) generation development near them, may lock in antiquated systems centred around large, synchronous generators and a centralised grid architecture. As the energy system transitions towards being decentralised, inverter-based and zero-emission, this approach may become inefficient and inappropriate. It may also slow the transition and add costs if it incentivises using coal generators as the primary sources of system strength. With this in mind, PIAC recommends reviewing how the new approach is impacting system development and whether it is leading to adverse consumer outcomes, including a slower than necessary transition to zero-emissions or towards a decentralised system.

We welcome the opportunity to discuss these matters further with AEMC.

Yours sincerely

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