

5 October 2017

Suzanne Falvi  
Executive General Manager  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235



Dear Ms Falvi,

### **Inertia Ancillary Service Market consultation paper**

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 upon disadvantaged and marginalised people. 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 consultation paper for the Inertia Ancillary Service Market rule change.

With the transition currently underway in the National Electricity Market (NEM), the value of services to the system and consumers is changing. Monetising and rewarding some of these may be warranted. For instance, inertia has decreased in level, and at the same time become more valuable, than when the NEM was formed.

In isolation, this may introduce a new cost component for consumers and increase bills. But it must also lead to cost reductions in other parts of the system. For instance, rewarding inertia services may encourage more providers of inertia and lead to lower wholesale costs by allowing secure operation with higher penetrations of lower-cost, non-dispatchable generation. Without tying back to the cost-reliability trade-off for consumers, reforms could lead to a ratcheting up of costs for system reliability and security and over and above the efficient level.

Therefore, any rule change which impacts on consumer costs must be justified by demonstrably better outcomes for consumers through being based on their actual willingness to pay, rather than just "keeping the lights on" at any cost.

### **Potential market power and consumers' willingness to pay**

PIAC understands that the original rule change request proposed creating a new market or tendering process for procuring inertia services. However, the AEMC's proposal seeks to embed the value of inertia services within the normal bidding and dispatch process of the wholesale spot market. In either case, it is imperative that procurement or bidding cannot be unfairly exploited by participants.

PIAC appreciates that the cost of inertia services may be high at some times to signal a shortening of supply relative to the demand for these services. However, in the event that power is concentrated in a small number of inertia providers in a region, it is possible to exert market power and raise the prices beyond the value to consumers. Similar concerns have been expressed in a number of forums regarding the

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cost of some Ancillary Services which also have a relatively limited pool of providers.

**Cost pass-through to consumers**

The AEMC have considered a number of potential methods to pay for inertia services. PIAC, at this stage, does not have a firm view on which, if any, of these methods is most appropriate.

PIAC recommends that the AEMC, in assessing methods to pay for providing inertia services, consider how efficiently, transparently and directly the costs may be passed on to the primary beneficiaries of enhanced inertia.

**Continued engagement**

PIAC would welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth.

Yours sincerely,

**Craig Memery**

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