



15 February 2021

Australian Energy Market Commission  
Frequency Control Rule Changes Directions Paper  
GPO Box 2603  
Sydney 2001

### **Frequency Control Rule Changes Directions Paper**

The South Australian Chamber of Mines and Energy (SACOME) welcomes the opportunity to make this submission to the Australian Energy Market Commission's (AEMC) Frequency Control Rule Changes Directions Paper (the Paper).

SACOME is the peak industry body representing companies with interests in the South Australian minerals, energy, extractive, oil and gas sectors and associated service providers.

SACOME acknowledges that the AEMC's consultation focuses on two rule change requests:

- Infigen Energy's request - *Fast frequency response (FFR) market ancillary service* – to amend the National Energy Rules (NER) to introduce new market ancillary services for the procurement of FFR; and
- The Australian Energy Market Operator's (AEMO) request - *Primary frequency response (PFR) incentive arrangements* – that proposes changes to the NER to support improved PFR Control during normal operation.

SACOME notes that the Paper's policy options for the procurement of FFR and PFR includes the development/reconfiguration of markets for the dispatch of these system services.

Consistent with SACOME's submissions to both the AEMC's *System Services Rule Changes Consultation Paper*<sup>1</sup> and the Energy Security Board's *Post 2025 Market Design Consultation Paper*<sup>2</sup>, the manner in which the cost of providing necessary system services are allocated and passed on is an area of primary concern for SACOME member companies.

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<sup>1</sup> [sacome aemc system services rule changes submission.pdf](#)

<sup>2</sup> [sacome esb post 2025 market design submission final.pdf](#)

Historically, these key system services have been provided as a by-product of firm synchronous generation. The lack of a clear, agreed national energy policy, however, has led to Australian States and Territories pursuing their own energy policy agendas with a range of unplanned consequences, including the uncoordinated development of renewable energy generation that has precipitated the loss of these services.

Maintaining the electricity system within the required parameters for frequency, voltage, inertia, and system strength becomes difficult as variable energy generation increases its presence in the National Electricity Market (NEM), as they are non-synchronous in nature and do not have the same technical characteristics as thermal and hydro power generation.

Efficient solutions to these problems exist but are complicated by both the significant pace of change and the lack of markets or other means of valuing all the system services essential to system security. This has led to the Australian Energy Market Operator (AEMO) to increasingly intervene in the market to ensure it operates efficiently.

SACOME member companies (in particular large C&I members) continue to raise concerns about how AEMO's interventions in the NEM continues to increase their energy costs.

SACOME's large C&I customers have borne the brunt of these increasing system costs as demonstrated by AEMO's own Quarterly Energy Dynamics Q4 2020 Report<sup>3</sup> (the Report) that indicates that total NEM system costs increased from \$55 million in Q3 2020 to \$77 million in Q4 2020.

Frequency Control Ancillary Services (FCAS) accounted for \$50 million or 65% of total system costs in Q4; and \$356 million in total for 2020, a record high.

The cost of directing South Australian units to maintain system security increased to a near record high of \$16 million in Q4 2020; and \$49 million (or \$4/MWh) in 2020 compared to \$26 million in 2019.

SACOME member companies have stated these additional costs are unknown, unbudgeted, place pressure on large energy users at the time of receipt, and further compound an unsustainable operating environment for industry.

SACOME reiterates that these key system services have, historically, been provided by generators and therefore these generators should continue to have an obligation to provide and/or procure these system services from the market.

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<sup>3</sup> <https://aemo.com.au/-/media/files/major-publications/qed/2020/qed-q4-2020.pdf?la=en&hash=BE12D7DEBE790078B5E7C047FB7BD0BB>



Generators could factor any additional cost of their obligation to procure these system services into their bid price, “smearing” recovery costs across all market users in a more predictable and efficient manner.

SACOME urges all regulators to recognise the historical context of these system services and allow for the equal distribution of these costs across all energy market consumers, as a matter of urgency.

SACOME thanks the AEMC for the opportunity to provide feedback to the Paper and remains committed to ongoing dialogue with the AEMC in relation to these matters.

Kind regards

A handwritten signature in black ink, appearing to read 'Rebecca Knol'.

Rebecca Knol  
Chief Executive Officer