

5 August 2025

Ms Victoria Mollard
EGM, Economics and System Security
Australian Energy Market Commission

Submission lodged via the project page

Dear Ms Mollard,

SUBMISSION TO DRAFT DETERMINATION ON EFFICIENT PROVISION OF INERTIA

Delta Electricity (**'Delta'**) provides this submission to the Australian Energy Market Commission's (**'AEMC'** or **'Commission'**) draft determination on the efficient provision of inertia.

Delta generally agrees with the Australian Energy Council's (**'AEC'**) submission, and in addition, offers the following brief response.

It is disappointing that the AEMC has decided not to introduce an inertia market. The AEMC's draft determination to not proceed with an operational or spot market for inertia represents a missed opportunity to drive long-term efficiency and deliver better outcomes for consumers in the National Electricity Market (**'NEM'**). While the Commission acknowledges the theoretical merit of real-time procurement, it argues that net benefits are not currently "material" enough to justify reform. This cautious approach sustains a rigid and inefficient framework when flexibility and innovation are most needed in the transition.

Centralised Procurement Entrenches Inefficiency

The current framework relies on regulated monopoly Transmission Network Service Providers (**'TNSP'**) to procure inertia based on forecasts and other criteria. This has several problems:

- Lack of competitive tension: TNSPs are incentivised to over-capitalise, favouring capital expenditure solutions like synchronous condensers, which may not be the most cost-effective.
- Slow responsiveness: Network-led procurement lacks the speed and agility to respond to emerging shortfalls or unexpected system changes.
- Poor price discovery: Consumers are left without visibility into the true cost of inertia, undermining transparency and trust in system planning.

A market approach would introduce price-based signals and contestability, unlocking participation from existing market participants and new participants like grid-forming batteries, flywheels, and other emerging solutions. It would also reduce dependence on blunt regulatory instruments and offer technology-neutral procurement that can adapt to innovation as new solutions emerge.

Misjudged consideration of cost and benefits

The Commission "considers that operational procurement of inertia has merit in principle, and could achieve benefits for consumers in the future", but notes that its "analysis has shown that there is unlikely to be material net benefits in the near term". The Commission's claim that the short-term benefits of an inertia market do not outweigh implementation costs reflects a flawed cost-benefit framing. It compares



only immediate efficiency gains against upfront reform costs, ignoring the option value of establishing a market early and allowing it to mature.

The Commission's own consultant, HoustonKemp, found potential gains from co-optimisation with frequency services and reduced reliance on AEMO directions. These benefits are likely understated given rapidly rising contingency FCAS costs and emerging system constraints. By delaying reform, the AEMC incurs opportunity costs from locking out efficient providers.

Better cost benefit framing would compare the expected value of a maturing market with price discovery, investor certainty, and scalable innovation against the long-term costs of continued regulatory procurement and potential over-investment.

Failure to Send Investment Signals

Without a market solution, existing owners and developers of inertia-capable technologies are left in limbo. Without a market approach which provides the incentive of a new revenue stream, providers of inertia lack the certainty needed to justify investment.

If the Commission progresses its draft decision to final, Delta supports the recommendations and suggestions put forward in the AEC's submission.

To discuss further please contact Delta's Market Compliance and Regulation Manager Joel Aulbury at joel.aulbury@de.com.au.

Yours sincerely,

ANDY YOUNG
Energy Markets Risk Manager

