AUSTRALIAN ENERGY COUNCIL

AEMC
Level 15, 60 Castlereagh Street
Sydney NSW 2000

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Clarifying registration for non-generating units providing system security services

The Australian Energy Council ('AEC') welcomes the opportunity to make a submission to the AEMC on the CS Energy proposed rule change - Clarifying registration for non-generating units providing system security services.

The Australian Energy Council is the peak industry body for electricity and downstream natural gas businesses operating in the competitive wholesale and retail energy markets. AEC members generate and sell energy to over 10 million homes and businesses and are major investors in renewable energy generation. The AEC supports reaching net-zero by 2050 as well as a 55 per cent emissions reduction target by 2035 and is committed to delivering the energy transition for the benefit of consumers.

As the National Electricity Market (NEM) transitions toward a system dominated by variable renewable energy, ensuring the effective and efficient management of grid security and reliability is crucial. Reforms are necessary to guarantee that essential system services (ESS) continue to be supplied adequately and at the least cost, particularly as thermal synchronous plants exit the NEM. The original intent of this rule change proposal was to introduce a new registration category specifically designed to enable non-generating units, such as stand-alone synchronous condensers, to supply non-network ESS, thereby addressing a significant barrier to participation presented by the existing National Electricity Rules (NER).

Overall Views

The AEC does not support the AEMC's draft preferable rule of clarifying existing arrangements for the Integrated Resource Provider (IRP) category. We consider this approach to be unworkable. A new, explicitly designed registration category would be significantly more effective in removing the ambiguities and uncertainties surrounding the appropriate registration pathway for non-generating units seeking to provide ESS.

Detailed Comments

In its Draft Determination, the AEMC acknowledges the existence of a participation barrier but proposes addressing it by clarifying existing arrangements, specifically by adding a note to clause 2.3.4 (b) of the NER, which pertains to the market connection point classification for IRPs. We believe this approach fails to provide the necessary regulatory clarity due to fundamental limitations concerning legal weight, interpretation risk, and technological scope:

1. Legal ambiguity of notes

The AEMC's approach relies on adding a note to the provision. However, notes at the foot of a provision in the National Electricity Law (NEL)—which includes the NER—do not form part of the law. This is explicitly stipulated under section 3 and clause 4(4) of Schedule 2 of the NEL. When

Level 13, 575 Bourke Street
Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

P +61 3 9205 3100
E info@energycouncil.com.au
W energycouncil.com.au

ABN 92 608 495 307

interpreting the law, greater weight would be given to the substantive provisions of the NEL and NER rather than to the explanatory notes. The proposed note is viewed as inconsistent with the substantive provision of clause 2.3.4 (b) of the NER. Clause 2.3.4 (b) is understood to be designed to allow IRP registration based on being a market connection point that is involved in purchasing and on-selling electricity from the national grid. The proposed note, which expands this definition to include synchronous condensers that supply ESS, is therefore considered inconsistent with the intended design of the provision.

2. Uncertainty Regarding Service Scope

Registration as an IRP is premised on the unit operating as a load. This foundational categorisation leads to inherent uncertainty as to whether synchronous condensers registered as IRPs are precluded from providing the full suite of ESS and might instead be limited only to providing load-related services. While the AEMC notes that it is not aware of any rule-related factor that would prevent IRP-registered synchronous condensers from delivering the full range of ESS, the core source of uncertainty is the lack of explicit provisions in the NER with a registration category that clearly enables these units to supply the full suite of services.

The proposed framework relies too heavily on the prevailing interpretation of the Australian Energy Market Operator (AEMO), an interpretation which is subject to potential evolution and change over time.

3. Investment Barrier

This existing ambiguity regarding the appropriate registration pathway for synchronous condensers represents a key barrier to investment. Considering the capital intensity and long lead-time associated with new stand-alone synchronous condensers or the conversion of existing synchronous generators, this uncertainty hinders widespread investment.

4. Lack of Technological Foresight

The AEMC's proposed note is specifically designed only to cover synchronous condensers. This approach lacks foresight because it fails to cover other potential non-generating technologies that may emerge and be capable of supplying ESS. A new, well-designed registration category would not only resolve existing ambiguities but also incentivise market participants to explore emerging non-generating technologies, potentially increasing the overall level and diversity of ESS available in the NEM.

Conclusion and Recommendations

The AEC remains of the view that a new, explicit registration category is the most effective approach to remove the persistent ambiguities regarding the appropriate registration for non-generating units supplying ESS.

Introducing a new registration category contributes positively to the National Electricity Objective (NEO) by enabling more widespread investment in new synchronous condensers and facilitating the repurposing of existing units. These actions are likely to yield several benefits:

- Improved System Security Outcomes through an increased supply of ESS.
- More Efficient Resource Use to provide ESS, which ultimately lowers costs for all consumers in the long run.

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E info@energycouncil.com.au
W energycouncil.com.au

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- Reduction in carbon emissions by allowing for a higher level of renewable generation connection without compromising system security. Furthermore, ESS supplied by synchronous condensers are less emissions-intensive as they draw only small volumes of increasingly renewable-powered electricity from the grid.

These potential benefits are highly likely to outweigh the costs associated with the introduction of a dedicated new registration category

Any questions about this submission should be addressed to David Feeney, by email David.feeney@energycouncil.com.au.

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Melbourne 3000
GPO Box 1823 Melbourne Victoria 3001

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E info@energycouncil.com.au
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