Tuesday, 21 April 2026

Australian Energy Market Commission

Submitted online

Attention: Emily Banks

Joint AEC-CEC submission on Security framework enhancements and Clarity and transparency in security frameworks consultation paper

The Australian Energy Council (AEC) is the peak industry body for retailers and generators operating in energy markets. Our members generate and sell energy to over 10 million homes and businesses. We seek to deliver a market that allows consumers to benefit from the transition to a reliable, affordable and decarbonised energy system. The AEC supports the transition to net zero emissions by 2050, and the role of the electricity sector in unlocking opportunities for reductions in other sectors. AEC members are major investors in the renewable energy, firming and energy security services needed to deliver an effective transition.

The Clean Energy Council (CEC) is the peak body for the clean energy industry in Australia, representing 800 plus leading businesses across renewable energy, and energy storage. We are committed to accelerating Australia's transition to a clean energy future as rapidly as possible while maintaining a secure and reliable electricity supply for customers.

The AEC-CEC welcomes the opportunity to provide feedback to the Australian Energy Market Commission (AEMC) on its consultation paper canvassing the issues and proposed solutions of both the Australian Energy Market Operator (AEMO) and AEC/CEC rule change requests. This submission reflects feedback and experience from our members.

This joint submission demonstrates the strong industry support for action on Essential System Services (ESS), with broad stakeholder support including from thermal, hydro, batteries and other inverter-based resources, across both AEC and CEC memberships.

The AEC-CEC does not consider the solutions proposed by AEMO go far enough to address the systemic issues our members have identified with the current approaches to ESS and broader system security frameworks in the National Electricity Market (NEM). We contend that the existing arrangements are opaque, reactive and at times poorly governed, which creates future risks for system security and reliability with implications for both investors and consumers.

It is against this backdrop that the AEC and CEC developed and put forward their complementary rule change request to address the gaps in the governance, planning and procurement processes for ESS for the future NEM. We are firmly of the view that to achieve the best outcomes in the long-term interests of consumers with respect to price, reliability and security of supply of electricity, that these rule change requests must be consolidated and solutions that address the broader systemic market failures developed. We are of the view that the current lack of clear governance around ESS risks stranded assets, inefficient investment, and distorted market signals. The pace of the energy transition could be slower, and the cost to consumers higher, than would otherwise be the case.

If the AEMC is resource constrained and needs to stage the two rule change proposals we would suggest that the AEC-CEC rule change be progressed first. The strong reason for this is that it involves foundational issues around governance and other processes which should be solved first. To be clear though, we firmly believe that the AEMC should consider both rule change requests together, allowing for a more wholistic consideration of the issues raised.

In summary, the AEC-CEC's key points are as follows:

- The two rule change proposals should be consolidated – the proposals raise common problems which will be best solved for by considering together. AEC-CEC is of the opinion that consolidation of the rule change requests would better meet the National Electricity Objective (NEO) and be in the long-term interests of consumers with respect to the price, reliability and security of supply of electricity.
- ESS governance must be improved – consideration should be given to the appropriate body that is clearly accountable with defining what ESS are required, in what quantities, and under what future scenarios.
- Planning and reporting obligations should be clarified – with principles embedded in the NER to provide greater guidance on what must be included in the Transition Plan for System Security (TPSS).
- Procurement processes can be streamlined and improved - support further investigation of a more streamlined RIT-T process for system security investments, or consideration of an alternative single-stage procurement process, which is cognisant that any amended process must maintain cost discipline.

The remainder of this submission will expand on these key points and identify the potential implications of a separate versus consolidated approach to consideration of the rule change requests.

1. Consolidation likely to lead to best outcomes

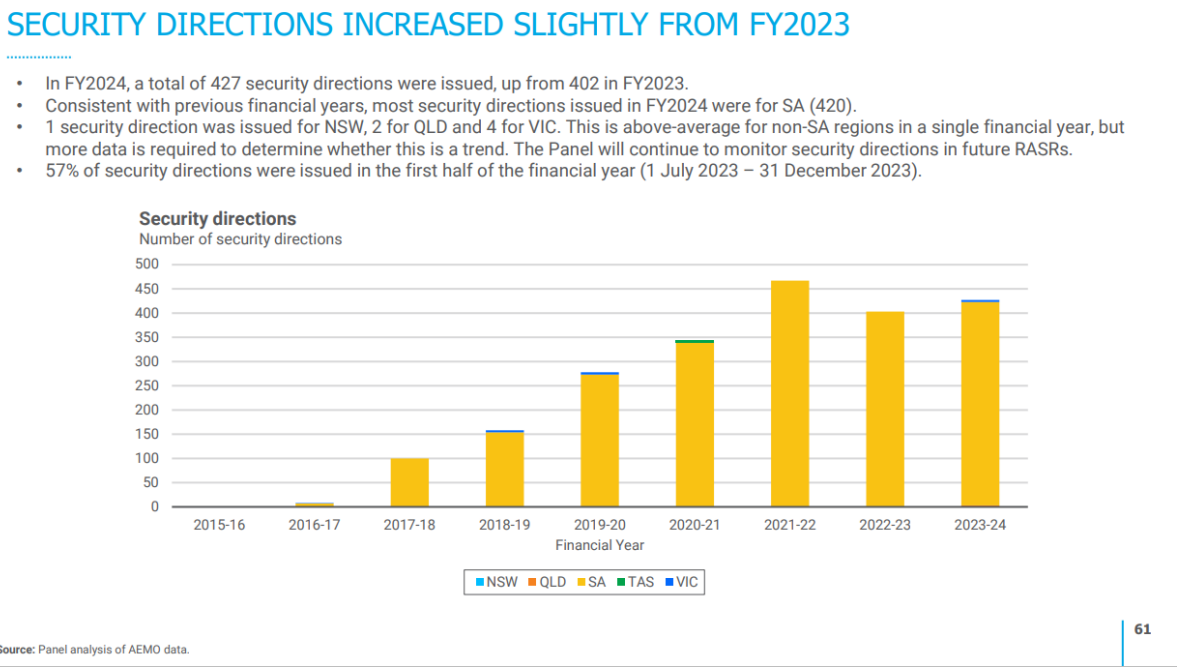
The AEC-CEC contends that the current framework for ESS is reactive by design and intervention typically only occurs after a risk materialises. For example, the use of directions or emergency measures.

- Directions are only intended to be used by AEMO as a last-resort safety net to maintain a secure operating state, but are now used frequently, which to our mind is indicative of systemic failure.

- Consumers already pay for the costs incurred by AEMO in issuing directions, which we consider undermines the AEMC's arguments in the consultation paper that delaying reform is about protecting consumers.

- AEC-CEC members have noted that the market notices published by AEMO do not provide granular information about the exact cause necessitating the direction; however, consider the number of directions issued to be of itself evidence of a problem.

The following chart sets out the number of directions issued by AEMO for system security related matters over the past nine years. While the trend over the past three years has been relatively stable at around 400-450 directions issued per annum, the number of directions issued has increased substantially since 2016-17. The AEC-CEC also notes that most of the directions have been issued for the South Australian region.



Source: NEM Reliability & Security Report FY2024, p 61.

Peppered throughout the consultation paper, the AEMC places significant emphasis on there being "insufficient evidence" for it to consolidate the rule change requests and seeks examples from industry as evidence to substantiate the problem. The AEC-CEC interprets this position to infer that the AEMC only considers that reform is justified once a problem is "proved" through observable harm.

AEC-CEC members contend that this course of action is likely to be counter to good regulatory practice, especially as it relates to power system security where:

- the consequences of failure are high or even catastrophic whether that be through isolated or system-wide outages; and

- evidence often emerges after irreversible decisions have been made that negatively impact power system security. For example, the retirement of a coal-fired power station, unexpected or extended unplanned outages, or investment commitments.

The AEC-CEC contends that the AEMC's consideration of these two rule change requests in succession has the potential to result in this 'governance paradox' where the regulator seeks evidence of harm, but where harm only becomes visible once it is too late to prevent it. That is, our members consider that consolidation of the rule change requests would allow solutions focussed on the development of standards and forward planning that seeks to introduce robust and enduring frameworks and anticipates harm rather than responding after the fact.

As an example of the unintended consequences of seeking 'quick wins' through consideration of the rule change requests in sequence rather than parallel, the AEMC should consider how the extension of the notice of closure period from 3.5 to 5 years would lead to more efficient market outcomes. On the one hand, this extension provides an additional 1.5 years of notice from a planning perspective; however, without further consideration of a clearly accountable body tasked with defining what ESS are required, in what quantities, and under what future scenarios – how does this help with the planning and procurement processes to ensure the ESS are available when needed? And how does this prevent a subsequent extension of plant operation, as has been observed in the NEM to date?

Similarly, with respect to the binding time on TNSPs to meet ESS requirements, AEMO does not provide analysis to substantiate why five years is preferrable to three years, other than general alignment with other processes. That is, does this additional two years provide the necessary time that a TNSP needs to enable the timely procurement of the relevant services? Where the TNSP is procuring equipment with long lead times that are difficult to obtain (for example, synchronous condensers) the AEC-CEC would question whether in fact this period should be longer. Furthermore, it is unclear whether there are consequences if these binding timeframes are not met.

There are other timing issues to consider too. For example, as identified in AEMO's 2025 TPSS, unresolved near-term system security risks (for 2026 and 2027 or Horizon 1) are mainly related to minimum system load, not the system strength and inertia frameworks relevant to AEMO's rule proposal. This is especially the case following the extension of Eraring's operation to 2029, which addresses one of the key unresolved security risks identified by AEMO for Horizon 1.

In respect of the above examples, the AEC-CEC considers that consolidation of the rule change requests would enable the AEMC to conduct a more thorough assessment of the end-to-end processes across the governance, planning and procurement of ESS, rather than a piecemeal approach that adjusts elements of these processes in isolation of consideration of the whole.

The AEC-CEC notes the commentary from the AEMC in its consultation paper around the assessment of issues that intersect both rule change requests and the assurance these issues will not be considered in a vacuum. The AEMC states that "if the Commission progressed consideration of the AEMO rule change request ahead of the AEC & CEC rule change request, the issues and solutions raised in the AEC & CEC rule change request could still form part of our consideration (similar to any other issues and solutions raised in formal submissions to a consultation paper or draft determination), providing they are in scope of the AEMO rule change request, and vice versa".[1]

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[1] AEMC, Security framework enhancements and Clarity and transparency in security frameworks, Consultation paper, March 2026, p.47.

As noted by the AEMC, the AEC-CEC agrees these two rule change requests are complementary and there are overlaps in the problems identified as well as some aspects of the solutions. As such, from a procedural fairness and rulemaking perspective, given that both rule change requests deal with interrelated issues that have the potential to result in amendments to similar, if not the same, rule clauses under the National Electricity Rules (NER), we would appreciate assurances from the AEMC that ss. 94(1)(c)(i) and (ii) of the National Electricity Law (NEL) would not apply to the AEMC's consideration of the second delayed rule change request. The potential inability to amend clauses that relate to the subject matter of the AEMO rule change request in the AEC/CEC rule change request because of these rules having been made within 12-months could potentially lead to suboptimal results or further push out the timeframes for the making of a final rule for the second request.

On this basis, the AEC-CEC is of the opinion that consolidation of the rule change requests would better meet the National Electricity Objective (NEO) and be in the long-term interests of consumers with respect to the price, reliability and security of supply of electricity. The following sections will provide additional information for consideration by the AEMC in relation to the potential design of proposed solutions and how these may be introduced without added complexity while retaining the core intention of the recently introduced frameworks.

2. Governance and transparency are core problems

A key focus of the AEC-CEC rule change proposal is to drive greater accountability of decision making around energy security issues. We consider that for ESS to function and operate at the level and with the prominence it requires, there needs to be a clearly accountable body responsible for defining, coordinating, and maintaining EES requirements on an enduring basis. That is, there needs to be an overarching market or regulatory body that:

- defines what ESS are needed, in what quantities, and under what future scenarios; and
- is accountable if these definitions are wrong, incomplete, or delivered late.

One proposal put forward in our rule change request to help achieve this is to have an independent body defined in the Rules as accountable for determining the efficient level of ESS and planning where and when this ESS needs to be procured. Alternatively, these roles could be delineated into an independent body that defines and determines the ESS requirements (for example, the Reliability Panel within a standard), with the existing arrangements used to determine what ESS are needed, in what quantities and under what future scenarios (for example, AEMO through the annual transition plan for system security TPSS planning process).

We note that the AEMC consider this 'would be a complex task'. However, this need not be the case. The intention of the AEC-CEC proposal was not to fundamentally change the existing frameworks but to build on them with incremental changes. We suggest that an existing body, such as the Reliability Panel, could be used. We understand that the Reliability Panel already has some remit to consider ESS issues, which could be strengthened further.

Particularly, as this relates to the existing function of the Reliability Panel to review and, on the advice of AEMO, determine the power system security standards (NER clause 8.8.1(a)(2)). While we note the requirement to maintain sufficient inertia and three-phase fault levels are included under the general principles for maintaining power system security at clause 4.2.6 of the NER, currently there are no standards associated with these system security elements. Consideration of amendments here could be used to strengthen Reliability Panel oversight and determination of power system security standards.

The AEMC also describes several other policy considerations at pages 31-35 in the consultation paper. This includes:

- Procurement objective – this links with the annual planning and reporting obligations, described below (see Section 3). Our proposal is that the efficient level of security services would be informed by the planning undertaken through the TPSS and related processes.

- Form of security requirements – we assume these could largely stay as currently expressed i.e. level of security services required in each region or location.

- Factors to be considered – we provided a non-exhaustive list of factors as an example of a starting point to embed in the NER. We suggest these could be built upon with a level of discretion allowed to the responsible body. We also understand that AEMO already investigates some of these scenarios, so this proposal would be formalizing some existing considerations.

- Access to advice and inputs – we agree that information from AEMO and TNSPs will be required by the responsible body. If an existing body such as the Reliability Panel was chosen then this would assist with access to information, as the Reliability Panel already has existing arrangements with AEMO and other organisations.

- Interaction with TPSS and other planning documents – see next section, below.

In summary, the AEC-CEC considers the above reforms essential to put in place a foundational framework that clearly identifies the body responsible for defining and standardising ESS arrangements going forward.

This body will have responsibility for defining the mandatory NEM-wide specification of ESS. This may include consideration of existing ESS such as inertia or may include new ESS such as system strength services (that should consist of both fault current and stable voltage waveform). Any NEM-wide specifications should where practicable be performance-based, technology-neutral, and measurable.

The AEC-CEC appreciate that owing to the locational nature of ESS that input will also be needed from TNSPs in setting out the required specifications. As such, while we understand there may be instances where specification is not possible (for example, highly location-specific requirements), this should not prevent the vast majority of ESS being able to be defined on a NEM-wide basis.

3. Annual ESS planning and reporting obligations

The AEC-CEC have proposed that the NER be amended to provide greater guidance on what information is required in the TPSS. The proposal suggests embedding principles in the NER and then another body, such as the Reliability Panel, developing guidelines or procedures for AEMO to follow. The intent is that NER principles and associated guidelines would improve accountability for the successful deployment of ESS.

We also propose the TPSS be expanded to include specific actionable plans. That is, a foundational set of future probable scenarios that necessitates the broader procurement of ESS from non-traditional providers. For example, a fully operational, dispatchable, and investable plan for operating the grid with limited to no synchronous units online or when such units are unavailable due to a combination of planned maintenance and unplanned outages.

The intent of these changes to the operation of the TPSS, in conjunction with the independent body identified in section 2 above is to enable AEMO to annually develop and publish a fully developed and actionable plan. The plan sets out the ESS quantities and requirements needed at least ten years ahead of the earliest potential occurrence of the relevant identified need – for example, the announced closure of a coal-fired power station. The annual cadence of the TPSS enables a regular reassessment of the actionable plan to reconfirm system shortfalls, services and quantities required, allowing adjustments as needed. This annual review also allows system services and quantities to be reassessed following fundamental changes to the actionable plan, such as the notice of closure of a coal-fired power station being brought forward, or the catastrophic failure of a synchronous unit putting it out of service permanently.

We understand that AEMO already does something like this, in that they choose a “most likely” scenario based on a range of factors. The intent of the AEC-CEC proposal is not to recommend something completely new but to build on existing frameworks with incremental change. For example, the Reliability Panel (if it is chosen, see Section 2, above) should take specific advice from AEMO before the plan is actioned. This could involve planning for a scenario that is not the most likely scenario for example, because risks are asymmetric, it might be a net benefit to act earlier or stronger if the risks are particularly costly.

The AEC-CEC considers these changes to the intended operation of the TPSS in conjunction with the changes to the foundational frameworks identified above will result in:

- clearly identifying the body responsible for defining and standardising ESS arrangements;
- setting out the future actionable plans for the NEM through the TPSS;
- identifying the ESS quantities and requirements needed to meet the actionable plan; and
- allow annual assessments to reassess and adapt to any changes.

4. Improved procurement processes

Further to information contained in our rule change request on the proposed amendments to the NER to provide greater clarity over roles and responsibilities for ESS procurement, and in response to the AEMC's call for stakeholder views on potential alternative RIT-T solutions, we have provided the below suggestions.

The AEC-CEC supports further investigation by the AEMC into the development of a more streamlined RIT-T process for system security investments but is cognisant that any amended process must maintain cost discipline and prioritise options that minimise costs to consumers. To this end, the AEC-CEC would support consideration of the removal of the PSCR step in the RIT-T or changing the approach for the assessment of the RIT-T from a net-market benefits approach to that of the least-cost investment option.

The AEC-CEC is not supportive of options that carve out urgent investments for a more streamlined process or pursue incentives for rapid procurement. Our main concern around further consideration of these options is a risk that processes centred around 'urgent' or 'rapid' may inadvertently lend themselves to prioritise capital expenditure-based solutions and erode the intent of the second principle around appropriately incentivising network and non-network options equally.

Following further consultation with members, the AEC-CEC put forward the following 'straw person' for consideration by the AEMC as an alternative solution to the full RIT-T process that is currently used for the procurement of ESS. Key features are as follows:

- Competitive TNSP procurement
    - A procurement guideline would be established where the AER (or another entity) would determine minimum tender requirements (such as the process, contract structure, etc.) for least-cost system security procurement.
    - TNSPs would then run a service-based procurement for each identified need at each location.
- Single-stage procurement process
    - One-round, time-limited tender per year (in line with TPSS timeframes).
    - Standard documents and published evaluation criteria.
    - Procurement would consider the lowest cost to the TNSP of providing the service as required in AEMO's TPSS (it would include no wealth transfer consideration which currently applies under the RIT-T).
- Technology-neutral competition
    - TNSP network solutions (e.g. synchronous condensers) would bid equally alongside non-network providers.
- Standard non-network service contracts used must be capable of enablement
    - Fixed risk allocation, limited departures.

- Any NNO contract procured through the tender process would receive automatic ex-ante approval through the existing ISF cost-recovery approach.

- Cost recovery via existing frameworks.

AEC-CEC members have noted replacing the RIT-T process for ESS procurement with the process outlined above may have the following implications for other elements of AEMO's rule change request that it is seeking to change. For example:

- The new procurement process is expected to increase the overall transparency on TNSPs progress towards meeting their ESS requirements and potentially remove the need for AEMO to expand the definition of NSCAS gap to enable it to procure system strength for stable voltage waveforms (also known as 'efficient levels of system strength').

- The new procurement process may defer the need to determine upfront the required binding timeframes on TNSPs (T-5, T-3 or something else) until the new procurement framework is better understood.

- The new procurement process may negate the need to amend the generator notice of closure timeframes. The proposed procurement framework should be resilient to both a planned or unplanned unit closure.

We suggest that improvements to the procurement process could be developed in more detail through an AEMC convened industry co-design working group. This could draw on the expertise and experience of a broad range of industry stakeholders.

The AEC-CEC welcomes further engagement with the AEMC as this consultation progresses and is happy to provide further information in support of the matters raised in this submission. Further queries can be directed to Matthew Kaspura (AEC) at matthew.kaspura@energycouncil.com.au, or James Eastcott (CEC) at jeastcott@cleanenergycouncil.org.au.

Kind regards

Martin Kennedy

General Manager – Markets, Operation and Grid
Clean Energy Council

David Feeney

General Manager – Wholesale and Environment
Australian Energy Council

Appendix A

The following sets out the AEC-CEC's main comments on the proposals of the AEMO rule change request with an explanation of why we consider a holistic end-to-end assessment of the ESS identification, planning, and procurement processes would result in a lower cost solution to consumers over the long-term.

A.1 Near-term solutions to encourage efficient procurement

As part of its proposed solution, AEMO outlines three areas where it considers small changes can be made to the National Electricity Rules (NER) to facilitate more timely and efficient procurement of ESS. These consist of:

- Extending the binding timeframe for meeting system security requirements to five years.
- Extending the notice of closure obligations to five years.
- Streamlined or alternative Regulatory Investment Test for Transmission (RIT-T) processes specifically for system security investments.

The following sections will set out AEMO's proposed solution and the AEC-CEC's initial position with respect to those solutions.

A.1.1 Extension of binding timeframe for meeting system security requirements

The NER currently requires AEMO to set the system strength and inertia requirements in December each year as part of its annual system strength and inertia reports. For 2025, these requirements were included in AEMO's transmission plan for system security (TPSS). The requirement for the year three years out (the relevant year) from each reporting year becomes the binding requirement that the relevant Transmission Network Service Provider (TNSP) must meet for that relevant year. It is this period that AEMO intends to extend from three to five years.

AEMO considers that an extension of the period between reporting and the beginning of the compliance year as proposed would improve industry certainty on when resources are required for security and ensure those resources would be in place in sufficient time before the need arises.

In response to this proposal the AEC-CEC's draft position is qualified support. While a relatively simple fix, AEMO does not provide analysis to substantiate why five years is preferrable to three years, nor tie this to the cost-benefit test under the RIT-T. Does this additional two years provide the additional time that a TNSP is bound by to enable the timely procurement of the relevant services? Particularly where the processes for ESS procurement are currently undefined. For example, where the TNSP is procuring equipment with long lead times that are difficult to obtain (for example, synchronous condensers), the AEC-CEC would question whether in fact this period should be longer. Furthermore, it is unclear whether there are consequences if these binding timeframes are not met.

The AEC-CEC is also of the opinion, which will be noted in relation to many of the issues discussed in this submission, that a small change in isolation of broader consideration of the governance framework around the planning and procurement of ESS is unlikely to lead to more efficient outcomes for the market or consumers.

A.1.2 Extension of the notice of closure obligations

AEMO proposes to extend the notice of closure obligations (from the current 42 months, or 3.5 years) to five years to provide greater certainty and longer notice of plant exit, giving AEMO, TNSPs and the market more notice of when new resources need to be on the system to meet system security requirements.[2]

As noted above, the AEC-CEC does not understand how this change would either result in greater certainty, or more notice of when new resources are needed in the system. As an example, the initial notice of closure for the Eraring Power Station of August 2025 was agreed between the owner and the NSW Government in February 2022.[3] In May 2024, this agreement was amended between the parties that extended the notice of closure for an additional two years to August 2027, which has subsequently been extended by further two years to April 2029.[4]

As set out in the previous section above, the AEC-CEC is unconvinced that this small change in the NER in isolation of a broader consideration of the governance framework around the planning and procurement of ESS will lead to more efficient outcomes for the market or consumers. That is, without thorough consideration of a clearly accountable body tasked with defining what ESS are required, in what quantities, and under what future scenarios – how does this help with the planning and procurement processes to ensure these ESS are available when needed, and how does this prevent a subsequent extension of plant operation? As outlined above, a cumulative total of seven years notice of closure of the Eraring power station does not appear to have provided any greater certainty to AEMO, TNSPs or the market to meet the system security requirements to close the power station permanently.

A.1.3 Streamlined or alternative RIT-T processes

In its rule change request, AEMO proposes that the primary issues for meeting an obligation with an asymmetric risk profile should not be whether there is a net market benefit, but whether a proposed solution is cost effective for consumers.[5] To facilitate this change, AEMO proposes a set of principles for a redesigned or alternative process to assess system security investments.

The AEC-CEC is broadly supportive of the principles proposed by AEMO that any redesigned process:

- is cost effective and assures consumers the proposed expenditure is prudent and efficient;
- appropriately incentivises both network and non-network solutions equally; and

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[2] AEMO rule change request, p.19.
[3] NSW Government | Agreement between the state of NSW and Origin on its plans for Eraring power station - 17 February 2022.
[4] NSW Government | Eraring power station - 20 January 2026.
[5] AEMO rule change request, p.14.

- provides price signals to the market.

The AEC-CEC supports further investigation by the AEMC into the development of a more streamlined RIT-T process for system security investments but is cognisant that any amended process must maintain cost discipline and prioritise options that minimise costs to consumers. To this end, the AEC-CEC would support consideration of the removal of the PSCR step in the RIT-T or changing the approach for the assessment of the RIT-T from a net-market benefits approach to that of the least-cost investment option.

The AEC-CEC is not supportive of options that carve out urgent investments for a more streamlined process or pursue incentives for rapid procurement. Our main concern around further consideration of these options is a risk that processes centred around 'urgent' or 'rapid' may inadvertently lend themselves to prioritise capital expenditure-based solutions and erode the intent of the second principle around appropriately incentivising network and non-network options equally.

Irrespective of the direction taken by the AEMC to redesign the RIT-T or consider alternative processes to assess the prudency and efficiency of system security investments, the AEC-CEC remains of the opinion that a fundamental failure of the current ESS framework is the absence of a clearly accountable body responsible for defining, coordinating, and maintaining system security requirements. That is, broader consideration of these matters in conjunction with the governance arrangements would result in more efficient market outcomes for participants and consumers.

A.2 Addressing limitations of the NSCAS framework

As part of its proposed solution, AEMO also outlines some potential amendments to the Network Support and Control Ancillary Services (NSCAS) framework to address issues identified with its ability to effectively use the NSCAS framework for short-term security gaps. The following sets out the AEC-CEC's assessment and initial views of the proposed solutions set out in the AEMC's consultation paper.

A.2.1 NSCAS gap contingent on revised requirement for inertia or system strength

AEMO contend that the current NER definition of ***NSCAS need*** can only be triggered where the specific conditions for the underlying security requirements have changed. AEMO's proposed changes to this definition would provide it with greater flexibility to declare NSCAS gaps in more circumstances – for example, if coal plant closure dates unexpectedly change, or if it appears that a TNSP will not be able to meet their binding requirement due to delays in commissioning timelines. That is, the NSCAS framework can always be used as a backstop mechanism to meet security gaps, irrespective of the contributing reasons for those security gaps.

In response to this proposal and the examples put forward by the AEMC, the AEC-CEC is unconvinced that a broader interpretation of NSCAS need is likely to result in more efficient market outcomes under these circumstances.

In relation to one of the examples set out in the AEMC consultation paper regarding the unexpected change in closure date of a coal-fired power station, we are of the opinion that AEMO should already be planning for potential unplanned outages that lead to the premature closure of coal-fired generation. Notwithstanding, the AEC-CEC considers an NSCAS need

is only likely to be required where the closure date is brought forward as opposed to extended. Under these circumstances, we believe the NER already provides a framework under Chapter 4B – Orderly Exit Management that was specifically included to address the implications for the energy system of a retiring coal or gas-fired generator bringing forward its planned closure date.[6]

The AEC-CEC notes an integral element of this Chapter 4B framework is the requirement for the energy minister in the participating jurisdiction to request an independent and transparent assessment to determine: the extent of the impact of the proposed early closure of the generating unit on reliability and system security; and the potential costs and/or benefits to consumers of addressing any system needs shortfall.[7] We are of the opinion that this investigation would necessarily require the involvement and input of AEMO to advise on the impact to reliability and system security of the revised closure date.

The AEC-CEC also acknowledges the synergies between this proposed change to the definition of NSCAS need and the extension of the binding timeframe on TNSPs to meet the system security requirements discussed above. We are unclear whether it is necessary or desirable to include both of these amendments to the NER, as it appears to be providing additional time as a backstop mechanism for the procurement of equipment with long lead times that are difficult to obtain (for example, synchronous condensers) without consideration of a feedback loop that assesses whether this approach is still the least cost, efficient solution to providing the required ESS.

Rather, the AEC-CEC remains firmly of the view that small changes to the NER in isolation of a broader consideration of the governance framework around the planning and procurement of ESS is unlikely to lead to more efficient outcomes for the market or consumers. As noted previously, a clearly accountable body tasked with defining what ESS are required, in what quantities, and under what future scenarios (which could include scenarios relating to the expediated of delayed closure dates of coal-fired power stations), is more likely to provide market certainty for AEMO and TNSPs, and reduce the requirement for AEMO to signal future NSCAS needs.

A.2.2 Amending the NSCAS framework to procure system strength to achieve stable voltage waveforms

AEMO contends that previous rule changes did not allow the NSCAS framework to procure system strength for stable voltage waveforms (also known as ‘efficient levels of system strength’), as it was not defined as a minimum security requirement. To address this perceived limitation, AEMO proposes to amend the NSCAS framework to enable the procurement of efficient levels of system strength should they arise in the three-year horizon.

The AEC-CEC agrees that as the equipment connected to the NEM changes over time, for example, the increasing proportion of inverter-based resources (IBR), regulatory and operational frameworks need to adapt to include elements previously not deemed necessary. The absence of these changes may lead to breaches of the reliability standard, or the need for AEMO to commence load shedding, or perform other market interventions and/or directions – putting upward pressure of costs for consumers.

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[6] ECMC | Orderly Exit Management Framework, December 2024.
[7] Ibid.

We agree with AEMO that the NSCAS framework should allow the procurement of both elements of system strength - that is, both the 'minimum' and 'efficient' level. The AEC-CEC agrees that this expansion of the NSCAS framework would, as noted by AEMO, reduce the likelihood of operating the power system in a severely constrained manner, thereby reducing potential costs for consumers.

A.2.3 Extension of time to declare an NSCAS gap

As set out in sections A.1.1 and A.2.1 above, while the AEC-CEC has expressed qualified support for this proposed amendment to the NER, increasing the NSCAS gap from three to five years, we consider that the proposed changes to the NER in isolation of a broader assessment of the governance framework around the planning and procurement of ESS is unlikely to lead to more efficient outcomes for the market or consumers.

A.2.4 Streamlined investment approval process for system strength and inertia NSCAS

In its rule change request, AEMO proposes that system strength and inertia procurement under the NSCAS framework for near-term gaps could also be subject to a streamlined regulatory process, with access to early works funding (if required). This would be achieved by inserting a new provision into the NER.

As set out in section A.1.3 above, the AEC-CEC supports further investigation by the AEMC into the development of a more streamlined RIT-T process for system security investments that could be extended to or adopted for the NSCAS framework. We remain of the view that any amended process must maintain cost discipline and prioritise options that minimise costs to consumers. As noted previously, the AEC-CEC is not supportive of options that carve out urgent investments for a more streamlined process or pursue incentives for rapid procurement. Our main concern around further consideration of these options is a risk that processes centred around 'urgent' or 'rapid' may inadvertently lend themselves to prioritise capital expenditure-based solutions and erode the intent of the second principle around appropriately incentivising network and non-network options equally.

However, irrespective of the direction taken by the AEMC to apply a redesigned RIT-T or alternative process to the procurement of NSCAS, to assess the prudency and efficiency of system security investments, the AEC-CEC remains of the opinion that a fundamental failure of the current ESS framework is the absence of a clearly accountable body responsible for defining, coordinating, and maintaining system security requirements. That is, broader consideration of these matters in conjunction with the governance arrangements would result in more efficient market outcomes for participants and consumers.