Enhancing system security frameworks rule change request
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Rule change proponents

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Problem statement

The National Electricity Market (NEM) is undergoing a period of transformation as governments and industry work to deliver reliable, secure, and decarbonised electricity. This rule change request focuses on delivering services critical to maintaining system security as the NEM transitions to a power system with more renewable energy resources.

We have considered the existing rules and identified some gaps that have created issues in the process, transparency and accountability of the essential system services (ESS) frameworks.[1] Improvements to the existing transitional frameworks are not only crucial to facilitate an orderly energy transition but also to lay down the foundation for an enduring and efficient market in the longer term. These include:

1) No single body is ultimately responsible and accountable for the successful deployment of ESS, creating uncertainty as to when and/or where investment will be delivered or when a backstop mechanism will be triggered.
2) Forward planning signals do not provide sufficient lead time for investment in ESS or co-optimisation with procurement of other resources, increasing the risk of investment duplication and additional consumer costs.
3) A lack of a clear and consistent investment target, service definition or technical standard for procuring ESS across the NEM.
4) There is no defined procurement process for ESS. This lack of clarity, transparency and standardisation can limit commercial appetite for suitable non-network assets to provide ESS, and/or to locate in areas where those services are most needed.
5) There are no clearly defined specifications embedded in the NER for any of the currently identified ESS needed in the NEM. This creates uncertainty and material risk that both new and existing technologies may not meet adequate standards (especially in high growth innovative technologies like batteries and other energy storage).

[1] https://www.aemo.com.au/-/media/files/electricity/nem/security_and_reliability/power_system_ops/procedures/so_op_3720-security-enablement-procedure.pdf?rev=382ccee862a045799ccc8a4061c8414e&sc_lang=en

These issues create risks that insufficient or inadequate ESS will be available when required, leading to market disruptions and higher costs to consumers.

In this rapidly changing environment, it then becomes critical that ESS is elevated to inform co-optimised investment pathways and ensure the grid is ready for the closure of existing synchronous assets in the NEM. In combination, the above issues create significant uncertainty for the industry and future investment in ESS.

This rule change request is intended to be complementary and additional to the related rule change proposal from AEMO, referred to as *Efficient and timely management of system security needs through the energy transition*, November 2025.

Description of the rule change

We identified three broad issues that the AEMC should consider enhancing in the current system strength, inertia and NSCAS market frameworks:

- Specific improvements to provide greater clarity on annual planning obligations (in addition to what is proposed in the related AEMO Rule Change Request[2]).
- ESS governance - enhancing the accountability and transparency of ESS planning and procurement. Developing frameworks to define NEM-wide and location or service-specific standards (by AEMO and TNSPs respectively).[3]
- Developing defined and consistent procurement processes across all NEM jurisdictions with inbuilt flexibility to progress and adapt with the market.

Provide greater clarity on annual planning obligations

We propose to amend the NER to provide greater guidance on the required information in the Transition Plan for System Security (TPSS) and to elevate the strategic importance of the TPSS in broader system planning. This would involve a set of principles in the NER that would be actioned through guidelines/procedures to be developed by another body (nominally the Reliability Panel, aligned with their current obligations to review the TPSS).

We propose the TPSS be expanded to include specific actionable plans, as noted in the proposals below. We believe these should be considered a foundational starting point and be included as NER obligations:

- As traditional providers of ESS retire from the market, AEMO should identify new ways of how ESS may be provided (by one or multiple service providers jointly); and
- Provide 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.

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[2] *Efficient and timely management of system security needs through the energy transition*, AEMO, November 2025.
[3] This framework could also facilitate the investigation of minimum feasible technical unbundling of ESS that would allow the creation of ESS market mechanisms.

We anticipate these plans would be fully developed and actionable 10 years ahead of the earliest potential occurrence of the relevant identified need (or longer to allow for investment lead times if required), with an annual reassessment process to reconfirm system shortfalls, services, and quantities required.

We note that the 2024 and 2025 TPSS Reports are very different, with the 2025 version including a lot more of what we believe is required. We propose the key elements of the TPSS should be defined in the NER to support investment certainty.

We suggest that specific improvements to provide greater clarity on annual planning obligations could help alleviate some of the problems raised in issues 1) and 2) of the problem statement.

Clearly defined accountability and transparency

We propose the NER be amended to specify who is responsible for determining the efficient level of ESS to be procured, and the factors that should be considered. This would include but not be limited to determining what scenarios[4] the market should prepare for through forward investment vs. operational management, the level of risk to be maintained, how lead times for investment should be considered, and the backstop mechanism to address critical and/or unforeseen credible gaps.

Currently cost-benefit decisions are implicitly managed through the T-3 setting by AEMO. We propose the AEMC consider whether procurement targets should be set by an industry/consumer panel similar to how market settings are reviewed.

Enhancing the accountability and transparency of ESS planning and procurement will help address issues 1), 3) and 5) in the problem statement.

Defined procurement processes

We propose to amend the NER to provide greater clarity over roles and responsibilities for ESS procurement. This includes:

- Creating more jurisdictionally consistent ESS specifications[5] - how AEMO determines the specifications for each of the essential system services being procured.
- Determining the technology mix - how the TNSP determines the appropriate and lowest-cost technology mix following the need being identified by AEMO.
- Procurement approach - how the TNSP procures the relevant ESS once a technology mix is determined. This would include:
    - Who should run the procurement and how assessment decisions are made/approved.
    - Whether procurement should be on a tender basis (e.g. annual ESS tenders) or on a bilateral basis.

[4] Examples include delays to synchronous condensers, weather events, seasonal operation of synchronous plants and changes in uptake of inverter-based resources (IBR).
[5] For example, this could involve TNSPs aligning on how they determine that system strength requirements are met. Specifications could also be prescribed for the service itself, which are the basis for the procurement process.

- The nature, tenor and standardised terms/conditions of the contract that is entered into for a non-network ESS solution.
- Biennial review of the procurement process to ensure it remains fit for purpose and can adapt and evolve with the changing needs of the market.

The NER should require the creation of national technical definitions and specifications for ESS as these services are identified and developed.

Developing defined and consistent procurement processes will help address issues 4) and 5) in the problem statement.

Contribution to NEO

The current arrangements for ESS generate material uncertainty around the volume, timing, and specifics of necessary investment to support further investment in ESS. The proposed rule change will enhance the existing frameworks to facilitate the timely delivery of ESS. This is essential to support a reliable, secure and decarbonised power system that is least cost for energy consumers.

Assigning responsibility and accountability for delivery of necessary services (either ahead of or "just in time" for system needs) will serve the long-term interest of consumers by:

- Providing enhanced certainty to governments that announced closures of synchronous plants can proceed on schedule and intervention is not required. Reducing risk of closure delays also reduces the spread of scenarios that investors need to consider, which will deliver more competitive bids into tender procurements.
- Early development of system security plans and careful consideration of the costs and benefits of anticipatory or risk-adjusted investment will incentivise development of multi-service investment, lowering system costs and ensuring ESS are there when they are needed. Co-optimised investment can enhance the business cases of projects and reduce the risk of duplicating investment. For example, with clear forward signals for potential restart pathways, developers and tender administrators (e.g. ASL) can identify technologies able to deliver multiple services, and system services can be procured in parallel with energy or firming services (e.g. through co-optimised contracting processes that will enable further ESS market development).
- Promotes competition for non-network services to invest and more certainty about future needs in the market.
- Promotes more efficient and timely decisions on ESS.

Impacts and costs and benefits

Some of the potential benefits of this rule change proposal include:

- Standardised procurement methodology will facilitate commercial participation from non-network assets where an asset can provide regional and interregional services.
- Forward planning signals will reduce duplication of investments (for both energy and ESS) and reduce the risk of unanticipated system security constraints, lowering the cost of directions.

- Clarifying planning and procurement obligations will allow for more flexibility with procurement solutions with the flexibility to evolve with the needs of a changing market, and work to drive down total system costs for electricity consumers. Clear procurement processes will reduce uncertainty for TNSPs, AEMO, investors and OEMs.
- Flexibility to allow for earlier expenditure on system security will allow the system to prepare for transition points.

We suggest that the costs of the proposed rule change are likely to be mainly administrative in nature, and likely to fall on AEMO to implement. We believe AEMO will be best placed to estimate these costs, once the rule change has progressed further.

Overall, we would suggest that the potential benefits for industry participants, TNSPs, AEMO, customers and the market more broadly, listed above, are likely to outweigh the potential costs of the rule change.