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Ms Amy Wiech
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
SYDNEY NSW 2000

Lodged electronically via AEMC Website

Dear Ms Wiech

Improving Security Frameworks for the Energy Transition – Update Paper (ERC0290)

EnergyAustralia (EA) is one of Australia's largest energy companies with around 2.4million electricity and gas accounts in NSW, Victoria, Queensland, South Australia, and the Australian Capital Territory. We own, contract, and operate a diversified energy generation portfolio spanning coal, gas, battery storage, demand response, solar, and wind assets. Combined, these assets comprise over 5GW of generation capacity.

EA welcomes the opportunity to provide a submission to the Update Paper on the Improving Security Frameworks for the Energy Transition rule change. We recognise and are cognisant of the critical importance of maintaining and delivering power system security in the NEM. This includes the challenges associated with understanding the criticality and the requirement of each of the essential system services (ESS) for the prevailing and dynamic NEM technical envelope, as the grid transitions to accommodate increasing volumes of Invertor Based Resources (IBR). To ensure that this challenge is adequately addressed, it is important that a clear transitional pathway to manage system services and market signals are clearly articulated to enable new projects to build the capability before the retirement of current providers. Doing so will assist in alleviate the need for costly Directions.

EA largely supports the establishment of the transitional services framework and design changes proposed in the Update Paper, including the two contract types for non-ancillary market service providers, the increased level of transparency and the new reporting obligations on AEMO. However, there are some areas of adjustment or clarification we believe is required to benefit its transitionary objective. These are outlined below:

Contract types

We support splitting out NMAS contracts into two types with different focus areas. This will ensure that AEMO has confidence in the provision of security services (where enablement is necessary) while also encouraging the identification and development of new service providers and technologies. However, some core definitions or important design elements are missing from the Update Paper and should be confirmed in the final determination. For example, EA encourages the AEMC to clearly set out and define core eligibility details in the NER, such as what technologies and what providers (i.e. new and/or existing as at X date) are eligible for each contract type, how new technologies are assessed as eligible, how contracts would operate when enabled, as well as whether

any eligibility restrictions against each contract type should apply. Specifically, can an eligible generator or hybrid facility provide NMAS services simultaneously under contract 1 and 2?

In addition, while EA supports setting separate sunset dates on each contract type, we are concerned that type 1 contracts entered into in year 5 (i.e. the proposed sunset date) would mean that these contracts (with a full three year term applied) will technically continue beyond the sunset date. This policy design detracts incentives from type 2 contracts, which are arguable more important, noting these counterparties are tomorrow's security service providers, and enables AEMO the ability to enable and activate type 1 contracts over trialling new technologies via type 2 contracts. EA strongly encourages the AEMC to ensure that all type 1 contracts sunset by the end of year 5.

EA is supportive of type 2 contracts, however as suggested above, eligibility criteria should be codified in the NER and suitable incentives should be placed on AEMO to actively engage and trial new technologies. These contracts must be tested during periods of market stress as well as normal market operation to provide clear market signals to counterparties on the value of ESS as well as ensuring that the contracts can deliver the required services operationally and technically.

Design Updates

We support the other design updates, including the requirement on AEMO consider an emissions objective in its contract decision-making, and to report on outcomes of its trials. While we acknowledge that flexibility in trial setting and operation is important, we suggest that AEMO conduct at least one trial per year over the type 2 contract timeframe. This provides additional assurances to industry that progress is being made towards trialling new technology capabilities and could be captured via the proposed transition plan for system security.

Improved Transparency and Reporting

EA welcomes the revised approach by the AEMC which responds directly to concerns on the lack of transparency from AEMO to date with regard to trials and ongoing progress towards ESS unbundling.

While the proposed transition plan for system security and the associated obligations on AEMO do not confirm the identification and development of ESS technical standards, we are pleased that the requirement to publish this document sets up the pathway for further ESS consideration. We encourage the AEMC to be as prescriptive as possible in its rules codification to ensure full clarity and transparency on AEMO's important role in progressing system service unbundling. In our view, a biennial report provides AEMO with sufficient capacity and flexibility to progress ESS without being overburdensome. However, this reporting requirement should not preclude an update paper from being published between reports, where an AEMO trial has concluded. This arrangement should mirror the Integrated System Plan reporting requirement to maintain ongoing transparency and to ensure trial outcomes remain relevant. EA supports publication of trial learnings as an addendum to the plan report.

We also support the AEMO obligation to engage with Reliability Panel on its draft plan, however consider that the Panel's role be extended beyond just advice. In our view, an

independent expert should advise and input into AEMO's transition plan. Specifically, the Reliability Panel or another appropriate technical expert body[1] should review AEMO's progress and develop security standards where AEMO believes unbundling can occur. Where a security standard is endorsed and captured in a transition plan report, AEMO should subsequently develop technical design and service settings.

AEMO has an extensive role as market operator and is under significant pressures to manage the transition is a way that does not compromise the operation of the NEM. Extending this governance framework will provide a level of independence in ESS pathway selection and ensure the timely progression of unbundled services.

Inertia Rule

As above, EA considers the revised approach in the Update Paper appropriate as a transitional service arrangement. However, we reiterate our view from previous submissions, that this outcome should not be prejudicial to developing an inertia market by expediting the Efficient Provision of Inertia rule change. As such we strongly recommend the AEMC link the determinations of the two rule changes and seek independent expert advice on how best to progress each, noting AEMO's current view.

If you would like to discuss this submission, please contact me on 0422 399 181 or Dan.Mascarenhas@energyaustralia.com.au.

Regards

Dan Mascarenhas

Regulatory Affairs Lead

[1] If deemed more suitable based on current Reliability Panel membership and expertise.