



Enhancing investment certainty in the R1 process

The Commission has made a more preferable draft rule that will enhance investment certainty in the R1 process

The decarbonisation of the National Electricity Market (NEM) requires a significant amount of new generation and storage capacity to be connected at an unprecedented rate. The Australian Energy Market Operator's (AEMO's) Draft 2024 Integrated System Plan (ISP) expects that approximately 6 GW of new capacity needs to be added every year to replace retiring thermal plants and achieve emissions reduction targets. This growth in new generation and storage capacity is accompanied by a large increase in the number of projects in the connection queue: from 389 projects in July 2022, to 524 projects in May 2023 and to 583 projects in December 2023.

To address the increasing size of the NEM connections queue, the Australian Energy Market Commission (AEMC or Commission) has made a more preferable draft rule that aims to ensure faster connections and improve investment certainty in the R1 process by addressing several gaps and hindrances to timely connections.

The draft rule would improve the speed and clarity of the R1 process while promoting power system security, safety and reliability

The R1 process occurs during the period between the execution of a connecting generator's connection agreement and the completion of market registration. It involves the connecting party preparing a detailed engineering design of their plant, a suite of technical models, a commissioning plan and other documentation (constituting the R1 package) to demonstrate to the network service provider (NSP) and to AEMO that the plant meets the Generator Performance Standards (GPS). The GPS is agreed to before the start of the R1 process as part of the connection agreement between the generator and the NSP.

During the R1 process, generators liaise with both the NSP and AEMO to ensure that the connecting plant will meet the GPS and not have any adverse power system impacts. The NSP or AEMO may request additional modelling to confirm:

- if and how the plant's design has changed between the R1 stage and earlier confirmation of the plant's GPS
- whether the proponent has taken into account any changes in the external network conditions that have emerged since the execution of the connection agreement, such as other new connecting generators or generator retirements.

The draft rule would improve the R1 process by addressing the issues that contribute to delays and help to ensure that engineering effort at the R1 due diligence process is appropriately targeted. It also recognises that given the scale of transition underway, and the amount of generation that is needed to connect, shifting some of the risk associated with connections from connecting parties to networks (while still preserving system security) is appropriate.

The draft rule would:

- provide generators with the ability to request written justification from NSPs and AEMO for additional modelling requests, on the condition that generators have submitted adequate data and information and complied with other NER obligations
- remove a barrier to agreeing on reasonable and pragmatic revisions to the GPS during renegotiation in the R1 process
- formalise the commencement and conclusion of the R1 process through timely notifications

by NSPs and AEMO.

The Commission also recommends that AEMO continue with its collaborative work with industry to improve its guidelines to promote transparency and clarity in the R1 process.

The Commission has considered the issues and solutions proposed by the CEC and other stakeholders

On 17 May 2023, the Commission received a rule change request from the Clean Energy Council (CEC) to amend the National Electricity Rules (NER). The CEC identified several issues with the R1 process and proposed solutions to these issues. The CEC's rule change request arose from the Connections Reform Initiative (CRI), through which the CEC extensively collaborated with generators, renewable energy developers, NSPs and market bodies to establish workable solutions to the challenges involved with the connections and registration processes.

In its rule change request, the CEC and its members noted that:

- a lack of NER obligations on parties in the R1 process is contributing to poor engagement and process delays
- the timeframes for how and when AEMO and NSPs should communicate, provide their assessment and request clarifications, are not clear
- generators are often held responsible for changes outside of their control, which can lead to excessive rework and remodelling for marginal or inconsequential improvements
- during renegotiation of the plant's GPS, minor but pragmatic reductions in the level of performance standard capability between the GPS agreement and registration are not accepted by NSPs or AEMO due to a restrictive clause in the NER
- the decisions made by NSPs and AEMO are not reviewable, with the existing dispute resolution processes being insufficient.

To address these issues, the CEC proposed changes to the NER to include a self-assessment process through Type pathways, a materiality framework, new timeframes, and facilitated reviews.

The Commission published a consultation paper on 17 August 2023 and received 28 submissions from stakeholders comprising a diverse range of views. We hosted technical working groups to hone in on the key issues and collaboratively explore alternative solutions to those presented by the CEC in its rule change request. These discussions highlighted that there are challenges associated with providing more certainty in the R1 process due to its iterative nature.

Despite these challenges, the Commission considered there were opportunities for improvement and collaborated with stakeholders to devise alternative solutions for the draft rule.

The draft rule improves the R1 by introducing new obligations, increasing codification and relaxing GPS renegotiations

The draft rule provides parties with more certainty on the R1 process.

It introduces a key new obligation on NSPs and AEMO that seeks to address the information asymmetry that is inherent in the R1 process. The draft rule would enable connecting parties to request written justification from NSPs or AEMO when it has been asked to provide further information or perform additional modelling. However, these requests can only be made if the connecting party has satisfied the appropriate R1 submission and information provision obligations.

To better codify the timelines and obligations related to the R1 process, the draft rule would introduce requirements on NSPs and AEMO to formally respond to the receipt of an R1 submission (initiating the R1 process) and to provide notice that its assessment is complete (completing the R1 process). NSPs and AEMO would have five business days to formally notify generators for both of these requirements. This avoids any open-ended delays that may currently occur due to a lack of clear obligations, while also informing generators of when the R1 process has officially commenced or concluded.

The draft rule would also update a clause that was identified by stakeholders to be hampering practical renegotiation of the GPS. Specifically, NER clause 5.3.4A(b)(1A), also known as the 'no less onerous' clause, prevented pragmatic engineering judgement from being applied to performance standards when there are non-material differences. As plant designs often change between the connection agreement and the R1 stage, updating this clause to allow pragmatic revisions of a GPS would remove a key source of engineering overwork and connection delays.

We are seeking stakeholder feedback on these proposals

We welcome stakeholder feedback on the draft determination and draft rule. The Commission invites stakeholders to make a submission for a period of six weeks, with submissions due by **5pm, 18 April 2024**. Submissions can be lodged online via the Commission's website, www.aemc.gov.au, using the 'lodge a submission' function.

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