

11 February 2025

Anna Collyer
Chair
Australian Energy Market Commission
Sydney NSW 2000

Reference: ERC0405

Dear Ms Collyer,

Consultation paper – Amendment to frequency performance payment cost recovery


On 4 October 2024, AEMO lodged a rule change proposal to amend the allocation of non-energy costs for units without high-speed metering. AEMO thanks the AEMC for its consideration of this proposal and welcomes the opportunity to lodge a supportive submission to the consultation paper.

AEMO wishes to highlight that it is currently undertaking preparatory activities for the commencement of the Primary Frequency Response (PFR) Incentives rule change on 8 June 2025. The timely progression of the proposed rule amendment will enable AEMO to meet this deadline, and AEMO thanks the AEMC for:

- Proposing to use the expedited rule change process in this case,
- Seeking stakeholder feedback on whether AEMO could be exempted from consulting on the minor update to the Frequency Contribution Factors Procedure resulting from this rule change.

AEMO provides brief responses to the provided consultation questions in the attachment to this letter. Overall, AEMO is supportive of the characterisation of issues in the consultation paper. Should you wish to discuss any aspect of our submission, please contact Hannah Heath, Group Manager, Strategic Market Reform (Hannah.Heath@aemo.com.au).

Yours sincerely,



Violette Mouchaileh
Executive General Manager – Reform Delivery

ATTACHMENT – Response to consultation questions

Question 1: What are your views on AEMO's proposal?

Do you agree that AEMO's proposed changes to the definitions of TE and ATE align better with the intent of recent reforms to non-energy cost recovery and the principles for the allocation of non-energy costs to the residual participants? If not, why not?

AEMO as the proponent for the rule changes supports these changes. AEMO would like to clarify a minor point on this topic made in the consultation paper. The paper states that AEMO's proposals would support a 'more even' and 'fairer' allocation of costs. AEMO does not challenge these ideas, but it does wish to clarify that AEMO's rule change proposal did not put them forward as reasons for making the proposed minor amendment¹. AEMO's proposal does state that the avoidance of intra-interval netting through the amended drafting would lead to a wider allocation of non-energy costs, but it did not intend to express any judgment on fairness or evenness.

AEMO is mindful that, together with industry, we are deep in the implementation phase of the PFR Incentives Rule Change. Given this context, AEMO considers it is not practical to revisit some of these economic matters (for example, fairness) at this stage. Further, the differences in settlements resulting from AEMO's rule change are minimal in magnitude – a supporting factor in AEMO's claim for the amendment to be expedited as non-controversial – so even if economic criteria were applied, AEMO considers they should not be heavily weighted in decision-making. AEMO's rule change proposal takes as given the conclusions based on economic assessment from previous AEMC determinations², notes that the proposal aligns with these determinations and makes the key point that the amendment avoids unnecessary implementation costs and delays.

Do you consider that there is an alternative approach that would better clarify the definitions of TE and ATE for the allocation of FPP and regulation costs to the residual participants?

AEMO is not aware of any suitable alternative approaches and does not consider that alternative approaches would enable AEMO to deliver to the original implementation timelines. As noted above, AEMO has undertaken substantial consultation with industry and is at an advanced stage of implementation.

How do you think any consequential minor updates to the Frequency Contribution Factors Procedure should be managed in relation to Rules Consultation Procedures?

¹ The consultation paper says that AEMO considers its proposal is fairer in section 1.2(.0) and more even in sections 1.2(.0) and 1.2.2.

² The Integrating Energy Storage Systems (IESS) and the PFR Incentives rule changes.

AEMO thanks the AEMC for their consideration of the update to the Frequency Contribution Factors Procedure (FCFP) resulting from this rule change, and would welcome an exemption to consultation requirements. For the awareness of AEMC and industry, AEMO notes that, prior to PFR Incentives go-live on 8 June 2025, AEMO intends to progress two other changes to the FCFP. AEMO intends to use the expedited rules consultation procedure to administer these changes. During this consultation, AEMO will also canvas the FCFP amendment resulting from this rule change, while clearly noting the possibility that the AEMC may make a determination exempting AEMO from the requirement to consult on it.

Question 2: Assessment framework

Do you agree with the proposed assessment criteria? Are there additional criteria that the Commission should consider or criteria included here that are not relevant?

AEMO agrees with the proposed assessment criteria. AEMO considers that greatest emphasis should be placed on the 'implementation considerations' criterion. It considers that 'principles of market efficiency' and 'safety, security and reliability' have largely been applied through previous AEMC determinations.