



Rule determination

National Electricity Amendment (Amendment to Frequency Performance Payment Cost Recovery) Rule 2025

Proponent
AEMO

DETERMINATION

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About the AEMC

The AEMC reports to the energy ministers. We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the energy ministers.

Acknowledgement of Country

The AEMC acknowledges and shows respect for the traditional custodians of the many different lands across Australia on which we all live and work. We pay respect to all Elders past and present and the continuing connection of Aboriginal and Torres Strait Islander peoples to Country. The AEMC office is located on the land traditionally owned by the Gadigal people of the Eora nation.

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Summary

- 1 The Commission has made a final determination and a final rule to amend two definitions related to the new frequency performance payments (FPP) process that commences on 8 June 2025. The new FPP process is a key element of the *Primary frequency response incentive arrangements Rule 2022 (PFR Incentives Rule)*.
- 2 The final rule is made in response to a rule change request submitted by the Australian Energy Market Operator (AEMO). The final rule amends the allocation of non-energy costs to market participants that do not have appropriate metering to measure their individual impact on power system frequency – referred to as the ‘residual’. The rule commences on 8 June 2025.
- 3 The Commission assessed the rule change request under an expedited rule change process on the basis that it was a request for a non-controversial rule since we considered it was unlikely to have a significant effect on the national electricity market. This is because the final rule is not likely to result in large changes in settlement amounts for individual participants, and is therefore unlikely to have a significant effect on outcomes in the national electricity market.
- 4 The Commission received no objections to progressing this rule change on an expedited basis. Submissions were due on 13 February 2025. The Commission received one submission, from the rule change proponent, which was supportive of the proposed change.

The final rule clarifies the process for allocation of FPP and regulations costs under the new FPP arrangements

- 5 The final rule requires ‘residual costs’ to be allocated to the ‘residual participants’ on the basis of all energy consumed or sent out, with no netting to occur within a dispatch interval. Residual participants are those participants *without* appropriate metering to measure their individual impact on power system frequency. Residual costs are those costs remaining once non-energy costs have been allocated to participants outside the residual. Non-energy costs refer to the cost from services other than energy – namely contingency and regulation frequency control ancillary services (FCAS).
- 6 The new approach:
 - supports a broader allocation of cost amongst residual participants – spreading the costs to the residual participants as broadly as possible, based on the proportion of energy sent out and consumed, and
 - avoids costly changes to AEMO’s systems as part of implementing the *PFR Incentives Rule*.
- 7 Specifically, the final rule amends the definitions of total energy (TE) and aggregate total energy (ATE) to remove the ability for adjusted sent out energy (ASOE, a positive value) and adjusted consumed energy (ACE, a negative value) to net out, reducing the participant’s exposure to non-energy costs. This is outlined in the equations below:

$$Cost_{residual\ allocated} \propto \frac{TE}{ATE}$$

PFR incentives rule
 $TE = |ASOE + ACE|$

This final rule
 $TE = |ASOE| + |ACE|$

Where

TE = total energy
ATE = aggregate total energy
ASOE = adjusted sent out energy
ACE = adjusted consumed energy

8 The final rule is consistent with AEMO’s proposed rule, with minor drafting differences to improve clarity.

We assessed our final rule against three assessment criteria using regulatory impact analysis

9 The Commission has considered the National Electricity Objective (NEO) and the issues raised in the rule change request and assessed the final rule against the three assessment criteria outlined below.¹

10 The final rule is in the long-term interests of consumers and will contribute to achieving the NEO by:

- **Supporting market efficiency** by avoiding distortions to the cost recovery of residual costs.
- **Minimising implementation costs** by avoiding costly changes to AEMO’s system to implement the *PFR incentives rule* minimising the costs of implementing the rule.
- **Supporting power system security in the NEM** by supporting the timely and cost-effective implementation of the FPP arrangements.

The final rule will support the implementation of the new Frequency performance payments process

11 This final rule will take effect on **8 June 2025** to support and align with the ongoing implementation of the FPP arrangements consistent with the *PFR Incentives Rule*.

12 The Commission understands that minor amendments may be needed to AEMO’s Frequency contribution factors procedure as a result of the final rule in order to reflect the updated definitions of TE and ATE. We consider that any amendments of this nature are minor given the changes to the equations have been consulted on through this rule change process, and as such, have exempted AEMO from consulting on these minor amendments to the procedure.

1 Section 7 of the NEL.

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1 The Commission has made a final determination

This final determination is to make a final rule in response to a rule change request submitted by AEMO about frequency performance payment (FPP) cost recovery from participants without appropriate metering to measure their individual impact on power system frequency. Collectively, these plants are known as the ‘residual’.²

The Commission’s final rule amends the National Electricity Rules (NER or rules) immediately following the commencement of Schedule 2 of the *PFR Incentives Rule* on 8 June 2025.³ The final rule amends definitions that relate to the ‘residual’ as defined above.⁴

The Commission agrees with AEMO’s view that the current rules drafting set out in the *PFR incentives Rule* could allow for an interpretation that consumed and sent out energy net each other out within a dispatch interval. This would reduce some participants’ exposure to residual cost allocation at the expense of other residual participants whose energy components do not net out. The final rule mirrors AEMO’s proposal and removes the potential for sent out energy and consumed energy to net out, better aligning with recent reforms to non-energy cost recovery. We consider that the final rule will be simpler, and allow for cheaper implementation of the FPP process. It does not change the total pool of residual costs that are to be allocated.

The final rule was developed after one round of stakeholder consultation to which we received one submission. The only submission was from the proponent (AEMO), which was supportive of the proposed rule.⁵

This chapter provides an overview of the residual non-energy cost allocation and describes the final rule. More information on the FPP process can be found in appendix B.

Chapter 2 describes the rule making process for this rule change request.

1.1 The final rule is consistent with AEMO’s proposed rule, with minor drafting differences to improve clarity

The final rule requires the residual costs to be allocated to the residual participants on the basis of all energy consumed or sent out, with no netting to occur within a dispatch interval. This approach both supports a wider cost distribution, and avoids costly implementation changes to AEMO’s systems. It also better aligns with the intent of the *PFR Incentives Rule*, and previous reforms to the recovery of non-energy costs in the *Five-Minute Settlements and Global Settlement and Market Reconciliation Rule* and the *Integrating Energy Storage Systems into the NEM (IESS) Rule*.⁶

The final rule sets out a residual non-energy cost allocation methodology that is functionally identical to AEMO’s proposal. The drafting has been amended from AEMO’s proposal to provide improved clarity. The residual cost allocation methodology for an individual residual participant is set out below:

2 Note that AEMO in its rule change request refers to the residual as the costs allocated to this group. However, consistent with previous AEMC determinations, we use the term ‘residual’ to talk about the group of plants themselves; whereas the cost is the ‘residual cost’.

3 See the *PFR Incentives* [project page](#) for more information.

4 Specifically, the definitions of TE and ATE in clause 3.15.6AA(b)(2) of Schedule 2 of the *PFR Incentives Rule*.

5 AEMO, Submission to the consultation paper, p.1

6 See the *Five-Minute Settlement* [project page](#), the *Global Settlement and Market Reconciliation* [project page](#) and the *Integrating Energy Storage Systems into the NEM (IESS)* [project page](#) for more information on these determinations.

$$Cost_{residual\ allocated} \propto \frac{TE}{ATE}$$

PFR incentives rule
 $TE = |ASOE + ACE|$

This final rule
 $TE = |ASOE| + |ACE|$

Where

TE = total energy
 ATE = aggregate total energy
 $ASOE$ = adjusted sent out energy
 ACE = adjusted consumed energy

This formulation is consistent with AEMO's proposal and allows for a cheaper implementation of the *PFR Incentives Rule* given it is more compatible with AEMO's existing systems.

Following the implementation and commencement of the PFR Incentives Rule, eligible units will be paid, or pay, based on the impact of their active power behaviour on power system frequency. The residual participants will be allocated the remaining non-energy (PFR and regulation FCAS) costs once all other eligible units have had costs or payments allocated.

The final rule amends the definitions for TE and ATE in clause 3.15.6.AA(b)(2),⁷ removing the potential for ASOE and ACE to net out. This removes the possibility for participants in the residual to avoid a portion of their share of non-energy costs through netting out.⁸

The revised definitions require AEMO to determine TE by taking the absolute value of ASOE and the absolute value of ACE **before** they are summed, as opposed to **after**, as was allowed for under the *PFR Incentives Rule*.⁹ This is set out above in the figure.

The Commission notes that TE and ATE are used in three different elements of the *PFR Incentives Rule*:

- For allocating FPP costs to participants who comprise the residual¹⁰
- For allocating the costs of regulation FCAS used within a dispatch interval to participants who comprise the residual¹¹
- For allocating costs associated with regulation FCAS not used within a dispatch interval to participants who comprise the residual¹²

The specific costs that are allocated across the residual are distinct in each case, however, the methodology for allocating amongst the group is not. In each case, the proportion of the relevant costs are allocated to each participant according to the ratio of TE to ATE.

The Commission considers the final rule will support a more even cost distribution across the residual participants (i.e. units without appropriate metering), since it would resolve the possibility of ASOE and ACE netting out. This impact is discussed in further detail in the Consultation Paper, in Table 1.1.¹³

7 This clause is inserted into the NER by Schedule 2 of the *National Electricity Amendment (Primary frequency response incentive arrangements) Rule 2022 No.8* on 8 June 2025. The final rule amends this clause immediately following its introduction so that it effectively commences with the amendments made by the final rule.

8 This issue is described in more detail in section 1.2 of the consultation paper.

9 *PFR Incentives Rule*, Schedule 2, clause 3.15.6AA(b)(2).

10 *PFR Incentives Rule*, Schedule 2, clause 3.15.6AA(b).

11 *PFR Incentives Rule*, Schedule 2, clause 3.15.6AA(c).

12 *PFR Incentives Rule*, Schedule 2, clause 3.15.6AA(d).

13 AEMC, Amendment to frequency performance payment cost recovery consultation paper, p.4, available [here](#).

1.2 AEMO is exempted from consulting on minor consequential changes to its frequency contribution factors procedure

The Commission understands that minor amendments may be needed to AEMO's *Frequency contribution factors procedure* to reflect the updated definitions of TE and ATE made by the final rule. We consider that the definitions and clear policy intent of the rule has already been consulted on through this rule change process, and as such have exempted these minor amendments from rules consultation procedures.

Clause 11.184 of the NER exempts AEMO from complying with the Rules consultation procedures for the purpose of amending the *Frequency contribution factors procedure* to make any changes that are necessary or desirable to give effect to this final rule.

We understand that AEMO has already commenced consultation on some other amendments to the same procedure, and has also flagged its proposed amendments in relation to this rule in the same consultation. We expect AEMO could still account for any feedback received through this consultation prior to the publication of this final determination, despite the exemption.

1.3 The final rule commences on 8 June 2025

The final rule amends the definitions for TE and ATE in clause 3.15.6.AA(b)(2), which is in Schedule 2 of the PFR Incentives Rule. This Schedule is not inserted into the NER until it commences on 8 June 2025. Consequently, this rule commences immediately after that schedule so that clause 3.15.6AA commences with the new amendments made by this rule. The rule commencement dates are as follows:

- Schedule two – **transitional arrangements** that relate to AEMO consultation on the procedures as discussed above in section 1.2 – commences on **20 March 2025**
- Schedule one – **main rule** that amends the residual non-energy cost allocation methodology as discussed above in section 1.1 – commences on **8 June 2025**

2 The rule will contribute to the energy objectives

This final determination is to make a final rule in response to a rule change request from AEMO to clarify non-energy cost recovery from the residual. The final rule promotes the NEO by supporting market efficiency, minimising implementation costs and supporting power system security in the NEM. This section outlines the Commission’s assessment process and how the rule achieves these objectives in more detail.

2.1 The Commission must act in the long-term interests of energy consumers

The Commission can only make a rule if it is satisfied that the rule will or is likely to contribute to the achievement of the relevant energy objectives.¹⁴

For this rule change, the relevant energy objective is the NEO:

The NEO is:¹⁵

to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system; and
- (c) the achievement of targets set by a participating jurisdiction—
 - (i) for reducing Australia’s greenhouse gas emissions; or
 - (ii) that are likely to contribute to reducing Australia’s greenhouse gas emissions.

The targets statement, available on the AEMC website, lists the emissions reduction targets to be considered, as a minimum, in having regard to the NEO.¹⁶

2.2 How we have applied the legal framework to our decision

The Commission must consider clarifying the non-energy cost allocation to the residual against the legal framework.

We identified the following criteria to assess whether the proposed rule change, no change to the rules (business-as-usual), or other viable, rule-based options are likely to better contribute to achieving the NEO:

- **Principles of market efficiency:** Would this establish setting (discovery) of prices and other incentives that encourage competition so prices are close to the social marginal cost by recovering residual costs in the least distortionary way?
- **Implementation considerations:** Would this balance the cost and complexity of implementation and ongoing regulatory and administrative costs to all market participants, consumers and market bodies, across all potential solutions? Would this encourage

¹⁴ Section 88(1) of the NEL.

¹⁵ Section 7 of the NEL.

¹⁶ Section 32A(5) of the NEL.

successful implementation, including through clear roles for market participants and market bodies?

- **Safety, security and reliability:** Would this enable reliable, secure and safe provision of energy at efficient cost to consumers over the long term? Would this promote efficient operation and use of, and investment in, generation facilities, load, storage, networks and other system service capability?

These assessment criteria reflect the key potential impacts – costs and benefits – of the rule change request, for impacts within the scope of the NEO. Our reasons for choosing these criteria were set out in section 3.2 of the consultation paper. AEMO was supportive of the assessment criteria in its submission to the consultation paper.¹⁷

The rest of this section explains why the final rule best promotes the long-term interest of consumers when compared to other options and assessed against the criteria.

2.2.1 Recovering residual costs in the least distortionary way

The Commission’s final rule clarifies that residual non-energy costs are allocated to the residual participants according to the gross volume of energy that passes through their connection point during a dispatch interval, as opposed to the net. For the allocation of costs to the residual participants, individual measurement of the impact on system frequency – and the need for corrective frequency response – is not possible, as by definition these participants do not have appropriate metering to measure their impact on system frequency. Therefore, the Commission’s final rule spreads the costs to this group as broadly as possible, based on the proportion of energy sent out and consumed. This ensures that non-energy costs are distributed across residual participants in the most broad and even way possible.

2.2.2 Minimising implementation costs

AEMO’s rule change request proposes an alternate residual cost allocation methodology that is more compatible with its systems, which would reduce implementation costs of the *PFR Incentives Rule*.¹⁸ The Commission’s final rule is consistent with this approach. This therefore minimises the costs of implementing the *PFR Incentives Rule*.

2.2.3 Supporting power system security in the NEM

The Commission’s final rule will support the timely and cost effective implementation of the *PFR Incentives Rule*, which incentivises better frequency control across the NEM. This will support power system security in the NEM by ensuring frequency remains in the tight band that is required for a secure power system. This is discussed in more detail in section 2.1 of *PFR Incentives final determination*.¹⁹

¹⁷ AEMO, submission to the consultation paper, p.2

¹⁸ AEMO, Rule change request on 4 October 2024: Amendment to frequency performance payment cost recovery, p.1. See: <https://www.aemc.gov.au/sites/default/files/2024-10/New%20rule%20change%20proposal%20-%20AEMO%20-%2020241004.pdf>

¹⁹ AEMC, *PFR incentive arrangements final determination*, pp.15-17. See: https://www.aemc.gov.au/sites/default/files/2022-09/PFR%20Incentive%20Arrangements_%20Final%20Determination_8SEPT2022.pdf

A Rule making process

The Commission has made this final rule in response to AEMO's request, using the expedited rule change process. The expedited process includes the following stages:

- a proponent submits a rule change request
- the Commission initiates the rule change process by publishing a consultation paper and seeking stakeholder feedback
- stakeholders have the opportunity to lodge an objection to the expedited process – no objections were received
- stakeholders lodge submissions on the consultation paper and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a final determination and final rule (if relevant).

You can find more information on the rule change process on our website.²⁰

A.1 AEMO proposed a rule to amend the cost recovery of non-energy costs from residual participants

AEMO submitted a rule change request on 4 October 2024 which proposed a minor drafting change that it considered would better align with recent reforms to non-energy cost recovery and would be cheaper and simpler to implement in its systems. The proposal would clarify that the residual costs should be allocated to the residual participants on the basis of all energy consumed or sent out, with no netting to occur within a dispatch interval.²¹

AEMO requested the Commission evaluate its proposal under the expedited (non-controversial) process, as it considered the proposal would have an insignificant effect on settlements.

A.2 The Commission followed the expedited process for a non-controversial rule

On 16 January 2025, the Commission published a notice advising of the initiation of the rule-making process and consultation in respect of the rule change request.²² A consultation paper identifying specific issues for consultation was also published. Submissions closed on 13 February 2025.

The Commission considered the rule change request was a request for a non-controversial rule as defined in s.87 of the NEL, the test being that the rule change was unlikely to have a significant effect on the national electricity market. This is because the proposal would have an insignificant effect on settlements in the NEM. Accordingly, the Commission initiated an expedited rule change process, subject to any written requests not to do so. The closing date for receipt of written requests was 30 January 2025.

The Commission did not receive any objections to using the expedited rule change process for this proposal. Accordingly, the rule change request was considered under an expedited process.²³

20 See our website for more information on the rule change process: <https://www.aemc.gov.au/our-work/changing-energy-rules>

21 Rule change request from AEMO on 4 October 2024: Amendment to frequency performance payment cost recovery, page 1. See: <https://www.aemc.gov.au/sites/default/files/2024-10/New%20rule%20change%20proposal%20-%20AEMO%20-%2020241004.pdf>

22 This notice was published under section 95 of the NEL.

23 Section 96 of the NEL.

The Commission conducted one round of stakeholder consultation, on the rule change request and consultation paper. In response, the Commission received one submission, from AEMO. AEMO's submission was supportive of the proposed rule, and the Commission's approach and characterisation of the issues raised in the rule change request. It did clarify that AEMO did not consider the proposed change would have a material impact on settlement outcomes and that it was not practical to revisit the consideration of economic matters such as 'fairness' through the assessment of this rule change proposal. AEMO considered that these economic matters were fully considered through the initial consultation on the *PFR Incentives rule* and that its proposal aligns with the Commission's previous determinations and would avoid unnecessary implementation costs and delays.²⁴ The Commission has taken this feedback into account when making this final determination and final rule.

²⁴ AEMO, submission to the consultation paper, p.2

B Overview of the Frequency performance payments process

The frequency performance payments are a new double-sided incentive scheme that will take effect from 8 June 2025.²⁵ The arrangements are designed to incentivise participants to operate their plant in a manner that assists frequency management in the NEM.

The scheme builds on the existing ‘causer pays’ arrangements for the allocation of regulation FCAS costs through the introduction of double-sided FPP for all eligible units of generation and load. Under this scheme, resources with ‘appropriate metering’ that contribute helpfully to balancing system frequency will receive payments from those that make unhelpful contributions.²⁶

The FPP process is a two-sided incentive and cost allocation scheme based on the impact of a participant’s power system equipment (generation and load) on system frequency. Plant behaviour that helps to control system frequency and reduce a frequency deviation (from 50Hz) is rewarded with revenue obtained from participants whose plant hinders system frequency control by increasing a frequency deviation.

The payments and allocations for plant with appropriate metering are based on individual contribution factors, which are calculated based on each unit’s measured active power behaviour within each 5-minute dispatch interval.

Plants without appropriate metering are referred to collectively as ‘the residual’ and included in the FPP calculations via a collective contribution factor. Each individual plant within the residual is then allocated a proportional share of the collective residual FPP and regulation FCAS costs based on their share of energy consumed and sent out. This is known as the ‘residual cost’.

The methodology for the allocation of the residual cost to the residual was set out in the PFR Incentives final rule, and is also outlined in more detail in Appendix A of the consultation paper for this rule change.²⁷

25 The arrangements are set out in Schedule 2 of the PFR Incentives Rule. Schedule 2 commences on 8 June 2025.

26 The *PFR Incentives Rule* defines appropriate metering as metering to allow an eligible unit’s individual contribution to the deviation in the frequency of the power system to be assessed, in accordance with the requirements set out by AEMO in the *Frequency contribution factors procedure*.

27 AEMC, *Primary frequency response incentive arrangements* final determination, pp. 30-34, available [here](#); AEMC, *Amendment to frequency performance payment cost recovery* consultation paper, pp. 13-14, available [here](#)

C Legal requirements to make a rule

This appendix sets out the relevant legal requirements under the NEL for the Commission to make a final rule determination.

C.1 Final rule determination and final rule

In accordance with section 102 of the NEL, the Commission has made this final rule determination for a final rule in relation to the rule proposed by AEMO.

The Commission's reasons for making this final rule determination are set out in chapter 2.

A copy of the final rule is attached to and published with this final determination. Its key features are described in chapter 1.

C.2 Power to make the rule

The Commission is satisfied that the final rule falls within the subject matter about which the Commission may make rules.

The final rule falls within sections 34(1)(a)(i) and (a)(iii) of the NEL as it relates to the operation of the national electricity market and the activities of persons (including Registered participants) participating in the national electricity market.

C.3 Commission's considerations

In assessing the rule change request the Commission considered:

- its powers under the NEL to make the final rule
- the rule change request
- the submission received during consultation
- the Commission's analysis as to the ways in which the final rule will or is likely to contribute to the achievement of the NEO
- the application of the final rule to the Northern Territory.

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.²⁸

C.4 Making electricity rules in the Northern Territory

The NER, as amended from time to time, apply in the Northern Territory, subject to modifications set out in regulations made under the Northern Territory legislation adopting the NEL.²⁹ Under those regulations, only certain parts of the NER have been adopted in the Northern Territory.

The final rule does not relate to parts of the NER that apply in the Northern Territory. As such, the Commission has not considered Northern Territory application issues.

²⁸ Under s. 33 of the NEL and s. 73 of the NGL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule. The MCE is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Federal, State and Territory Ministers responsible for energy. On 1 July 2011, the MCE was amalgamated with the Ministerial Council on Mineral and Petroleum Resources. In December 2013, it became known as the Council of Australian Government (COAG) Energy Council. In May 2020, the Energy National Cabinet Reform Committee and the Energy Ministers' Meeting were established to replace the former COAG Energy Council.

²⁹ These regulations under the NT Act are the National Electricity (Northern Territory) (National Uniform Legislation) (Modifications) Regulations 2016

C.5 Civil penalty provisions and conduct provisions

The Commission cannot create new civil penalty provisions or conduct provisions. However, it may recommend to the Energy Ministers' Meeting that new or existing provisions of the NER be classified as civil penalty provisions or conduct provisions.

The rule does not amend any clauses that are currently classified as civil penalty provisions or conduct provisions under the National Electricity (South Australia) Regulations.

The Commission does not propose to recommend to the Energy Ministers' Meeting that any of the proposed amendments made by the rule be classified as civil penalty provisions or conduct provisions.

Abbreviations and defined terms

ACE	Adjusted Consumed Energy
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
AGE	Adjusted Gross Energy
Appropriate metering	The <i>PFR Incentives Rule</i> defines appropriate metering as metering to allow an eligible unit's individual contribution to the deviation in the frequency of the power system to be assessed, in accordance with the requirements set out by AEMO in the <i>Frequency contribution factors procedure</i> .
ATE	Aggregate Total Energy
ASOE	Adjusted Sent Out Energy
Commission	See AEMC
FCAS	Frequency Control Ancillary Service
FPP	Frequency Performance Payment
NEL	National Electricity Law
NEM	National Electricity Market
NEO	National Electricity Objective
NER	National Electricity Rules
PFR	Primary Frequency Response
Proponent	The individual / organisation who submitted the rule change request to the Commission
the residual	Units that do not have appropriate metering
TE	Total Energy