



Australian Energy Market Commission

RULE DETERMINATION

NATIONAL ELECTRICITY AMENDMENT (GENERATOR REGISTRATIONS AND CONNECTIONS) RULE

PROPOSERS

Australian Energy Council (AEC)
Mr Damien Vermeer

21 OCTOBER 2021

RULE

INQUIRIES

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CITATION

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ABOUT THE AEMC

The AEMC reports to the Energy Ministers' Meeting (formerly the Council of Australian Governments Energy Council). We have two functions. We make and amend the national electricity, gas and energy retail rules and conduct independent reviews for the Energy Ministers' Meeting.

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SUMMARY

Overview

- 1 This final rule determination has been made in response to two rule change requests, submitted by the Australian Energy Council (AEC) and Mr Damien Vermeer. While each rule change sought to address a range of different matters, both aimed to address issues around requirements on smaller (5-30MW) generators and increasing transparency of AEMO's processes and decision-making. The Commission has chosen not to adopt most of the substance of the rule change requests but to make a more preferable rule which addresses the issues raised in both rule changes.
- 2 In summary, the Commission has maintained the position from the more preferable draft rule to not lower the scheduling threshold. This is because the Commission found no evidence that 5-30MW generators are significantly impacting forecasting and dispatch processes, and because requiring this group of generators to be scheduled would impose large costs on them. The decision also recognises the "scheduled lite" reforms as part of the ESB's work program, which provides a more holistic way to approach the issue of increasing visibility and dispatchability of smaller participants.
- 3 The other significant aspect of the more preferable final rule is to increase transparency around AEMO's processes and decisions related to registration, classification and exemption. This has been achieved via a requirement for AEMO to develop, publish and maintain a registration information resource and guideline regarding the processes for registration, classification and exemption under Chapter 2 of the Rules, and the matters AEMO may or will take into account when assessing such applications. This will help registered participants engage with AEMO. AEMO will be required to consult on amendments to the materials in the registration information resource and guideline (unless they are minor or administrative) that relate to exemptions from the requirement to register as a generator, the classification of generating units as non-scheduled and the information to be contained in energy conversion models. In this respect, the more preferable final rule is different to the more preferable draft rule because the consultation requirements are more focused on changes to specific material that are likely to affect participants' rights. Overall, the Commission considers that the more preferable final rule will assist in improving transparency and certainty for NEM participants, resulting in improved efficiency of the energy market.
- 4 The more preferable final rule also includes a number of more minor changes which address other issues raised by the proponents.
- 5 The more preferable final rule is similar to the more preferable draft rule apart from clarification changes and changes to AEMO's new transparency requirements. These, which have been adjusted based on feedback from AEMO to focus the requirements on the matters that are most pertinent to stakeholders' rights.

Rule change requests

AEC rule change request

- 6 The AEC's rule change request sought to increase participation of smaller generators in

central dispatch by lowering the threshold for classifying generators as non-scheduled to 5MW nameplate capacity, down from 30MW. This would make the default classification for all generators above 5MW scheduled or semi-scheduled, depending on their attributes. The stated aim was to improve power system operation and management.

- 7 The rule change request proposed to narrow the grounds upon which generating units can be classified as non-scheduled and require AEMO to publish its reasons for exempting a person from the requirement to register as a generator, or for classifying a generating unit as non-scheduled.

Mr Vermeer rule change request

- 8 Mr Vermeer's rule change request aimed to minimise uncertainty in the registration and connection process for embedded generators between 5 and 30MW. Mr Vermeer proposed to offer conditional exemption from registration to this group of generators. This would allow connection under the process outlined in Chapter 5A of the NER rather than Chapter 5, meaning that the generators would not have to meet the technical performance standards in Chapter 5. He considered that under the current arrangements, exemptions arrive too late in the process, and a conditional exemption would remove uncertainty around which process a generator should use.

High level components of the more preferable final rule

- 9 The elements of the more preferable final rule are:
- No change to the scheduling threshold
 - This includes no change to AEMO's powers in the NER.
 - Alteration and clarification of non-scheduled classification conditions
 - removes the exemption from scheduling if the primary purpose of a generating unit is "local use"
 - clarifies the treatment of groups of generating units behind the same connection point
 - outlines transitional arrangements that grandfather existing exemptions.
 - Clarification of the connection process and performance standards for 5-30MW embedded generators and non-registered embedded generators who makes an election for rule 5.3A to apply instead of Chapter 5A.
 - Increased transparency requirements around AEMO's processes and decision-making regarding registration, classification and exemption by requiring AEMO to develop, publish and maintain a registration information resource and guideline regarding the processes for registration, classification and exemption under Chapter 2 of the Rules, and the matters AEMO may or will take into account when assessing such applications. AEMO will be required to consult on changes to the registration information resource and guideline (unless they are minor or administrative) that relate to exemptions from the requirement to register as a generator, the classification of generating units as non-scheduled and the information to be contained in energy conversion models.

- Transitional arrangements that clarify that a generating unit or person that immediately before the commencement of Schedule 1 of the more preferable final rule has been classified as non-scheduled under clause 2.2.3(b)(1) of the Rules, or exempt from the requirement to register as a generator under the old generator exemption guidelines (respectively), will continue to be classified or exempt (as relevant) under the new rules and the registration information resource and guideline on the same terms and conditions. AEMO's powers to amend, revoke or terminate such exemptions or classifications will be maintained.

Schedule 1 of the more preferable final rule commences on 21 April 2022, which is six months after the final rule is made. This will allow AEMO time to develop and publish the initial registration information resource and guideline. Schedule 2 of the more preferable rule, which contains the transitional arrangements, will commence on 24 October 2021.

Brief reasoning for the more preferable final rule

No change to the scheduling threshold

10 The Commission has decided to retain the scheduling threshold at 30MW nameplate capacity. While the AEC's rule change request was concerned with the growth in number of smaller generators, the Commission has not found sufficient evidence that this group of generators are causing inaccuracies in forecasting or scheduling. The Commission also notes that AEMO has the power to impose central dispatch obligations on non-scheduled generators if necessary. As such, it appears that there is limited benefit in a blanket lowering of the threshold.

11 The Commission engaged independent consultants to assess the cost of scheduling for smaller generators. They found that the costs to each generator would be significant, likely ~\$1.3-1.8 million once-off and \$0.15-0.55 million per year in direct costs alone.¹

12 This indicates that the costs of the proposed change outweigh the benefits at this stage. The Commission also acknowledges that the ESB's "scheduled-lite" work program will consider the challenge of increasing participation from participants that are currently non-scheduled in a more holistic way.

Alteration and clarification of non-scheduled classification conditions

13 The AEC rule change sought to narrow the potential paths for a generator to be exempt from scheduling in two ways:

1. To remove the "local use" exemption, which requires AEMO to exempt generators from scheduling if they rarely send out generation above 30MW beyond the connection point (i.e. the generator's primary purpose is local use), and
2. Amend the test of generator size to refer to generating systems, not units. This was to prevent systems of generators with a collective nameplate capacity of more than 30MW behind the same connection point from being able to avoid scheduling requirements.

¹ GHD advisory report - assessment of scheduling costs

- 14 The final determination upholds the first issue as the Commission does not consider that the purpose of a generator is a relevant consideration when assessing whether the generator should be scheduled. Furthermore, such an arrangement could have a material adverse impact on system security if the generator did unexpectedly send out more than 30MW of generation into the system.
- 15 In relation to the second issue, the Commission has made a more preferable change and clarified AEMO's existing practice of applying the 30MW threshold to groups of generators behind a common connection point, not individual units.
- 16 Transitional arrangements included in the rule change will ensure that all generators that are currently non-scheduled under existing arrangements will remain so. Noting that AEMO's powers to amend, revoke or terminate such exemptions or classifications will be maintained.

Clarification of connection process and performance standards for 5-30MW embedded generators

- 17 Mr Vermeer proposed a conditional exemption from registration for embedded 5-30MW generators. The Commission does not consider that this will facilitate more efficient connection or provide more certainty. It risks creating an inefficient two-stage registration process and does not provide certainty to project proponents as there is no guarantee that the conditional exemption will be converted to an ongoing exemption.
- 18 The Commission's more preferable rule increases clarity and certainty for participants by making minor amendments to clarify the connection process and application of performance standards for those generators.

Increased transparency requirements around AEMO's processes and decision-making

- 19 Both rule change requests sought to address a lack of clarity around AEMO's decision-making during registration and related processes. The AEC's rule change suggested that AEMO should be required to publish reasons for providing exemptions during this process. This proposal appears impractical given AEMO's decisions on such matters often involve commercially sensitive information that it is not able to disclose.
- 20 The Commission has made a more preferable rule that requires AEMO to publish and maintain a registration information resource and guideline regarding the processes for registration, classification and exemption under Chapter 2 of the Rules, and the matters AEMO may or will take into account when assessing such applications. AEMO will be required to consult on changes to the registration information resource and guideline (unless they are minor or administrative) that relate to exemptions from the requirement to register as a generator, the classification of generating units as non-scheduled and the information to be contained in energy conversion models. This will provide improved clarity and certainty on these matters for participants. It will also improve participants' understanding of and engagement with AEMO's processes as they will be provided with the opportunity to give input during the consultation stages.

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1 RULE CHANGE REQUESTS

1.1 The AEC's rule change request

On 15 December 2018, The Australian Energy Council (AEC) made a request to the Australian Energy Market Commission (AEMC or Commission) to make a rule regarding the registration and classification of generators in the national electricity market (NEM). The rule change sought to amend the National Electricity Rules (NER) to increase the participation of smaller generators in central dispatch and to improve the transparency of the Australian Energy Market Operator's (AEMO) process for granting exemptions from being registered as a scheduled or semi-scheduled generator.

1.1.1 Rationale for the rule change request

In its rule change request, the AEC set out its concern that AEMO's ability to efficiently manage the power system is being compromised by the growing proportion of non-scheduled generation in the NEM.²

The AEC is concerned about AEMO's ability to manage the power system in the context of it becoming increasingly "characterised by progressively smaller unit sizes, and also more greatly affected by variations in supply and demand".³ In light of these trends, the AEC suggested the existing thresholds for requiring generating units to participate in central dispatch may no longer be appropriate. The AEC explains that, when the NEM began in 1998, 30MW was set as the default threshold for assigning scheduling obligations because, at that time, generators smaller than this had only a minor role in the power system.⁴ The threshold of 30 MW was considered a reasonable trade-off between the value to the market of exposing a generator to scheduling, against the compliance costs which would be imposed should they be scheduled.⁵ Over time, there has been an increasing number of generators falling below this threshold for participating in central dispatch.⁶ This results in an increasing proportion of generation classified as non-scheduled in the NEM today. The AEC also believes that the proliferation of small units aggregated to form large generating systems means that the 30MW per unit size test is no longer appropriate for the changing market conditions.⁷

The AEC is also concerned about the lack of transparency with which AEMO can make decisions related to scheduling conditions on generators.⁸ It references a recent event where AEMO reclassified two generating systems with a combined nameplate capacity of 277MW and the technical capacity to follow dispatch processes from scheduled to non-scheduled.⁹ The AEC is concerned about the market impacts of increasing the amount of non-scheduled capacity in the market in this way.¹⁰

2 AEC, Generator registrations and connections — rule change request, page 2

3 Ibid, page 2

4 Ibid

5 Ibid

6 Ibid, page 1

7 Ibid

8 Ibid, page 1

9 Ibid, page 1

For a more detailed discussion of the issue identified by the AEC, please refer to consultation paper for this rule change.¹¹

1.1.2 Solutions proposed in the rule change request

The AEC's rule change request proposed several solutions for resolving the issues identified above. This rule change request sought to:

- reduce the threshold for classifying generators as non-scheduled from 30MW nameplate capacity to 5MW, making the default classifications for generators above 5MW scheduled or semi-scheduled¹²
- narrow the grounds upon which generators can be exempt from scheduling obligations¹³
- require AEMO to publish its reasons for exempting a person from the requirement to register as a generator, or for classifying a generating unit as non-scheduled.¹⁴

For a more detailed discussion and evaluation of these proposed solutions, please refer to the relevant appendices of the draft determination for this rule change noted in the footnotes above.

1.2 Mr Damien Vermeer's rule change request

The rule change request submitted by Mr Damien Vermeer on 2 September 2020 seeks amendments to the NER that would minimise uncertainty in the registration and connection process for embedded generators (those connected to the distribution system rather than the transmission system). Mr Vermeer, specifically proposed amendments that would grant a conditional exemption from registration for embedded generators with a nameplate capacity between 5-30MW.

1.2.1 Rationale for the rule change request

Mr Vermeer is concerned that, under the NER, applications by embedded generators between 5-30MW to be exempt from the requirement to register as a generator¹⁵ are determined too late in the process. Mr Vermeer explains that, in his experience as a consultant working with these applicants, there is a great deal of confusion about the obligations and technical standards that will apply, which depend on whether the exemption application is granted or not. Mr Vermeer says that this confusion has "negatively impacted the project budget and schedule for these connection applicants."¹⁶ Mr Vermeer believes this prevents "efficient investment in generation co-located with large, distribution connected load".¹⁷ Mr Vermeer

10 Ibid, page 1

11 AEMC, Generator registrations and connections, consultation paper, pages 7-8, available [here](#)

12 AEMC, Generator registrations and connections, draft determination, appendix A, available [here](#)

13 Ibid, appendix B

14 Ibid, appendix D

15 These are referred to as 'intending exempt participants'

16 Vermeer, Generator registrations and connections - rule change request, page 1

17 Ibid, page 1

suggests this barrier is preventing these customers from achieving a reduction in their electricity costs and an associated carbon offset.

He considers that the risk of the exemption not being granted is a concern for applicants who, by the stage the exemption decision is made, have already made significant investments in the embedded generation project.¹⁸ As the applicant cannot be sure that AEMO will grant the exemption, they also cannot be sure whether they need to comply with the generator performance standards (GPS) and, according to Mr Vermeer, this places a significant burden on the applicant, which may not be reasonable given the size of the generating system. In addition, in the absence of an exemption, the connecting network service provider (NSP) and AEMO (during the clause 5.3.4A technical standards negotiation process) are forced to accept performance standards below the minimum access standard because of the inability of the 5-30 MW intending exempt generator to comply with them.¹⁹

For a more detailed discussion of the issue identified by Mr Vermeer, please refer to the consultation paper for this rule change request.²⁰

1.2.2 **Solution proposed in the rule change request**

Mr Vermeer's rule change request proposed two different solutions for resolving the issues identified above. Mr Vermeer proposed changes to the NER that would:

- provide a conditional exemption for embedded generation that have a nameplate capacity between 5 and 30MW
- clarify the technical requirements for 5-30 MW exempt generators.

For a more detailed discussion and evaluation of these proposed solutions, please refer to appendix C of the draft determination for this rule change request.²¹

1.3 **The rule making process**

This section provides an overview of the rule making process for the final rule — Generator registrations and connections.²²

Consultation paper

On 8 October 2020, the Commission published a consultation paper to commence the rule making process and consultation in respect of these two rule change requests. The Commission received 24 submissions which were considered in the subsequent draft rule determination.

Draft determination

On 24 June 2021, the Commission published a draft determination and rule. The Commission's draft determination was to make a more preferable rule to resolve the issues

18 Ibid, page 4

19 Ibid, page 9

20 AEMC, Generator registrations and connections, consultation paper, page 26-27

21 AEMC, Generator registrations and connections, draft determination, Appendix C

22 The documents and submissions referenced below are all accessible at the AEMC project page [here](#)

identified by the proponents. The Commission invited submissions from stakeholders on the draft rule determination by 19 August 2021. Fourteen submissions were received from stakeholders in response to the draft determination. The Commission has made its final determination and rule following consideration of the issues raised in stakeholder submissions. The Commission's consideration of these issues is set out in detail in chapter 2 and Appendix A.

2 FINAL RULE DETERMINATION

2.1 The Commission's final rule determination

The Commission's final rule determination is to make a more preferable rule. The more preferable final rule has six components:

- **Registration information resource and guideline:** a requirement for AEMO to develop, publish and maintain an information resource and guideline to assist registered participants engaging with AEMO under Chapter 2 of the Rules (registration information resource and guideline). The registration information resource and guideline must include a description of:
 - the process for registration and classification under Chapter 2 of the Rules and, where relevant, the matters that AEMO will take into account in assessing such applications
 - the matters AEMO will take into account in granting exemptions under Chapter 2 of the Rules, whether the exemption is automatic or requires an application, and where an application is required, the process for that application;
 - the information that AEMO requires applicants to provide and the information that AEMO will make available at each stage of an application process, and the time frames for providing that information;
 - the circumstances under which AEMO will impose terms and conditions of classification or exemption, and the nature of those terms and conditions
 - the information to be contained in energy conversion models.
- **Consultation requirements:** a requirement for AEMO to consult, in accordance with the rules consultation procedures, on amendments to the registration information resource and guideline that relate to the following matters (unless such amendments are minor or administrative):
 - the process for applying for an exemption under clause 2.2.1(c) of the Rules from the requirement to register as a generator, and the matters AEMO will take into account when assessing such applications
 - the circumstances under which AEMO will impose terms and conditions under clause 2.2.3(c) of the Rules in relation to the classification of a generating unit as a non-scheduled generating unit, and the nature of those terms and conditions
 - the information to be contained in energy conversion models.
- **Non-scheduled generator registration:** this includes:
 - an amendment to clause 2.2.3(a) of the Rules to clarify that groups of generating units behind a common connection point with a combined nameplate capacity of 30 MW or greater will not be eligible to classify as non-scheduled, unless they meet the requirements in clause 2.2.3(b) of the Rules
 - the removal of clause 2.2.3(b)(1) of the Rules. The clause requires AEMO to approve a generating unit's classification as non-scheduled if it is satisfied that the primary purpose of the generating unit is local use and the aggregate sent out generation

rarely, if ever, exceeds 30MW. This will no longer be a valid reason for a generator to be classified as non-scheduled.

- **Connection process:** the rule provides clarification that:
 - a non-registered embedded generator — one that would normally connect under the streamlined Chapter 5A connection process — that elects to connect to the distribution network under Chapter 5 must also comply with the same access arrangements (rule 5.3AA) as other embedded generators
 - a person seeking to connect an embedded generating unit that is not automatically exempt from registration by AEMO must connect under the Chapter 5 connection process. In other words, if an embedded generating unit is required to apply to AEMO for an exemption under the registration information resource and guideline, it must connect under rule 5.3 and 5.3A (as applicable) of the Rules.
- **Performance standards:** the rule clarifies that schedule 5.2 of the Rules does not apply to a person, in respect of a generating unit that they own, operate or control, if:
 - that person has received an exemption from the requirement to register as a generator under clause 2.2.1(c), or is eligible for an automatic exemption under the registration information resource and guideline, subject to any conditions imposed by AEMO as part of that exemption, and
 - that generating system is connected, or the person intends to connect it, and
 - the NSP is satisfied the generating system is unlikely to cause a material degradation in the quality of supply to other network users.
- **Transitional arrangements:** clarifying that a generating unit or person that immediately before the commencement of Schedule 1 of the more preferable final rule has been classified as non-scheduled under clause 2.2.3(b)(1) of the Rules, or exempt from the requirement to register as a generator under the old generator exemption guidelines published by AEMO under clause 2.2.1(c) (respectively), will continue to be classified or exempt (as relevant) under the new rules and the registration information resource and guideline on the same terms and conditions. AEMO's powers to amend, revoke or terminate such exemptions or classifications will be maintained.

The Commission's reasons for making this final rule determination are set out in section 2.4.

In relation to the rule's application in the Northern Territory, the Commission has determined to not make a differential rule. See section 2.2.3 for the definition of a differential rule and the Commission's ability to make a differential rule.

This chapter outlines the:

- rule making test for changes to the NER
- more preferable rule test
- assessment framework for considering the rule change request
- Commission's consideration of the more preferable final rule against the national electricity objective

- Commission's consideration in deciding whether to make a uniform or differential rule in accordance with the Northern Territory legislation adopting the NEL.²³

Further information on the legal requirements for making this final rule determination is set out in Appendix B.

2.2 Rule making test

2.2.1 Achieving the NEO

Under the NEL the Commission may only make a rule if it is satisfied that the rule will, or is likely to, contribute to the achievement of the national electricity objective (NEO).²⁴ This is the decision-making framework that the Commission must apply.

The NEO is:²⁵

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.

2.2.2 Making a more preferable rule

Under s. 91A of the NEL, the Commission may make a rule that is different (including materially different) to a proposed rule (a more preferable rule) if it is satisfied that, having regard to the issue or issues raised in the rule change request, the more preferable rule will or is likely to better contribute to the achievement of the NEO.

In this instance, the Commission has made a more preferable rule. The reasons are summarised in Section 2.4.

2.2.3 Rule making in relation to the Northern Territory

The NEL, as amended from time to time, apply in the Northern Territory, subject to derogations set out in regulations made under the Northern Territory legislation adopting the NEL.²⁶

Under the NT Act, the Commission must regard the reference in the NEO to the "national electricity system" as a reference to whichever of the following the Commission considers appropriate in the circumstances having regard to the nature, scope or operation of the proposed rule:

- (a) the national electricity system²⁷

²³ National Electricity (Northern Territory) (National Uniform Legislation) Act 2015

²⁴ Section 88 of the NEL

²⁵ Section 7 of the NEL

²⁶ The regulations under the NT Act are the National Electricity (Northern Territory) (National Uniform Legislation) (Modifications) Regulations

²⁷ Clause 14A of Schedule 1 to the NT Act, inserting section 88(2a) into the NEL as it applies in the Northern Territory

(b) one or more, or all, of the local electricity systems²⁸

(c) all of the electricity systems referred to above.

For the rule change requests considered in this final determination, the Commission has determined that the reference to the national electricity system in the NEO is a reference to (c), all of the above (noting that the final rule will only have limited effect in relation to the NT's local electricity systems).

Under the NT regulations, only certain parts of the NER have been adopted in the Northern Territory.²⁹

As the more preferable final rule relates to parts of the NER that apply in the Northern Territory, the Commission has assessed whether to make a uniform or differential rule (defined below) under Northern Territory legislation.

Under the Northern Territory legislation adopting the NEL, the Commission may make a differential rule if, having regard to any relevant MCE statement of policy principles, a differential rule will, or is likely to, better contribute to the achievement of the NEO than a uniform rule. A differential rule is a rule that:

- varies in its term as between:
 - the national electricity system, and
 - one or more, or all, of the local electricity systems, or
- does not have effect with respect to one or more of those systems
- but is not a jurisdictional derogation, participant derogation or rule that has effect with respect to an adoptive jurisdiction for the purpose of s. 91(8) of the NEL.

A uniform rule is a rule that does not vary in its terms between the national electricity system and one or more, or all, of the local electricity systems, and has effect with respect to all of those systems.³⁰

The Commission has determined to make a uniform more preferable final rule as it does not consider that a differential rule will, or is likely to, better contribute to the achievement of the NEO than a uniform rule, for the reasons set out in section 2.4 below.

2.3 Assessment framework

In assessing the rule change requests against the NEO the Commission has considered the following principles:

- **Enhance security and reliability:** To what extent would the proposed changes deliver improvements to AEMO's market scheduling and forecasting process and in turn improve security and reliability in the NEM?

28 These are specified Northern Territory systems, listed in schedule 2 of the NT Act

29 The version of the NER that applies in the Northern Territory is available on the AEMC website

30 Clause 14 of Schedule 1 to the NT Act, inserting the definitions of "differential Rule" and "uniform Rule" into section 87 of the NEL as it applies in the Northern Territory

- **Promote transparency:** To what extent could limiting AEMO's discretionary powers in the registration process reduce information asymmetry, promote a more level playing field, and improve the decision-making of participants?
- **Promote efficient investment:** To what extent might the proposed changes facilitate improved decision-making by participants regarding the registration and exemption process and thereby increase efficient investment in generation assets?
- **Minimises administrative and regulatory burden:** Would the changes proposed increase or decrease the administrative/ regulatory burden on affected entities?

2.4 Elements of the more preferable final rule and summary of reasons

The more preferable final rule makes a number of changes to bring clarity and transparency to the way that participants interact with the energy system. Overall, the more preferable final rule is similar to the more preferable draft rule, with amendments to the additional transparency and consultation requirements imposed on AEMO.

2.4.1 Scheduling threshold

Scheduling threshold to remain at 30MW

The AEC's rule change request proposed to lower the scheduling threshold from 30MW to 5MW nameplate capacity.³¹ More detail, including the proponent's reasoning, can be found in Section 3.1 of the consultation paper for this project. The more preferable final rule does not change the scheduling threshold because doing so would not contribute to the NEO. The Commission considers that:

- the generators in question are not having a material impact on the forecasting and dispatch process, and as such, the proposed change would not enhance security and reliability, or the efficiency of dispatch
- scheduling costs would be significant for generators 5-30MW in nameplate capacity - an estimated ~\$1.3-1.8 million in once-off costs and \$0.15-0.55 million per year in direct costs alone,³² which is inconsistent with minimising administrative and regulatory burden.

Additionally, this issue will be revisited in the ESB's "Scheduled lite" work program, which will look more holistically at the benefits of participation from participants that are currently non-scheduled.

Stakeholder feedback to the draft determination on this topic was mixed, however, the majority of respondents who engaged with the issue of the scheduling threshold supported the decision to leave it unchanged.³³ Those who argued against the draft decision raised a range of issues, many of which were common among multiple submissions.³⁴

31 AEC rule change request

32 GHD Advisory report - assessment of scheduling costs

33 Submissions to the draft determination: PIAC, Enel X, NODE, Origin, Sun Metals, SA Department for Energy and Mining

34 Submissions to the draft determination: AEC, Shell, Snowy, Stanwell

One such issue was the fact that some networks in the NEM already apply a 5MW scheduling threshold, and the fact that the WEM has a 10MW scheduling threshold.³⁵ While it is interesting that some network service providers have chosen to impose this requirement, the Commission's view is that this does not change the results of the cost-benefit analysis that the Commission has undertaken on this matter. The Commission also notes that at least one transmission network service provider who has imposed such a requirement cited a specific reason for this ("the need to facilitate high transfers on Basslink and the main network")³⁶ which does not necessarily apply to the NEM more broadly.

Another issue raised by stakeholders who favour a lower scheduling threshold is the possibility of rapid future growth in the 5-30MW generation bracket.³⁷ While this is possible, analysis undertaken by the Commission on projected future growth of these generators indicates that the proportion of generation that falls into the 5-30MW bracket will remain low. Of the 5,665MW of committed generation capacity in the NEM, 5-30MW generators account for only 82.2MW, or 1.45% of total committed capacity.³⁸ Based on this information, it is not evident that this group of generators will pose additional problems in the near future.

The Commission did not consider that any of the submissions opposing the decision raised any relevant additional evidence that would warrant changing the threshold.

AEMO's request for clarification of its powers

AEMO's submission to the draft determination did not disagree with the Commission's decision to retain the scheduling threshold at 30MW. However, it argued that in order to maintain control over the power system in the future (with generators in the 5-30MW nameplate capacity bracket remaining unscheduled), the rule change should include some modifications to AEMO's powers under clause 2.2.3(c) and 3.8.2(e) of the NER as well as increases to minimum access standards for non-scheduled generating units. AEMO requested changes be made to the two clauses to allow it to consider the future power system condition and groups of generators (rather than a specific generator).

It is the view of the Commission that AEMO can already achieve many of the outcomes it describes in its submission via its existing powers. This includes that clause 3.8.2(e) already provides AEMO the ability to consider more than one participant when determining the requirements for participating in central dispatch. Further, the changes requested by AEMO to consider groups of generators rather than a specific generator is significantly broad and could impact a broad range of participants and could impose significant costs on participants. In the Commission's view, given AEMO's current powers and the potential for AEMO's suggested changes to impact a broad range of participants, the benefits of the proposed change would unlikely outweigh the costs on participants. Therefore, the Commission has determined not to make the requested change.

35 Submissions to the draft determination: AEC, Stanwell

36 Submissions to the consultation paper: TasNetworks

37 Submissions to the draft determination: AEC, Stanwell, AGL, Shell

38 AEMO Generator Information Page as at January 2021

2.4.2

Non-scheduled classification conditions

Local use scheduling exemption to be removed

The Rules currently require AEMO to approve a generating unit's classification as non-scheduled where the:

1. Primary purpose of the generating unit is local use and it would rarely, if ever, send out electricity above the 30 MW threshold.³⁹
2. Physical attributes of the relevant generating unit means it would not be practicable for it to participate in central dispatch.⁴⁰

The AEC's rule change request proposed to remove the first test. More detail, including the proponent's reasoning, can be found in Section 3.1 of the consultation paper for this project.

The Commission's draft determination included the change proposed by the AEC, which removed the relevance of the generator's purpose in determining whether a generator should be exempt from scheduling obligations. The reasoning was that the change contributed to the NEO. This is because narrowing the grounds upon which AEMO must approve a large generating unit as non-scheduled enhances security and reliability in the NEM.

While the majority of stakeholders who commented on this issue agreed with the change (67%),⁴¹ some raised concerns.

Both Sun Metals⁴² and AEMO⁴³ raised the issue of a potential loss of flexibility for participants who may wish to build innovative facility configurations in future - for example, hybrid facilities. The Commission considered that, overall, the benefits of removing the clause outweighed the potential loss of flexibility for participants. This was because:

- There are no existing examples of participants who have used the exemption in question for this purpose. Clause 2.2.3(b)(1) has been relied upon as the sole reason for a scheduling exemption very rarely (only once on record, and another time it was jointly relied upon with a clause which has since been removed).⁴⁴
- The reliability and security benefits of scheduling large generators are significant given the potential issues an unscheduled generator greater than 30MW in nameplate capacity could cause.

Clarification of treatment of groups of generating units

The AEC rule change also raised the issue of the proliferation of small generating units aggregated to form large generating systems. In its view, such large generating systems should be required to be scheduled if they are greater than 30MW in nameplate capacity, regardless of the size of the individual units. The rule change request raised concern about the consequences for the power system if AEMO did not factor the output of large non-

39 Clause 2.2.3(b)(1) of the Rules

40 Clause 2.2.3(b)(2) of the Rules

41 Submissions to the draft determination: AEC, Origin, Snowy, Stanwell, SA Department for Energy and Mining

42 Submissions to the draft determination: Sun Metals

43 Submissions to the draft determination: AEMO

44 AEMO Registration and Exemption List https://www.aemo.com.au/-/media/Files/Electricity/NEM/Participant_Information/NEM-Registration-and-Exemption-List.xls

scheduled generating systems into its forecasting and dispatch processes, which could contribute to inaccuracies and inefficiencies.⁴⁵ More detail, including the AEC's proposed solution, can be found in Sections 3.1 and 3.2 of the consultation paper for this project.

The AEMC has chosen to make a more preferable rule to address this issue, as outlined in the draft determination. The more preferable final rule clarifies the current practice of considering the nameplate capacity of groups of generating units behind a common connection point together. In practice, the more preferable final rule amends clause 2.2.3(a) of the Rules to clarify that groups of generating units behind a common connection point with a combined nameplate capacity of 30MW or greater will not be eligible to be classified as non-scheduled, unless they meet the requirements in clause 2.2.3(b) of the Rules.

All stakeholders who commented on this issue in their submissions to the draft determination supported the Commission's decision.⁴⁶

Transitional arrangements

The more preferable final rule upholds the transitional arrangements outlined in the draft determination. The rule contains transitional arrangements that specify that a person that has been exempted from the requirement to register as a generator under *AEMO's guide to generator exemptions and classification of generating units* guideline, or a generating unit that has been classified as a non-scheduled generating unit under clause 2.2.3(b)(1) of the Rules, will remain so under the new Rules and registration information resource and guideline on the same terms and conditions (if any).

Only one stakeholder raised an issue with this. NODE supported the decision broadly but raised the issue of whether the transitional arrangements could be extended to include projects currently in the connection process that are eligible for an automatic exemption, not just to pre-existing projects. The Commission does not consider that this is necessary given the implementation timeframe for the new rule. Schedule 1 of the new rule will commence on 21 April 2022, meaning that participants will have several months of notice before the rule takes effect.

2.4.3

Conditional exemptions

Mr Vermeer's rule change proposed that AEMO grant a two-year conditional exemption from the requirement to register as a generator for generators eligible for an exemption.⁴⁷ Mr Vermeer considers that the current form of the Rules are unclear as to which connection process and performance standards apply to 5-30MW embedded generators who may be eligible for an AEMO exemption from registration.⁴⁸ Consequently, his proposed change aimed to offer connection applicants confidence that their projects would be exempt from registration earlier in the process, by enabling connection under Chapter 5A from the outset

⁴⁵ AEC rule change request, pages 2-3

⁴⁶ Submissions to the draft determination: Shell, AEC, NODE, Origin, Snowy, SA Department for Energy and Mining

⁴⁷ Mr Vermeer rule change request, page 10

⁴⁸ Ibid, page 1

(as opposed to the Chapter 5 process).⁴⁹ More detail on the proponent's solution, and the reasoning behind it, is included in Section 3.1 of the consultation paper.

The Commission has upheld its decision from the draft determination to make a more preferable final rule. More detail on this, including the reasons that the Commission decided against adopting Mr Vermeer's solution, are in Section 2 of the draft determination.

The more preferable final rule does the following:

- The connection process - the rule clarifies that a:
 - Non-registered embedded generator - i.e. a generator who would normally connect under the more streamlined Chapter 5A connection process - who elects to connect to the distribution network under Chapter 5 - must also comply with the same access arrangements as other embedded generators. In other words, it must fully comply with the Chapter 5 process.
 - Person seeking to connect an embedded generating unit that is required to apply to AEMO for an exemption under the registration information resource and guideline must connect under rule 5.3 and 5.3A of the Rules, as applicable. In other words, if the connection applicant is not automatically exempt from registration by AEMO, it must connect under the Chapter 5 connection process.
- Performance standards - applicants who connect under Chapter 5 must comply with the generator technical performance standards. However, the current Rules provide an exception from this requirement based on eligibility for exemption.⁵⁰ The more preferable final rule clarifies that schedule 5.2 of the Rules does not apply to a person, in respect of a generating system that they own, operate or control, if:
 - that person has received an exemption from the requirement to register as a generator under clause 2.2.1(c), or is eligible for an automatic exemption under the registration information resource and guideline, subject to any terms and conditions imposed by AEMO as part of that exemption, and
 - that generating system is connected, or the person intends to connect it, and
 - the NSP is satisfied that the generating system is unlikely to cause a material degradation in the quality of supply to other network users.

Most stakeholders were silent on this issue, or supportive of the draft decision.⁵¹ Mr Vermeer's submission raised some issues on this topic. While he did not oppose the decision to clarify the connection process and application standards in principle, his submission objected to the fact that the Commission clarified the existing practice when he believed an alternative process could be preferable.⁵² Specifically, his submission raises the following issues:

⁴⁹ Ibid, page 1

⁵⁰ AEMO Guide to generator exemptions and classification of generating units, page 8

⁵¹ Submissions to the draft determination: NODE

⁵² Submissions to the draft determination: D Vermeer

- He believes that small generators should not be subject to Chapter 5 performance standards because compliance with Schedule 5.2 may require large and expensive capital investments.⁵³
- He considers that the wording of the clarification of the performance standards is ambiguous and may not contribute to the NEO, because it is unclear how an NSP would determine whether a generating unit is "intended for use in a manner the relevant NSP considers is unlikely to cause a material degradation in the quality of supply to other network users".⁵⁴ Mr Vermeer questioned whether the wording in question was fit to add into the Rules.

With regard to the first issue, the Commission notes that the Rules do not include a generator size to determine whether an applicant should use a Chapter 5 or Chapter 5A connection process. Rather, the relevant connection process is determined by whether an applicant is required to apply to AEMO for an exemption from registration or automatically exempt, based on AEMO's standing exemption. The Commission has not determined that it is appropriate to extend this automatic exemption at this time.

Regarding the second issue, the Commission emphasises that the wording in question is not new as a result of this rule change, but rather that it has been moved to make the existing Rules clearer.

The more preferable final rule has been upheld from the draft determination because it contributes to the NEO. This is because it increases the certainty and efficiency in the connection process and application of generator technical performance standards.

2.4.4

Transparency of AEMO's processes and decisions

Proposed Registration guidelines from the draft determination

Both rule change requests aimed to increase transparency in AEMO's processes and decision-making.⁵⁵ Details on the proposed solutions are in Section 3 of the consultation paper. Details on why the Commission decided to make a more preferable draft rule are in Section 2 of the draft determination.

The more preferable draft rule in the draft determination included a requirement for AEMO to develop, maintain and publish guidelines for registration, classification and exemption processes conducted by AEMO under Chapter 2 of the Rules (Registration guidelines), which include a description of the:

- process for applications for registration, classification and exemption under this Chapter and, where relevant, the matters AEMO will or may take into account in assessing such applications
- process for aggregation under clause 3.8.3
- information to be contained in energy conversion models

53 Ibid, page 1

54 Ibid, page 1

55 AEC rule change request and Mr Vermeer rule change request

- information that AEMO may require applicants to provide and information that AEMO may make available at each stage of an application process.

The rule required that AEMO follow the Rules consultation procedures when amending the Registration guidelines, unless the amendment was minor or administrative.

Stakeholders were overwhelmingly supportive of this proposal,⁵⁶ although several argued that the transparency requirements should go further.⁵⁷ Only AEMO raised opposition to the more preferable draft rule.

Of those stakeholders arguing that the Registration guidelines would not do enough to ensure transparency around AEMO's decision-making, several suggested that the Commission should adopt the AEC's proposal for AEMO to be required to publish reasons for exercising its discretion during the registration and classification process.⁵⁸ In particular, the AEC submission mentioned that the existence of guidelines may not have aided participants in understanding the reasons behind AEMO's recent decision to re-register 227MW of generation plant as non-scheduled in South Australia.⁵⁹

The Commission's view is that it is impractical to require AEMO to publish reasons behind decisions made on registration and classification because such decisions often hinge on confidential information. The AEC's submission noted that in the instance of AEMO's recent decision to re-register the generation as non-scheduled, "(r)equests for an explanation were rebuffed on confidentiality grounds".⁶⁰ This is a reflection of the challenges involved in trying to achieve transparency around such decisions. The Commission's expectation is that the consultation requirements in the more preferable final rule regarding the process for exemption from the requirement to register as a generator and classification as a non-scheduled generator can facilitate better understanding and transparency around the reasons for AEMO's decisions in these areas, given participants will have the opportunity to raise questions or concerns when AEMO makes changes that are not minor or administrative.

New rule based on AEMO's feedback

AEMO's submission highlighted that the proposal could potentially be very expensive for AEMO to implement. In subsequent conversations, AEMO indicated that a primary cause of this concern was the difficulty in determining whether a change could be considered minor or administrative (and thus exempt from consultation). This concern drove very high estimates of the required numbers of consultation rounds in a year and the associated cost.⁶¹

The Commission has taken this feedback on board and determined to make a more preferable final rule. This new rule still achieves increased transparency and consultation, but at a substantially lower cost. This is achieved by limiting the scope of documents that require consultation to those concerned with generator exemptions, non-scheduled generating unit

56 Submissions to the draft determination: Shell, AEC, Enel X, NODE, Origin, Snowy, Stanwell, Sun Metals, SA Department for Energy and Mining

57 Submissions to the draft determination: AEC, Origin, Snowy, Stanwell

58 Submissions to the draft determination: AEC, Origin, Snowy, Stanwell

59 Submissions to the draft determination: AEC, page 3

60 Ibid, page 3

61 Submissions to the draft determination: AEMO, pages 9 to 10.

classification and energy conversion models, which have a direct impact on participants' rights. While the amended requirement is more limited in scope, it is still expected that AEMO will consult on any broader changes to the process for registration, classification, aggregation and exemption that affect participants' rights. AEMO has also agreed to improve its processes in a way that increases transparency around changes to all documents, even those which do not require consultation to change. While this is not formally captured in the more preferable final rule, the registration resource and guideline will include the processes for registration, classification and exemption under Chapter 2 and the matters AEMO will or may take into account when assessing such applications, which coupled with AEMO's intention to increase transparency will ensure better outcomes in this area.

Under the more preferable final rule, AEMO will be required to:

- develop, publish and maintain the registration information resource and guideline to assist Registered Participants engage with AEMO under Chapter 2 of the Rules. The registration information resource and guideline must include a description of:
 - the process for registration and classification under Chapter 2 of the Rules and, where relevant, the matters that AEMO will take into account in assessing such applications
 - the matters AEMO will take into account in granting exemptions under Chapter 2 of the Rules, whether the exemption is automatic or requires an application, and where an application is required, the process for that application;
 - the information that AEMO requires applicants to provide and the information that AEMO will make available at each stage of an application process, and the time frames for providing that information;
 - the circumstances under which AEMO will impose terms and conditions of classification or exemption, and the nature of those terms and conditions
 - the information to be contained in energy conversion models.
- consult on amendments to the registration information resource and guideline that relate to the following matters (unless such amendments are minor or administrative):
 - the process for applying for an exemption under clause 2.2.1(c) of the Rules from the requirement to register as a generator, and the matters AEMO will take into account when assessing such applications
 - the circumstances under which AEMO will impose terms and conditions under clause 2.2.3(c) of the Rules in relation to the classification of a generating unit as a non-scheduled generating unit, and the nature of those terms and conditions
 - the information to be contained in energy conversion models.
- The more preferable final rule achieves the NEO because it promotes transparency and certainty for stakeholders. This is because participants will receive clear communication when certain aspects of the registration information resource and guideline that affects their rights is going to change. Furthermore, the consultation process will add transparency as stakeholders will have the ability to have their view heard and ask questions throughout the process. The change between the more preferable draft rule and more preferable final rule also contributes to the NEO because it minimises

administrative and regulatory burden on AEMO by clarifying the intent of the change was only to consult on changes to certain aspects of the registration information resource and guideline that are not minor or administrative.

ABBREVIATIONS

AEC	Australian Energy Council
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
Commission	See AEMC
ESB	Energy Security Board
GPS	Generator performance standards
MCE	Ministerial Council on Energy
NEL	National Electricity Law
NEO	National electricity objective
NSP	Network service provider

A SUMMARY OF OTHER ISSUES RAISED IN SUBMISSIONS TO THE DRAFT DETERMINATION

This appendix sets out the issues raised in the first round of consultation on this rule change request and the AEMC's response to each issue. If an issue raised in a submission has been discussed in the main body of this document, it has not been included in this table.

Table A.1: Summary of other issues raised in submissions to the draft determination

STAKEHOLDER	ISSUE	AEMC RESPONSE
Shell	Shell is concerned that clause 2.2.3(c) of the Rules is too broad, and that the AEMC should amend the more preferable draft rule to outline the process that AEMO must follow when deciding whether scheduling requirements should be imposed on an otherwise exempt generator (Shell submission, page 3)	The clause identified by Shell is not a new addition with this rule change - it is an existing part of the Rules. The AEMC has been advised by AEMO that AEMO needs to be flexible in how it can apply such provisions in order to maintain control of the power system, and as such, imposing more control over this process through the Rules is inappropriate
Shell	Asked for clarification whether AEMO can use its powers under 2.2.3(c) only at the time of a generator's application, or at any time (Shell submission, page 3)	The Commission considers that AEMO can only impose conditions under 2.2.3(c) at the time of a generator's application
Enel X	Identified that AEMO was not required to consult on the first version of the guidelines. Requested that AEMO consult on material changes made between now and when the first version of the guidelines are published (Enel X submission, page 3)	It is the intent of the rule that AEMO will consult on changes to the identified documents that affect participants' rights, including any changes that may need to be made before the guidelines are first formally published. AEMO are not, however, required to consult on the initial set of

STAKEHOLDER	ISSUE	AEMC RESPONSE
		guidelines.
Major Energy Users (MEU)	MEU asked for the more preferable draft rule to be modified to allow a generator seeking to be classified as non-scheduled to appeal an AEMO decision during the application process without becoming a market participant first. The current rules require an appellant to be a NEM participant (MEU submission, page 2)	This issue was not considered relevant to the more preferable draft or final rule, as the Commission is not within the scope of this rule change to change the dispute resolution processes within the NEM
Major Energy Users (MEU)	Expressed concern around whether removing the "local use" exemption would mean that backup generators had to be scheduled (MEU submission, pages 1-2)	In practical terms, it is unlikely that a backup generator would be larger than 30MW (smaller generators would receive an exemption from scheduling requirements). The clause has only been solely relied upon for an exemption once on record
Sun Metals Corporation (SMC)	SMC considers that there should be a development of principles to guide the way AEMO makes decisions under the NER, which should reflect the NEO (SMC submission, page 2)	The Commission considers that AEMO already has sufficient direction in how to exercise its powers, with a clear mandate to do so in a way that maintains the security of the system
Sun Metals Corporation (SMC)	SMC has suggested introducing an independent arbiter to oversee AEMO's decisions (SMC submission, page 2)	The AER already performs the function of an independent agency enforcing the NER
Sun Metals Corporation (SMC)	SMC would like AEMO to provide the proponent with reasons for its determinations and for these to be able to be shared publicly, with confidential information redacted if need be	The Commission considers that the requirement in the new rule for AEMO to publish guidance on matters it takes into account at the time of registration and classification to be sufficient

STAKEHOLDER	ISSUE	AEMC RESPONSE
	(SMC submission, pages 2,4)	additional disclosure of the reasons for its decisions
Mr Damien Vermeer	Mr Vermeer has called for the inclusion of further detail on what qualifies as a "minor or administrative amendment"	The Commission has engaged with AEMO about similar concerns in identifying minor and administrative amendments. AEMO considers the Commission's amendments between the more preferable draft rule and the more preferable final rule to have sufficiently helped them to determine what will require consultation. The Commission has also clarified that the intent of the more preferable final rule is to require consultation on all changes that affect participants' rights
Mr Damien Vermeer	Mr Vermeer was concerned that the more preferable draft rule did not provide adequate protection to grandfather existing arrangements that generators had with AEMO	The more preferable final rule does not affect arrangements that are already in place. It provides for generators that are currently classified as non-scheduled to remain so after the new rule comes into effect. The Commission considers that this provides adequate certainty to participants that their previous arrangements will be allowed to continue when the rule change takes effect

B LEGAL REQUIREMENTS UNDER THE NEL

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

B.1 Final rule determination

In accordance with s. 102 of the NEL the Commission has made this final rule determination in relation to the rules proposed by the AEC and Mr Vermeer.

The Commission's reasons for making this final rule determination are set out in section 2.4.

A copy of the more preferable final rule is attached to and published with this final rule determination. Its key features are described in section 2.4.

B.2 Power to make the rule

The Commission is satisfied that the more preferable final rule falls within the subject matter about which the Commission may make rules. The more preferable final rule falls within s. 34 of the NEL as it relates to the operation of the national electricity market⁶² and the activities of persons (including Registered participants) participating in the national electricity market or involved in the operation of the national electricity system⁶³.

B.3 Commission's considerations

In assessing the rule change request the Commission considered:

- its powers under the NEL to make the more preferable final rule
- the rule change request
- submissions received during first and second round consultation
- the Commission's analysis as to the ways in which the more preferable final rule will or is likely to, contribute to the NEO.

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.⁶⁴

The Commission may only make a rule that has effect with respect to an adoptive jurisdiction if satisfied that the rule is compatible with the proper performance of Australian Energy Market Operator (AEMO)'s declared network functions.⁶⁵ The more preferable final rule is compatible with AEMO's declared network functions because it does not amend or affect those.

⁶² NEL, section 34(1)(a)(i)

⁶³ NEL, section 34(1)(a)(iii)

⁶⁴ Under s. 33 of the NEL 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. The amalgamated council is now called the Energy Ministers Meeting

⁶⁵ Section 91(8) of the NEL.

B.4 Civil penalties

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

The more preferable final rule does not amend any clauses that are currently classified as civil penalty provisions under the NEL or 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 more preferable final rule be classified as civil penalty provisions.

B.5 Conduct provisions

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

The more preferable final rule does not amend any rules that are currently classified as conduct provisions under the NEL or 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 more preferable final rule be classified as conduct provisions.