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Australian Energy Market Commission  
GPO Box 2603  
Sydney NSW 2000

## Submitted online

### **AEMC draft rule determination: ERC0290 Operational Security Mechanism**

Essential Energy welcomes the opportunity to respond to the Australian Energy Market Commission (AEMC) on its draft rule determination to establish an Operational Security Mechanism (OSM). As stated in the draft determination, the OSM is designed to enable the Australian Energy Market Operator (AEMO) to value, procure and schedule security services in the National Energy Market (NEM).

Essential Energy supports the AEMC's endeavours to ensure that system security services are provided efficiently to facilitate the transition to service-led management of the power system and encourage technological innovation. However, as a principle the rule should not limit technological innovation in the way that system support services are to be provided in the future or restrict its provision to a limited range of providers.

Under the draft determination, potential participants in an OSM market are deemed ineligible to be scheduled if infrastructure used in participation is part of a regulated asset base.<sup>1</sup> The rationale provided is that: *"The Commission does not consider it is appropriate for infrastructure in the regulated asset base, paid for by consumers, to participate in a competitive market where it would be paid for by consumers again for the service"*.

Essential Energy considers that if the objective of the draft rule is the efficient provision of system security services, and to encourage technical innovation, then the exclusion of potential low-cost providers in the market will neither deliver the service at the most efficient cost, nor foster the desired level of technical innovation.

Essential Energy understands the issues related to market power and the use of the regulated asset base the Commission is seeking to address. However, it also notes that the Australian Energy Regulator (AER) has the ring-fencing, cost allocation and other regulatory assessment tools necessary to ensure that if networks are to participate in a market, that they do so in a manner which delivers value to customers and is in their long-term interests. Further, the current eligibility requirements outlined in the draft rule, restrict innovation by networks in the development of revenue-sharing models which deliver the proceeds of additional revenue streams directly back to the consumers who have paid for the assets. In this regard, the AER is currently considering a notice from AEMO to waiver ringfencing requirements to enable distribution network service providers to provide voltage support.

Essential Energy considers that, as a broad principle, the rules should incentivise networks to optimise asset utilisation where it does not materially prejudice use of those assets for standard control services, and where the network is able to demonstrate the flow of benefits directly to customers. This is particularly the case where localised network conditions, such as in remote and regional communities, limit the viability and thus availability of competitive providers. In such instances there

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<sup>1</sup> AEMC, Operational security mechanism; Draft rule determination, September 2022, p. 35.

may be a case for network participation in what otherwise might be deemed a competitive market. For example, a provider of last resort service has been operating successfully in Essential Energy's operating area of NSW, and being introduced in Tasmania, providing access to timely, quality and affordable services to remote and regional communities without affecting the competitive market. Networks provide these services on an efficient cost basis, to improve the customer experience, not as an opportunity to extract monopoly rents. In doing so, networks can assist to bridge the gap between services which are available through the competitive market in population dense locations with their remote and regional counterparts.

If you have any queries regarding this submission, please contact our Regulatory Strategy Manager, Adam Young on 0414 926 406 or via [adam.young@essentialenergy.com.au](mailto:adam.young@essentialenergy.com.au).

Yours sincerely



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