Australian Energy Market Commission

AEMC
Australian Energy Market Commission

RULE

## Draft rule determination

# National Electricity Amendment (Clarifying Registration for Non-Generating Units Providing System Security Services ) Rule 2025

Proponents
CS Energy

**11 September 2025**

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**Reference: ERC0402**

## 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 more preferable draft rule (draft rule) to clarify participant registration arrangements for standalone synchronous condensers. The draft rule clarifies the application of the existing integrated resource provider (IRP) registration category to these plant connected at a market connection point.

2 The national electricity system is undergoing a transition from thermal synchronous generators, such as coal and gas, to be dominated by inverter-based resources (IBR) such as wind, solar and batteries. The retirement of thermal synchronous generators requires the provision of system support services from other plant, some of which may come from the construction of new standalone synchronous condensers.

3 The draft rule addresses a rule change request from CS Energy, which requested that a new registration category be implemented to clarify participant registration with respect to standalone synchronous condensers. CS Energy considered that the lack of a specific participant registration category in Chapter 2 precluded these plant from delivering system security services.

4 For this rule change, the Commission has developed a more preferable draft rule. It considers the draft rule better contributes to achieving the NEO, as it addresses the issues raised by CS Energy's proposal in a simpler way, enabling more timely clarification and supporting investment in standalone synchronous condensers.

5 We are seeking feedback on our draft determination and draft rule by **23 October 2025.**

## The draft rule will clarify participant registration arrangements for standalone synchronous condensers in the NEM

6 The Commission has proposed to clarify the application of the IRP registration category by adding a note to clause 2.3.4(b) of the NER, which relates to market connection point classification, to make explicit mention of its application to synchronous condensers.

7 The Commission considers that the issues raised in the rule change request can be addressed by existing arrangements. The Commission, however, acknowledges that existing arrangements are not explicit in their application to standalone synchronous condensers. Adding a note to clause 2.3.4 of the NER would address this issue.

8 This note would provide clear guidance on the interpretation of this clause in respect of synchronous condensers for the purposes of participant eligibility to register as an IRP. In particular, the clause would provide clear guidance on IRP registration in respect of a standalone synchronous condenser connected at a connection point that has been classified as a market connection point.

9 The draft rule adopts a minimal change approach to deliver timely clarity on the interpretation of existing arrangements, rather than introducing more substantial modifications to the NER, which we consider addresses the issues identified by CS Energy. As we continue to learn how standalone synchronous condensers engage in the market, there may need to be future changes to the NER registration categories related to the treatment of synchronous condensers or other non-generating units. Such changes would be considered based on appropriate evidence at the time.

## The Commission has considered stakeholder submissions in making its decision

10 The Commission has made its draft rule considering stakeholder submissions made to the consultation paper published on 3 June 2025. The Commission particularly notes that while the majority of stakeholders supported CS Energy's proposal for a new registration category, the material issue that motivates stakeholder requests for a new registration category is a desire for clarity and certainty to support investment decision-making.

11 The Commission agreed with AEMO's submission that supported applying the IRP registration category to standalone synchronous condensers, but based on them being connected at a market connection point rather than as an integrated resource system. AEMO considered that this approach provided scope for registration that enabled the provision of NER system security services without requiring a new registration category.

12 The Commission's draft rule therefore addresses stakeholder requests for clarity but in the context of existing arrangements. By clarifying the application of IRP participant registration for standalone synchronous condenser connections at a market connection point, the NER would clearly and explicitly reference synchronous condensers, eliminating uncertainty in interpretation and enhancing investment outcomes.

## We assessed our draft rule against four assessment criteria using regulatory impact analysis and stakeholder feedback

13 The Commission has developed a more preferable draft rule which it considers better contributes to achieving the National Electricity Objective (NEO), as it addresses the issues raised by CS Energy's proposal in a simpler way, enabling more timely clarification and supporting investment in standalone synchronous condensers.

14 Both CS Energy's proposal and the draft rule improve clarity and confidence in participant registration in respect of synchronous condensers implemented for system security purposes. However, the Commission considers that the draft rule provides additional benefits as it:

- leverages existing registration categories and avoids additional rule complexity by introducing new registration categories
- provides a faster and more timely pathway to enabling early plant investment, and
- leaves consideration of any new registration category to broader framework reform processes.

15 The Commission has considered the NEO[1] and the issues raised in the rule change request, and assessed the draft rule against four assessment criteria outlined below.

- **Safety, security and reliability** - The Commission considers the draft rule would both enhance NEM safety, security and reliability, as clear registration pathways for standalone synchronous condensers will support timely investment, thereby providing the system security services needed to maintain system security as existing thermal generation exits the market.
- **Principles of market efficiency -** The draft rule would enhance market efficiency in delivering system security services, particularly system strength and inertia, by enhancing investment certainty in non-network standalone synchronous condensers, and potentially other non-network plant. Enhanced investment certainty would increase levels of competition and would be expected to decrease overall costs for consumers, given the potential for synchronous generator conversion to be a lower-cost option than implementing new network plant.

1 Section 7 of the NEL.

- **Principles of good regulatory practice -** The Commission considers that the draft rule is consistent with the principles of good regulatory practice as it promotes predictability, stability, and transparency for investors. The draft rule has the advantage of being substantially simpler than the proposed rule, as it provides clarity, simplicity, and transparency using existing arrangements and is the simplest feasible approach that also minimises the risk of unintended consequences that could arise from introducing a new registration category.
- **Implementation considerations** - The draft rule represents the most timely and straightforward solution, minimising rule change and implementation timelines. The Commission considers that simple, timely measures delivers early certainty, helping to guide investment decisions.

# How to make a submission

## We encourage you to make a submission

Stakeholders can help shape the solution by participating in the rule change process. Engaging with stakeholders helps us understand the potential impacts of our decisions and contributes to well-informed, high quality rule changes.

## How to make a written submission

**Due date:** Written submissions responding to this draft determination and rule must be lodged with Commission by **23 October 2025.**

**How to make a submission:** Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code ERC0402.[2]

Tips for making submissions on rule change requests are available on our website.[3]

**Publication:** The Commission publishes submissions on its website. However, we will not publish parts of a submission that we agree are confidential, or that we consider inappropriate (for example offensive or defamatory content, or content that is likely to infringe intellectual property rights).[4]

## Next steps and opportunities for engagement

There are other opportunities for you to engage with us, such as one-on-one discussions.

You can also request the Commission to hold a public hearing in relation to this draft rule determination.[5]

**Due date:** Requests for a hearing must be lodged with the Commission by COB Thursday 18 September 2025.

**How to request a hearing:** Go to the Commission's website, www.aemc.gov.au, find the "lodge a submission" function under the "Contact Us" tab, and select the project reference code ERC0402. Specify in the comment field that you are requesting a hearing rather than making a submission.[6]

2 If you are not able to lodge a submission online, please contact us and we will provide instructions for alternative methods to lodge the submission

3 See: https://www.aemc.gov.au/our-work/changing-energy-rules-unique-process/making-rule-change-request/our-work-3

4 Further information about publication of submissions and our privacy policy can be found here: https://www.aemc.gov.au/contact-us/lodge-submission

5 Section 101(1a) of the NEL.

6 If you are not able to lodge a request online, please contact us and we will provide instructions for alternative methods to lodge the request.

# Contents

# 1 The Commission has made a draft determination

The Commission has made a draft more preferable rule (draft rule) to clarify registration arrangements for standalone synchronous condensers that provide system security services.

The draft rule addresses a rule change request from CS Energy and would provide greater clarity and confidence in standalone synchronous condenser registration. Thus, it would encourage investment in such plant as non-network options for delivering system security services, in particular (but not limited to) inertia and system strength.[7]

## 1.1 We have clarified the applicability of the integrated resource provider (IRP) registration category to standalone synchronous condensers

The Commission's draft rule clarifies the application of the existing integrated resource provider (IRP) registration category in respect of standalone synchronous condensers.

The Commission has proposed clarifying the application of the IRP registration category by adding a note to clause 2.3.4(b) of the NER. This note would provide explicit guidance on the interpretation of this clause and its application in respect of a standalone synchronous condenser at a market connection point. The Commission recognises the value of clear NER arrangements and considers that the NER should be clarified in respect of these plant given that the rules are not currently explicit in their application.

## 1.2 We received a rule change request that proposed a new registration category for non-generating systems providing system security services

On 20 August 2024, the Commission received a rule change request from CS Energy proposing a new registration category for non-generating systems that provide system security services. The request specifically sought to clarify registration arrangements for standalone synchronous condensers, but also provided scope for the registration of any non-generating units providing system security services in the NEM.[8]

CS Energy's rule change request identified what it considers to be a barrier in the existing NER that affects the conversion of synchronous generators into standalone synchronous condensers after generating system retirement. Once retired, a synchronous generator is declassified as a scheduled generating unit, but CS Energy considers it lacks an alternative registration category in the NER to register as a standalone synchronous condenser.[9]

CS Energy considers that this may preclude a standalone synchronous condenser from providing system security services under the NER system strength and inertia frameworks, which require non-network services to be provided by a Registered Participant.[10] To address this issue, CS Energy proposed introducing a new participant registration category, "non-generating system service provider" to Chapter 2 (Registered Participants and Registration) of the NER. This category would apply to participants with non-generating units that provide system security services, including system strength, fault levels, and inertia-related services.[11]

7 Standalone synchronous condensers are synchronous condensers that are not associated with a generator or integrated resource system, and are not a network plant that is owned by a network service provider. Synchronous condensers may also be installed as part of a generating or integrated resource system..

8 CS Energy, rule change request, p. 7.

9 Ibid.

10 CS Energy, rule change request, p. 5.

For more information, see: https://www.aemc.gov.au/rule-changes/clarifying-registration-non-generating-units-providing-system-security-services.

## 1.3 Stakeholder feedback shaped our determination

On 3 June 2025, the Commission published a consultation paper seeking stakeholder input on CS Energy's proposed new registration category as well as the Commission's preferred approach of extending existing arrangements by applying the IRP category.[12]

The Commission received 11 submissions to its consultation paper.[13] The majority of stakeholders supported the rule change's intent to enhance clarity in the participant registration applying to synchronous condensers, thereby supporting investment in non-network, non-generator plant to provide system security services.

The majority of stakeholders also supported CS Energy's proposal for a new registration category, considering it provided the best clarity and confidence, thereby supporting investment confidence.[14] In particular, CS Energy and the AEC both considered that a new registration category would be the cleanest option and have the advantage of not affecting other existing registration categories. They noted the proposed category is broad and technologically neutral, encompassing all non-generating technologies capable of providing essential system services (ESS). They considered this would provide greater flexibility for future innovation and participation in emerging market mechanisms.[15]

Australian Energy Operations (AEO) strongly supported the creation of a dedicated registration category, but with synchronous condenser losses treated as network losses rather than consumption settled in the energy market.[16] AEO views current arrangements where non-network plant losses are settled in the market to impose an inequitable cost burden, with energy costs falling on non-market, non-energy assets such as synchronous condensers that are providing an essential network service. Its submission requested that standalone synchronous condensers be treated as providers of regulated transmission services, exempt from metering, to establish a level playing field with network assets.[17]

No stakeholders supported applying the IRP category to standalone synchronous condensers because they are integrated resource systems under clause 2.1B.2(a)(1) of the NER. Most stakeholder submissions viewed the creation of a new category, as requested by CS Energy, to be simpler than making the extensive changes across multiple chapters of the NER which would be required for a synchronous condenser to be classified as a bidirectional unit and therefore an integrated resource system.[18]

AEMO was the sole stakeholder who supported applying the IRP registration category to standalone synchronous condensers, but based on them being connected at a market connection point rather than as an integrated resource system. AEMO identified that the IRP registration category could be applied to plant connected at market connection points under clause

11 Ibid.

12 The consultation paper can be found: https://www.aemc.gov.au/sites/default/files/2025-06/ERC0402%20-%20Consultation%20paper%20-%20FINAL.pdf

13 Submissions were received from: AEMO, Lynette LaBlack (private individual), Australian Energy Operations (AEO), Origin Energy, Alinta Energy, Energy Australia, Hydro Tasmania, CS Energy, Stanwell, Australian Energy Council (AEC), and Powerlink.

14 Submissions to the consultation paper: AEC, p. 1; Alinta Energy, p. 1; Australian Energy Operations, p. 3; CS Energy, p. 2; Energy Australia, p. 2; Hydro Tasmania, p. 1; Origin Energy, p. 1; Stanwell, p. 1.

15 Submissions to the consultation paper: CS Energy, p. 2, AEC, p. 3.

16 AEO, submission to the consultation paper, p. 1.

17 Ibid.

18 Submissions to the consultation paper; AEMO p. 3, AEC, p. 3; CS Energy, p. 2; Energy Australia, p. 2; Hydro Tasmania, p. 3; Origin Energy, p. 1.

2.1B.2(a)(2) of the NER. AEMO considered that this approach provided scope for registration that enabled the provision of NER system security services without requiring a new registration category.[19] [20]

CS Energy's submission acknowledged the market connection point IRP registration option, but did not consider it sufficiently clear. While noting this approach as technically feasible, CS Energy considered market connection point classification as being designed for load, giving rise to inherent uncertainty on whether these synchronous condensers may be precluded from providing the full suite of ESS services. CS Energy considered such ambiguity to be a key barrier to investing in stand-alone synchronous condensers.[21]

## 1.4 The draft rule addresses stakeholder requests for additional clarity in the context of existing arrangements

The Commission's draft rule clarifies the application of the IRP category to standalone synchronous condensers. The Commission has not elected to implement a new registration category, as proposed by CS Energy. The Commission does not consider a new registration category is necessary for a standalone synchronous condenser to provide all existing system security services. We consider that this can be achieved under existing arrangements. The Commission agrees with AEMO's submission that participants may register under the IRP category by classifying the synchronous condenser connection market connection point. This option is technology-neutral and provides full registration benefits without requiring the plant to meet the definition of an integrated resource system.

The draft rule addresses the key issue of clarity in the application of existing arrangements as a means of addressing stakeholder concerns. The Commission identifies the key stakeholder concern driving the rule change request to be the need for certainty and confidence in the application of the NER to these plant. While current arrangements enable registration of standalone synchronous condensers and other non-generating units for system security services, the Commission acknowledges that the NER does not explicitly state that the IRP registration in respect of a market connection point can be applied to standalone synchronous condensers. The more preferable draft rule, therefore, focuses on clarifying the interpretation of existing arrangements.

Further details on the Commission's reasoning are provided in Chapters 2 and 3.

### 1.4.1 The draft rule confirms the IRP category as a catch-all registration category

The draft rule utilises the flexibility inherent in the design of the IRP registration category. It confirms the IRP participant registration category as a flexible category that can accommodate participant registration with respect to standalone synchronous condensers. The draft rule would clarify that while registration in respect of a market connection point is most commonly associated with retail load, it may also be used to accommodate other plant types, including synchronous condensers.

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

20 AEMO also noted that a person could register as a Market Customer under NER 2.1B.4 in respect of a synchronous condenser and that by virtue of that registration and classification, it would meet any registration preconditions for the provision of system security services.

21 CS Energy, submission to the consultation paper, p. 2.

The IRP registration category was implemented in the AEMC's Integration of energy storage systems into the NEM rule change in 2021 to improve arrangements for storage and support a flexible and technology-neutral approach to participant registration in the NER.[22] The IRP registration category was designed to be flexible and allow registration against a wide variety of integrated resource system configurations, which include different elements such as:

- bi-directional units
- hybrid system units
- DC-coupled units
- aggregated portfolios
- generating units
- end-user connection points.

The IRP category was intended to avoid having to incrementally increase the number of participant registration categories to accommodate the entry of new technologies into the NEM. It aligns with the trader-services model under the ESB's proposed Post 2025 reforms.[23]

### 1.4.2 The Commission has provided specific clarity for synchronous condensers

The draft rule would clarify how the IRP market connection point registration approach applies to standalone synchronous condensers, rather than to all non-generating units providing system security services as sought in CS Energy's rule change request. The draft rule is specific to synchronous condensers to best support near-term investment certainty for synchronous condensers as non-network system strength providers, given their relevance to system strength RIT-T processes currently underway.

The draft rule does not specifically mention other non-generating units that provide system security services. Alternative technologies, such as grid-forming BESS, are unlikely to encounter similar registration challenges, as these systems comprise bidirectional units and, therefore, meet the criteria to be integrated resource systems. While the preferred draft rule offers targeted guidance for synchronous condensers, the IRP market connection point registration approach also remains accessible to other non-generating technologies seeking registration.

### 1.4.3 We have focused on enhancing near-term certainty over framework reform

The draft rule adopts a minimal change approach to deliver timely clarity on the interpretation of existing arrangements, rather than introducing more substantial modifications to the NER. As we continue to learn how standalone synchronous condensers engage in the market, there may need to be future changes to the NER registration categories related to the treatment of synchronous condensers or other non-generating units. Such changes would be considered based on appropriate evidence at the time.

The Commission's approach in this rule change is to focus on addressing the specific issue motivating the CS Energy rule change, which is a need for clarity and certainty. This approach prioritises providing timely clarity to assisft near-term investments, which is of particular significance given the synchronous condenser investments that are likely to be made as a result of the system strength RIT-T processes currently underway.

The Commission particularly notes the issues raised by AEO regarding the treatment of synchronous condenser losses and that under the IRP framework, standalone synchronous

22 AEMC, Integrating energy storage systems into the NEM, Final Determination, p. 25.
23 AEMC, Integrating energy storage systems into the NEM, Final determination, p. 29.

condensers settle in the market based on MW energy consumed from losses. AEO identifies this as differing from synchronous condenser network assets, where losses are recovered through Transmission Use of System (TUOS) charges. AEO raised concerns about financial impacts from high market price events, suggesting this treatment disadvantages standalone assets and places costs inequitably.[24]

We consider this raises a valid question as to the categorisation of plant to ensure efficient investment outcomes in meeting the NEM's system security service needs that may merit further exploration. However, addressing AEO's concerns is likely to require extensive reform to existing NER frameworks, which is more appropriately undertaken in a future holistic reform process. The draft rule would achieve the benefit of providing clarification now and does not prevent exploration of these issues in future.

24 AEO, Submission to the consultation paper, p. 3;

# 2 The rule will contribute to the energy objectives

The Commission has applied the energy objectives in making its draft rule and determination. The following sections present reasons for the Commission's decision, considering each of the Commission's assessment framework considerations.

## 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.[25]

For this rule change, the relevant energy objective(s) is the NEO.

The NEO is:[26]

> 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.[27]

## 2.2 We must also take these factors into account

### 2.2.1 We have considered whether to make a more preferable rule

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 is likely to better contribute to the achievement of the NEO.[28]

For this rule change, the Commission has developed a draft more preferable rule. It considers the draft rule better contributes to achieving the NEO, as it addresses the issues raised by CS Energy's proposal in a simpler way, enabling more timely clarification and supporting investment in standalone synchronous condensers.

Both CS Energy's proposal and the Commission's draft rule would improve clarity and confidence in participant registration in respect of synchronous condensers implemented for system security purposes. By clarifying the application of IRP participant registration for standalone synchronous condenser connections at a market connection point, the NER would clearly and explicitly

25 Section 88(1) of the NEL.
26 Section 7 of the NEL.
27 Section 32A(5) of the NEL.
28 Section 91A of the NEL.

reference synchronous condensers, eliminating uncertainty in interpretation and enhancing investment outcomes.

The Commission considers that the draft rule provides additional benefits as it:

- leverages existing registration categories and avoids additional rule complexity by introducing new registration categories
- provides a faster and more timely pathway to enabling early plant investment
- leaves consideration of any new registration category to broader framework reform processes.

Detailed reasoning behind the more preferable draft rule is provided in Section 2.3.

### 2.2.2 We have considered whether to make a draft rule for 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 more preferable draft rule does not relate to parts of the NER that apply in the Northern Territory. Chapter 2 "Registered Participants and Registration" has not been adopted and has no effect in the Northern Territory. As such, the Commission has not considered Northern Territory application issues.

## 2.3 How we have applied the legal framework to our decision

The Commission assessed how participants should register standalone synchronous condensers in accordance with the legal framework.

To evaluate whether the proposed rule change, a business-as-usual approach, or other viable rule-based options would better advance the NEO, the Commission applied the following criteria:

- **Safety, security and reliability** - The Commission considered whether each option would support the continued secure operation of the power system, including maintaining system security under declining synchronous inertia and system strength conditions.
- **Principles of market efficiency -** This criterion was used to assess whether each option would promote efficient investment and operational decision-making. The Commission considered each option's implications for allocative efficiency, incentives, and competitive neutrality in supporting least-cost outcomes over time.
- **Principles of good regulatory practice -** We assessed whether each option promoted predictability, stability, simplicity, and transparency. The final rule should be as simple as possible while also providing necessary transparency for potential investors.
- **Implementation considerations** - The Commission evaluated whether each option would be proportionate and timely, taking into account implementation complexity, interactions with other reforms, and the costs of change relative to likely benefits.

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 are set out in Section 4.2 of the consultation paper.

In addition to the criteria set out in the consultation paper, the Commission has elected to also include implementation considerations in making its draft rule. This is to account for the benefits

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

associated with a timely solution that leaves consideration of the role and design of any additional registration categories to future framework reform processes.

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

### 2.3.1 The Commission considers that the draft rule will enhance NEM safety, security and reliability

The Commission evaluated each option's ability to support the secure and reliable operation of the power system. The Commission considers the rule change proposal and the draft rule would both enhance NEM safety, security and reliability over and above retaining existing arrangements. This is because clear registration pathways for standalone synchronous condensers support timely investment, thereby providing the system security services needed to maintain system security as existing thermal generation exits the market.

The Commission particularly notes the system security value of converting existing synchronous generators into stand-alone synchronous condensers after they retire. Thermal generator to standalone synchronous condenser conversions are a potentially faster and lower cost option than investment in new synchronous condensers. Facilitating investment in synchronous generator conversion may be an important contributor to system security, particularly if supply chain constraints affect the speed at which new synchronous condensers can be implemented.

### 2.3.2 The Commission considers its draft rule to be consistent with the principles of market efficiency

The Commission used this criterion to assess whether each option would promote efficient investment and operational decision-making. It evaluated the implications for allocative efficiency, incentives, and competitive neutrality in supporting least-cost outcomes over time. The Commission considers that both the proposed rule and draft rule would enhance market efficiency relative to existing arrangements.

The draft rule would enhance market efficiency in delivering system security services, particularly system strength and inertia, by enhancing investment certainty in non-network standalone synchronous condensers, and potentially other non-network plant. Enhanced investment certainty will increase levels of competition with network assets thereby enhancing the efficiency of the portfolio of network, and non-network solutions that are implemented to maintain system strength and inertia services. Increased competition is particularly expected to decrease overall costs for consumers given the potential for synchronous generator conversion to be a lower cost option than implementing new network plant.

Clear rules that support cost-effective, optimised portfolios improve allocative efficiency. By clarifying the registration process for standalone synchronous condensers, the Commission aims to remove a perceived rule barrier that may hinder lowest-cost solutions. The draft rule would also support dynamic efficiency by incrementally refining existing arrangements, rather than implementing major framework changes. Applying the IRP category would foster industry learning and lay the groundwork for more informed future reforms.

### 2.3.3 The Commission considers that the draft rule is consistent with the principles of good regulatory practice

The Commission assessed whether the rule change promotes predictability, stability, simplicity, and transparency consistent with the principles of good regulatory practice. It considers that both the proposed rule and draft rule are more consistent with the principles of good regulatory

practice than existing arrangements, as they both promote predictability, stability, and transparency for investors. The draft rule has the advantage of being substantially simpler than the proposed rule as it provides clarity, simplicity, and transparency using existing arrangements and is the simplest feasible approach that **also minimises the risk of unintended consequences that could arise from introducing a new registration category.**

### 2.3.4 The Commission considers the following draft rule implementation considerations

The Commission evaluated each option based on proportionality and timeliness, taking into account implementation complexity, interactions with other reforms, and the cost of change relative to expected benefits. The draft rule has a significant advantage over the proposed rule in its implementation.

The draft rule offers a direct and timely way to address the material issue of clarity supporting investment. Introducing a new registration category would require a longer implementation lead time and may require a more extensive rule change process.

The Commission understands that AEMO can immediately update its registration guidelines and supporting materials without needing an implementation period. This low implementation burden limits disruption and supports market confidence.

# 3 How our rule would operate

## 3.1 The draft rule would add a note to the NER to clarify the IRP registration in respect of synchronous condensers at a market connection point

The draft rule would clarify the application of the IRP registration category to standalone synchronous condensers by inserting a note in clause 2.3.4 of the NER.

The note would help readers understand, navigate and interpret the Rules, but would not, by itself, create a legal obligation. It conveys the Commission's intent and offers additional clarification where required. The draft rule note is designed for clarification that is explicit in its application to synchronous condensers.

The note would state that clause 2.3.4(b) relating to market connection point classifications (where electricity supplied through the national grid to or from a connection point is purchased or sold by an end user) applies to synchronous condenser systems for the purposes of eligibility to register as an Integrated Resource Provider under clause 2.1B.2(a)(2). Clause 2.1B.2(a)(2) sets out the eligibility criteria for a person to register as an IRP and links to clause 2.3.4(b).

The Commission considers that the draft rule's note would address CS Energy's concerns, raised in its submission to the consultation paper, that registration in respect of a market connection point was insufficiently explicit and open to interpretation in its application to synchronous condensers.[30]

It should be noted that the existing market connection point arrangements do not specify any restrictions or requirements on the type of plant that can be connected at that connection point. This approach is therefore completely technology-neutral. While the note would provide specific clarity for synchronous condensers, the market connection point approach may be applied to persons seeking registration in respect of any non-network plant.

## 3.2 IRP market connection point registration facilitates standalone synchronous condenser system security service provision

The Commission agrees with AEMO that participants registered as IRP in respect of synchronous condensers connected at a market connection point will be able to provide the full suite of system security services in the NEM.

The draft rule also considers that the barrier CS Energy identified in its rule change request, specifically the need to be a registered participant to contract with a TNSP to provide inertia and system strength services in the NEM,[31] can be addressed by clarifying existing arrangements. IRP registration in respect of a synchronous condenser at a market connection point would address any such requirement.[32].

Existing arrangements, which would be clarified in the draft rule, also allow provision of the full suite of system security services. The Commission has considered CS Energy's concern that a standalone synchronous condenser may be precluded from providing some system security services under existing arrangements, but is not aware of any rules related factor that would prevent an IRP with a standalone synchronous condenser connected at a market connection point

30 CS Energy, submission to the consultation paper, p. 2.

31 CS Energy, rule change request, p. 5.

32 We note AEMO's submission to the consultation paper identified that of the four broad categories of system security services, the rules themselves only require inertia network services to be provided by a registered participant. AEMO, submission to the consultation paper, p. 2

from delivering the full range of system security services. System security services in this regard include inertia and system strength services, as noted in CS Energy's rule change request, as well as Network Support and Control Ancillary Services (NSCAS) and transitional services, which were introduced in the AEMC's recent Improving security frameworks for the energy transition rule change. These are the set of system security services defined in clause 4.4A2 of the NER.[33]

## 3.3 Our rule is consistent with the connections and technical requirements in Chapter 5

The market connection point IRP registration approach is consistent with the technical and connection point obligations set out in Chapter 5. Chapter 5 specifies connection processes and access rights for connecting plant and technical access standards that define performance requirements. A standalone synchronous condenser must satisfy the technical and connection requirements specified in NER Chapter 5 in order to connect to the power system.

The recent Improving the NEM access standards - Package 1 rule change made a set of changes that accommodate standalone synchronous condenser connection and technical standard negotiation.[34], This rule change removed barriers to connection that may have previously existed for IRP plant connected at a market connection point by applying technical standards and connection requirements by plant type rather than registration category. Specifically, technical requirements have now been specified for synchronous condensers in the access standards set out in clause 5.2, with synchronous condensers and synchronous condenser systems now classified as Schedule 5.2 plant, with IRPs recognised as Schedule 5.2 participants.

## 3.4 We anticipate AEMO would update its registration guidance

AEMO's registration information resource offers practical guidance for individuals seeking to become registered participants in the NEM. It plays a key role in supporting market confidence and providing clarity. AEMO's registration guidance information can be found at: https://aemo.com.au/energy-systems/electricity/national-electricity-market-nem/participate-in-the-market/registration

Currently, AEMO's IRP registration documents do not address the potential application of the IRP market connection point approach to standalone synchronous condensers. Following this rule change, if made as proposed, we anticipate AEMO would review and update its registration guidance to incorporate the additional clarity introduced by the rule.

33 Transitional services (TS) are defined in Chapter 10 of the National Electricity Rules as services provided by plant, equipment or facilities to meet a power system security need arising from the transition to a low- or zero-emissions power system. The objective of transitional services is to acquire services that enable AEMO to maintain power system security during the energy transition, particularly where existing ancillary services cannot fulfil security requirements or where new technologies require trialling to secure a low-emissions grid.

34 For further information, see: https://www.aemc.gov.au/rule-changes/improving-nem-access-standards-package-1

# A Rule making process

A standard rule change request 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 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 draft determination and draft rule (if relevant)
- stakeholders lodge submissions on the draft determination 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.[35]

## A.1 CS Energy proposed a rule to introduce a new participant registration category covering non-generating units providing system security services

CS Energy proposed introducing a new Chapter 2 participant registration category in the NER to address barriers preventing non-generating units, particularly standalone synchronous condensers, from providing system security services under the NER inertia and system strength frameworks.[36]

## A.2 The proposal addressed what CS Energy considered to be a barrier in the NER to standalone synchronous condensers providing system security services

The identified barrier specifically affects the conversion of synchronous generators into standalone synchronous condensers after generating system retirement. Once retired, a synchronous generator is declassified as a scheduled generating unit, but CS Energy considers it lacks an alternative registration category in the NER to register as a standalone synchronous condenser.[37]

CS Energy consider the lack of a clear participant registration category, combined with the need to be a registered participant to contract with a TNSP to provide system security services represents a potential barrier to the participation of technologies that do not neatly qualify for any of the existing market registration categories defined in NER Chapter 2 being:

- Generator
- Integrated ResourceProvider (IRP);
- Customer
- Demand Response Service Provider
- Stand-alone Power System Resource Provider, or
- Network Service Provider.

35 See our website for more information on the rule change process: https://www.aemc.gov.au/our-work/changing-energy-rules
36 CS Energy, rule change request, p. 5
37 CS Energy, rule change request, p. 2

To resolve this issue, CS Energy proposed a new registration category for non-generating system service providers. CS Energy believes this new registration category would eliminate ambiguities regarding the ability of non-generating units to offer system services and promote the NEO.[38]

## A.3 It proposed to do so by adding a new participant registration category to NER Chapter 2

The rule change request proposed to introduce a new participation registration category—i.e., a non-generating system service provider by inserting clauses under Chapter 2 (Registered Participants and Registration) of the NER. This new registration category would be designed for participants (with non-generating units) who intend to provide essential system security services including but not limited to system strength, fault levels and inertia related services.

The proponent believes that participants who provide system security services through generating units (including units with synchronous condenser mode) would continue to be registered as generators as currently defined under the NER.

A non-generating system service provider can be defined as an entity that owns, controls or operates a non-generating facility or system that provides system security services while connected to the transmission or distribution network.

## A.4 The process to date

On 5 June 2025, the Commission published a notice advising of the initiation of the rule-making process and consultation in respect of the rule change request.[39] A consultation paper identifying specific issues for consultation was also published. Submissions closed on 3 July 2025. The Commission received 11 submissions as part of the first round of consultation. The Commission considered all issues raised by stakeholders in submissions. Issues raised in submissions are discussed and responded to throughout this draft rule determination.

38 Ibid p. 7.

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

# B Legal requirements to make a rule

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

## B.1 Draft rule determination and draft rule

In accordance with sections 91A and 99 of the NEL, the Commission has made this draft rule determination for a more preferable draft rule in relation to the rule proposed by CS Energy.

The Commission's reasons for making this draft rule determination are set out in chapters 1 and 2.

A copy of the more preferable draft rule is attached to and published with this draft determination. Its key features are described in chapter 3.

## B.2 Power to make the rule

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

The more preferable draft rule falls within section 34 of the NEL as it relates to regulating the activities of persons (including Registered participants) participating in the national electricity market or involved in the operation of the national electricity system (s 34(1)(a)(iii)).

## B.3 Commission's considerations

In assessing the rule change request the Commission considered:

- its powers under the NEL to make the draft rule, including a more preferable draft rule
- the rule change request
- submissions received during first round consultation
- the Commission's analysis as to the ways in which the draft rule will or is likely to contribute to the achievement of the NEO
- the application of the draft rule to the Northern Territory.

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.[40]

## B.4 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 more preferable draft rule does not amend any clauses that are currently classified as civil penalty provisions or conduct provisions under the National Electricity (South Australia) Regulations.

40 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.

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

# Abbreviations and defined terms

| | |
|---|---|
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulator |
| Commission | See AEMC |
| IRP | Integrated resource provider |
| MCE | Ministerial Council on Energy |
| NEL | National Electricity Law |
| NEO | National Electricity Objective |
| NER | National Electricity Rules |
| NSCAS | Network Support and Control Ancillary Services |
| NT Act | *National Electricity (Northern Territory) (National Uniform Legislation) Act 2015* |
| Proponent | The individual / organisation who submitted the rule change request to the Commission |
| RIT-T | Regulatory Investment Test - Transmission |
| TUOS | Transmission Use of System |