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EnergyAustralia Pty Ltd
ABN 99 086 014 968

Level 19
Two Melbourne Quarter
697 Collins Street
Docklands Victoria 3008

Phone +61 3 9060 0000
Facsimile +61 3 9060 0006

enq@energyaustralia.com.au
energyaustralia.com.au

Clarifying registration for non-generating units providing system security services — Draft determination — September 2025

EnergyAustralia is one of Australia's largest energy companies with around 2.2 million electricity and gas accounts across eastern Australia. We also own, operate and contract a diversified energy generation portfolio across Australia, including coal, gas, battery storage, demand response, wind and solar assets, with control of over 5,000MW of generation capacity.

EnergyAustralia appreciates the opportunity to continue to engage with the AEMC on this rule change. EnergyAustralia remains strongly concerned that the AEMC's preferred pathway set out in the draft rule contains legal drafting issues, would not meet the long-term interests of consumers and would not deliver efficient investment incentives. The main issues EnergyAustralia sees with the current draft determination are:

1. Legal drafting issues with the draft rule
2. Risks creating further distortions for market-led non-network Essential System Services (ESS) investment
3. Inadequate framing of transitional and evolutionary design of ESS markets, thereby creating path dependencies that may stifle innovation and efficient outcomes
4. Lack of a robust cost–benefit analysis of the two registration options under consideration, and underestimation of compliance and implementation burden on market participants
5. Failure to deliver National Electricity Objective (NEO) elements related to price and security of supply for consumers
6. Lack of investment certainty through a drafting note that is not consistent with the other rules/clauses of the NER

The draft rule's attempt to clarify the *Integrated Resource Provider*[1] registration category, by including a Note beneath a clause in the NER relating to *market connection points*, is neither sufficient nor appropriate to address the matters raised by CS Energy in its rule change request. EnergyAustralia continues to support the initial proposal of establishing a clear and equitable registration pathway for non-generating units. This would provide more certainty for investment in repurposing *generating units* to non-generating, allows for new technologies to register and more broadly provide the right lens of integrating long-term ESS market reforms rather than deferring them.

Legal drafting issues with the draft rule

In EnergyAustralia's view, the premise of the draft rule determination that *market connection point* classification can be used to extend the *Integrated Resource Provider* registration category to *synchronous condenser systems*, including standalone *synchronous condensers*, is not consistent with the legal drafting, defined terms and interpretation of the NER. Some of these legal drafting issues are outlined below.

Registration as an Integrated Resource Provider

Firstly, there is a legal drafting issue with the construction of NER clause 2.1B.2(a).

Extract: NER Version 236 – NER clause 2.1B.2(a)

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2.1B.2 Registration as an Integrated Resource Provider

(a) To be eligible to register as an *Integrated Resource Provider*, a person must do one or more of the following:

(1) satisfy the requirements of paragraph (b) for registration as an *Integrated Resource Provider* in respect of an *integrated resource system* or a *generating system*;

(2) satisfy *AEMO* that the person intends to classify, in accordance with clause 2.3.4(b), a *connection point* as one of its *market connection points*; or

(3) satisfy *AEMO* that the person intends to classify, in accordance with clause 2.2.8, a *small resource connection point* as one of its *market connection points*,

and except where the person is classifying only *non-market generating units* or *non-market bidirectional units*, the person must satisfy the requirements in rule 2.4 for registration as a *Market Participant*.

To be eligible to register as an *Integrated Resource Provider*, a person must complete AEMO's "Application Form – Application for Registration as an Integrated Resource Provider in the NEM"[2], which requires provision of information in relation to its *integrated resource system* (which consists of *plant*) and *connection points* / *market connection points*. Therefore, the person must satisfy either NER clause 2.1B.2(a)(1) and NER clause 2.1B.2(a)(2) ***or*** NER clause 2.1B.2(a)(1) and NER clause 2.1B.2(a)(3), ***not*** "one or more of the following" of NER clause 2.1B.2(a)(1), NER clause 2.1B.2(a)(2) and NER clause 2.1B.2(a)(3).

It appears that the AEMC's draft rule infers that a person need only satisfy the requirements of NER clause 2.1B.2(a)(2) to register as an *Integrated Resource Provider*.

[1] Italicised terms in this submission are terms that are defined in the NER.

[2] AEMO | Register as an Integrated Resource Provider in the NEM – please check the registration form – Application for Registration – NEM – Integrated Resource Provider

In EnergyAustralia's view, such an inference is misplaced, for the reasons outlined further below. The following reasons also expound the fact that, by definition, the *Integrated Resource Provider* registration category is not a "catch-all registration category", in contradiction to the AEMC's claims in its draft determination.

Definition of market connection point and purview of NER clause 2.3.4(b)

A *market connection point* includes a *connection point* which *connect market generating units* or *market bidirectional units*; these units are *production units* (*plant* used in the production of electricity – ***active power* (MW)**). By definition, a *market connection point* is not a *connection point* which connects standalone *synchronous condensers* (which produce and consume ***reactive power* (MVAr)**).

Extract: NER Version 236 – definition of *market connection point*

market connection point

A *connection point*:

(a) classified in accordance with Chapter 2 as a *market connection point*;
(b) which *connects* any *market generating unit* to the *national grid*;
(c) which *connects* any *market bidirectional unit* to the *national grid*; or
(d) where the *network service connected* at that *connection point* is a *market network service*.

Further, part of the criteria of NER clause 2.3.4(b) for classification as a *market connection point*, is electricity (*active power*) being purchased or sold by any person at the *connection point*. Neither the production or consumption of *reactive power* nor the purchasing and selling of *reactive power* (via **non-market** mechanisms) is within the purview of NER clause 2.3.4(b).

Extract: NER Version 236 – clause 2.3.4(b)

(b) Subject to paragraph (c), if electricity *supplied* through the *national grid* to or from a *connection point* is purchased or sold by any person (**end user**), that *connection point* must be classified as a *market connection point* of:

(1) the end user (if registered as a *Customer* or an *Integrated Resource Provider*); or

(2) with the consent of the end user, a *Customer* or an *Integrated Resource Provider*.

Therefore, the AEMC's draft rule, which inserts a Note after paragraph b(2) in NER clause 2.3.4(b) that asserts "For the avoidance of doubt, paragraph (b) applies in respect of a *connection point* for a *synchronous condenser system* for the purposes of eligibility to register as an *Integrated Resource Provider* under clause 2.1B.2(a)(2).", is neither consistent with the legal drafting, defined terms nor interpretation of the NER.

Also, a standalone *synchronous condenser* need not be connected to a *market connection point* – this is a further reason the AEMC's draft determination and draft rule does not address the matters raised by CS Energy in its rule change request.

Due consideration to legal drafting required

The shortcomings of the legal drafting of the AEMC's draft rule are apparent and it does not address the matters raised by CS Energy's rule change request, nor provide clarification. The AEMC should carefully consider the implications of its legal drafting of

amendment rules, so that the rules/clauses are clear and consistent across the NER, and to preclude delays to registration processes and the energy transition more broadly.

Future market-led system security services investment

Although the draft rule is presented as a simple clarification, it carries more profound long-term implications:

- **Uneven playing field**: Network-owned *synchronous condensers* recover their losses through TUOS or regulated revenue allowances. By contrast, non-network standalone *synchronous condensers* under the *Integrated Resource Provider* framework must settle losses directly in the energy market. This creates asymmetric risk exposure, particularly during high-price events, discouraging private investment. This is contrary to the aim of unlocking market alternatives.

- **Barrier to innovation**: A narrow focus on *synchronous condensers*, as opposed to a broader non-generating units registration category risks excluding other technologies that could provide system services support in the future. These could include static synchronous compensators, resistors or other technologies as innovation in this space continues to advance. The draft rule creates uncertainty for technologies providing ESS in the future.

Evolution of system security service markets

The draft rule is narrow, not forward-looking and raises several risks:

- *Market Participants* may become locked into the *Integrated Resource Provider* registration category risking not being able to provide a full suite of services because entering into contracts with the networks or AEMO depends on the appropriate registration category. As explained, the *Integrated Resource Provider* registration category is also not fit-for-purpose where provision of solely *reactive power* is required.

- The evolving demand for system strength, *inertia*, and other ESS over the next decade requires consideration of the broader transitional services incentives available.

- Focusing only on immediate clarity, may discourage or complicate future ESS reform trajectories. (As explained above, the draft rule does not in fact provide clarity).

Cost–benefit analysis and implementation

A significant weakness of the draft determination is the lack of quantitative rigour in weighing costs and benefits. The AEMC appears to be relying largely on qualitative reasoning rather than an appropriate cost–benefit comparison of the alternative pathway suggested in the rule change request.

The AEMC's position appears to be that the lowest implementation costs are associated with expanding the *Integrated Resource Provider* registration category. However, it is evident from its draft rule that it has not given due consideration to the meaning of defined terms in the NER (including *Integrated Resource Provider, market connection point* and *integrated resource system*), the distinction between *active power* and *reactive power*, and provision of *reactive power* under non-market (contractual) arrangements. To reiterate, in contradiction to the AEMC's claim, the *Integrated Resource Provider*

registration category is not a "catch-all registration category". Clearly, the legal drafting issues with the draft rule does not provide clarity, will not enable timely registration processes, and risks delayed or misallocated investment. EnergyAustralia does not share the view that these costs are immaterial and considers that time and effort would be better spent on evaluating registration under a new category because it has the benefits of clarity and confidence.

EnergyAustralia encourages the AEMC to compare the incremental benefits and costs of its 'clarifying Note' with a new registration category for non-generating units. While procedural simplicity may seem to be an attractive solution, EnergyAustralia considers it premature for the AEMC to make the decision it proposes because it would be expedient without such analysis and without proper legal drafting. The burden of proof should lie with the rule-making body to demonstrate that the minimal intervention pathway is superior.

NEO objectives

A core test under the NEO is that market arrangements must promote efficient investment, as well as the delivery of services and system security, at least cost for consumers. The system can more efficiently make use of different technologies that provide ESS through a new registration category that is not narrowly focused on new *synchronous condenser* applications.

For example, repurposing existing thermal plants to *synchronous condensers* is technically feasible and can be done at lower cost and shorter timelines than building greenfield *synchronous condensers* due to advantages of leveraging existing infrastructure (connection point, step-up transformers, site civil works)[3]. Conversions may also deliver larger inertial contributions (owing to larger rotors) and stronger fault contributions.

By disregarding these opportunities and failing to provide a clear registration pathway for converted assets, the draft rule risks skewing ESS investment toward more expensive outcomes. To ascertain commercial investment, there needs to be simplicity, consistency and certainty in the NER. Further, the draft determination risks favouring network solutions, by failing to provide an alternative pathway for non-network solutions. This approach runs counter to the NEO by locking in higher system costs and delaying delivery of security services.

Investment certainty

The AEMC's reliance on the Note in the draft rule is wholly inadequate to support long-lived capital investment. It is understood that the Note aims to provide clarification, but it does not achieve this for the reasons explained above.

Corporate investment committees require a clear understanding of legal implications before allocating capital. This requires clears laws and regulations. A single guidance Note falls far short of this standard. As described in the repurposing study by ARENA/DIgSILENT there are barriers to conversions that require consideration. These barriers are real, but not insurmountable. A clear regulatory pathway and recognition of the commercial realities through rules that are consistent and do not introduce additional registration hurdles is missing.

[3] Repurposing existing generators as synchronous condensers

Networks conducting RIT-Ts must be able to compare regulated and non-network options on a consistent basis. If non-network providers are relying on a single guidance Note rather than properly drafted binding rule provisions, competitive tension may rise thereby creating the risk of an uneven playing field, while also locking out options for networks.

The issue of how a non-network standalone *synchronous condenser* recovers costs is also an important element of investment decision. The AEMC does acknowledge this element. A new category for non-generating units could more clearly define how losses are recovered, improving the pathway to market for market-led ESS solutions.

EnergyAustralia welcomes the opportunity to discuss what is raised in this submission further prior to the final determination. Please contact me on Ana.Spataru@energyaustralia.com.au or (03) 9060 0713.

Regards

Ana Spataru

Regulatory Affairs Advisor