AUSTRALIAN ENERGY REGULATOR

Our Ref: 47337
Your Ref: ERC0424 & ERC0428
Contact Officer: Tom Ralston
Contact Phone: 03 9658 6441

Anna Collyer
Chair
Australian Energy Market Commission
GPO Box 2603
SYDNEY NSW 2000

Dear Ms Collyer,

Submission to consultation on security frameworks rule change requests

The Australian Energy Regulator (AER) welcomes the opportunity to comment on the Australian Energy Market Commission's (AEMC) consultation paper on *security framework enhancements*.

This consultation paper seeks stakeholder views on two rule change requests: one from the Australian Energy Market Operator (AEMO), and one from the Australian Energy Council (AEC) and Clean Energy Council (CEC). The requests raise issues with the current system security frameworks in the National Electricity Market (NEM) and propose changes intended to support the secure and efficient operation of the power system.

The system security frameworks have changed substantially in recent years. Many of these changes have aimed to support timely investment in system security, while encouraging innovative, lower-cost ways of meeting security needs.

Under the updated framework, jurisdictional transmission network service providers (TNSPs), acting as system strength service providers in their jurisdictions, have completed their first regulatory investment test for transmission (RIT-T) processes and have commenced procurement to meet their system strength obligations. These RIT-T processes have identified opportunities for non-network options to substitute for more costly network options, which can reduce the costs ultimately paid by consumers. For example, Transgrid recently announced it had shortlisted nine battery projects as part of initial procurement for up to 2 GW of grid-forming batteries required for NSW system strength.[1]

We support the AEMC's consideration of these rule change requests to address the challenges identified. In doing so, we strongly encourage a measured approach, noting the framework has only recently changed. It is not yet clear whether the issues raised will persist as system strength service providers and AEMO adjust processes based on lessons from the first implementation cycle.

---

[1] Transgrid, March 2026, *Transgrid shortlists grid batteries to support NSW energy transition,* https://www.transgrid.com.au/media-publications/news-articles/transgrid-shortlists-grid-batteries-to-support-nsw-energy-transition/

We also agree with the AEMC's observations that it may be appropriate to defer consideration of proposed changes where:

- the proposed changes would have little to no impact on current procurement and
- there are ongoing work programs covering adjacent topics, and deferral may allow those programs to progress and inform any further changes.

Deferral is worthwhile where procurement timeframes are unlikely to be affected, and where it would provide the benefit of more complete information from related reviews. Starting consultation prematurely, with limited information on other linked processes, carries the risk of producing less useful outcomes.

In assessing the rule change requests, we encourage the AEMC to consider both the risk of under-procurement (with potential reliability and security impacts) and the risk of over-procurement (which can increase network costs and put upward pressure on consumer bills). Recent RIT-Ts indicate system security investment is significant. For example, Transgrid's system strength RIT-T has forecast a need for over $6.2 billion of costs over the 20-year assessment period, which comprises both network and non-network solutions.[2] A framework that balances these risks appropriately, in the long-term interests of consumers, is therefore critical.

We set out our views below on several of the issues and proposed solutions raised in the consultation paper.

Economic assessment for system security investments

The current approach to assessing the economic efficiency of investment in system security involves AEMO identifying minimum and efficient levels of system strength to be met over a 10-year period. System strength service providers then undertake the RIT-T to assess options to meet the system strength need that AEMO forecasts. This assessment allows for both network and non-network options to be considered and allows accounting for the additional benefits that non-network options provide.

To date, all system strength service providers have conducted their first RIT-Ts to address requirements from December 2025. The processes have included a comprehensive assessment of both network and non-network options which we consider facilitates the identification of the best outcome for consumers. The inclusion of non-network options in applying the RIT-T is essential given that network businesses are not otherwise incentivised to consider non-network options relative to network options.

AEMO's rule change request claims that assessment and approval of system security investment through the RIT-T process requires significant time and resources, which is additional to the time required for procurement. In relation to the latter, AEMO's request highlighted challenges in timely procurement of synchronous condensers due to increasing global demand which could see lead times of three to four years. The request proposes either streamlining the economic assessment or replacing the cost benefit assessment with a least cost assessment.

An economic assessment, which clearly articulates the investment need and options to address it, is a key component of the system security framework ensuring consumers pay no more than necessary for reliable supply of energy. The investments proposed for meeting system security requirements would impose significant costs on consumers. For example, as

---

2 Transgrid, *Meeting system strength requirements in NSW – RIT-T Project Assessment Conclusions Report*, 14 July 2025.

highlighted above, Transgrid's system strength RIT-T forecasts over $6.2 billion in costs over the 20-year assessment period, of which approximately $2.9 billion are network costs.

The RIT-T process also includes stakeholder consultation which provides greater opportunity for non-network providers to propose solutions to address the identified need. This aspect of the RIT-T assists in identifying the most efficient solution which consequently lowers costs for consumers. In doing so, it is important to consider the costs and benefits of each option, because as noted above some non-network solutions can provide benefits in addition to those provided by a network solution to the identified need.

We recognise that in some cases there may be a risk of increased costs to consumers where system strength needs are urgent and procurement of system security investments may not be quick enough which necessitates back up mechanisms. These mechanisms may involve a high cost to consumers where costs of directions are high and, in some instances, may not be available requiring curtailment of renewable generation. We also note the concerns of insufficient minimum levels of system strength and the potential for ineffective power system protection.

However, we do not consider the claim that there is an asymmetric risk profile between under- and over-procurement, or that the unquantified risk of under-procurement, on its own, justifies moving to an approach that assesses only cost effectiveness rather than net market benefits for system security investments. We consider that the potential costs and likelihood of system strength and/or inertia shortfalls eventuating should factor into any consideration of whether it is beneficial to consumers to undertake a more comprehensive economic assessment or a least cost assessment. For example, where such shortfalls are in the near term and would cause significant costs to consumers, it may be appropriate for a least cost assessment to be undertaken. Conversely, where shortfalls are forecast to be later in the planning period, consumers may obtain more benefit from a market benefit assessment which identifies the most efficient solution.

Therefore, in recognising the potential for these high costs, we are supportive of approaches to streamline the economic assessment by TNSPs under circumstances where high risks may be present and quantifiable. However, we consider the inclusion of the market benefit assessment for the overall process remains necessary to ensure that options are considered on a consistent basis, and that the solution implemented is in the long-term interest of consumers.

We also note that the consultation paper and rule change request likely overstate the timing impact of carrying out economic market benefits analysis. In a counterfactual scenario to the first round of analysis, if the economic assessment were a least cost assessment rather than the RIT-T, it is unlikely to have significantly reduced the time needed for TNSPs to decide a course of action. This is because the drivers of the length of the process were the identification of non-network options, power system modelling, and procurement processes leading up to binding offers from proponents and suppliers. These processes would remain necessary even under a least cost assessment. The overall process was lengthened due to complexity and an evolving understanding of the power system, and the result of the process would likely still have been delivered the same amount of time before the binding obligations came into effect. We expect that TNSPs will complete subsequent RIT-T processes more quickly as they become more familiar with the process.

Finally, we note that the current framework includes quite significant streamlining in allowing a whole portfolio of options to satisfy economic assessment through a single RIT-T. This is a considerably less burdensome approach than for other network assets which would require a RIT-T for each individual investment.

Procurement process and technical standards consistency

The AEC and CEC rule change request notes that a lack of consistency in the procurement processes and a lack of clearly defined technical standards for essential system services are limiting the commercial appetite for investors to propose non-network options.

In general, we are supportive of technical specifications that clearly define the power system need. This gives non-network proponents the detail they need to develop proposals, which can increase competition and improve outcomes for consumers. However, we do not support specifications that prescribe a particular solution, as detailed design requirements could limit options and exclude more efficient alternatives.

If you would like to discuss this submission further, please contact Tom Ralston (Senior Analyst, Network Expenditure) at tom.ralston@aer.gov.au.

Yours sincerely,

Kami Kaur
Executive General Manager, Network Regulation
Australian Energy Regulator

Sent by email on: 21.04.2026