

AEMC SECURITY FRAMEWORK ENHANCEMENTS (ERC0424) AND CLARITY AND TRANSPARENCY IN SECURITY FRAMEWORKS (ERC0428) CONSULTATION PAPER

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INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our members are the engine room of the Australian economy, producing many of the products that households and business use every day including bricks, glass, steel, aluminium, paper, food and beverages. Combined, our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

EUAA members are focussed on making products that meet their own customers' requirements where energy is just one input to the process albeit a critical one. Their expectation is that the energy industry continues to provide energy services that are fit for purpose and consistent with the National Electricity Objectives (NEO) so that our members can continue to provide a fit for purpose product for their customers.

Thank you for the opportunity to make a submission under the *AEMC's Security Framework Enhancements (ERC0424) and Clarity and Transparency in Security Frameworks (ERC0428) Consultation Paper*.

While we understand why the AEMC has chosen to consider the two rule change requests together, we view them as addressing distinct issues and recommend that they be progressed sequentially rather than concurrently.

The AEC/CEC request is fundamentally about governance, with some targeted operational improvements. In contrast, AEMO's request seeks broader operational changes to the NSCAS framework. The fact that AEMO has sought these changes suggests that the AEMC's *Improving Security Frameworks for the Energy Transition* rule change is not operating as intended.

We were optimistic that the intent of that rule change would be upheld. At the time, the AEMC stated:

"Specifically, the final rule evolves existing frameworks with the aim of ensuring sufficient security services are provided as the power system continues to transition to higher penetrations of inverter-based resources. It also ensures AEMO can procure necessary security services that fall outside these frameworks, and 'enable' security services in operational timeframes to ensure that the power system is secure day-to-day."

We had expected TNSPs to continue proactively investing in system security where generators were not providing it, with AEMO acting as a back-stop for broader NEM security issues. Instead, implementation has diverged from this intent. TNSPs are generally waiting for AEMO's system security plan before commencing their own procurement processes. This has created several issues:

- A lack of clarity around governance—who is responsible for planning and who is responsible for delivering system security.
- TNSPs delaying procurement while awaiting AEMO’s plan, resulting in avoidable delays.
- These delays contributing to future NSCAS shortfalls that AEMO cannot address in time if it must procure and operate equipment itself.
- System security providers being unable to plan for future requirements, including co-optimised solutions such as clutches for gas-powered generators.

The AEMC also expected that:

“AEMO will be able to trial new methods of delivering security, and will be required to report on how it plans to manage security through the transition. All of these improvements aim to support a secure power system and reduce reliance on directions through the transition.”

AEMO’s current rule change request suggests it is not actively trialling new system security technologies. We would expect AEMO to be proactively testing new approaches to broaden the range of technologies available for NSCAS provision by generators, TNSPs and AEMO itself.

DISCUSSION

1. Governance and Planning

The AEC/CEC request is fundamentally about governance, and we recommend that it be progressed first. Clarifying governance arrangements will provide a stronger foundation for addressing the operational issues raised in AEMO’s request. It is difficult to see how the AEMC could consider AEMO’s proposal ahead of resolving the underlying governance issues.

Any changes to the system security framework should incentivise TNSPs to act proactively on their own (or their jurisdictional planner’s) system security plans, rather than reacting to AEMO’s system security plan. We previously identified this as a shortcoming in the NSCAS rules.

We also recommend extending the planning timeframe to ten years, rather than the current three. Clear governance and a longer planning horizon would address many of the issues AEMO has raised.

2. AEMO Interventions for Essential System Services

The AEC/CEC request correctly identifies the increasing reliance on directions to manage what should be the routine provision of essential system services. However, directions are only one form of AEMO intervention affecting market outcomes.

AEMO’s growing use of manually applied generic constraints in NEMDE overrides market-based dispatch for essential system services. These interventions unnecessarily withdraw resources from the market.

When a unit is directed, it must operate at a fixed loading, and any remaining capability cannot respond to market prices until the direction is revoked. AEMO’s security enablement procedure has the same effect on thermal scheduled generators enabled for essential system services. This artificially suppresses the true capability of these units in both dispatch and pre-dispatch reliability assessments.

These practices increase costs to consumers, distort efficient dispatch, and highlight deeper governance issues within the current security frameworks. Strengthening transparency, accountability and the guardrails of AEMO's intervention powers is essential to restoring confidence in the market-based provision of essential system services.

3. Regulatory Investment Test

AEMO's proposed rule changes appear to assume that TNSPs will undertake a full RIT-T process and invest in new network equipment, rather than genuinely considering non-network options. This risks locking in unnecessary duplication of network assets, with costs ultimately borne by consumers.

The governance framework for essential system services must remain technology-neutral and focused on securing the lowest-cost delivery of services. AEMO's proposals do not provide confidence that this principle will be upheld. Instead, they appear to prioritise network-based solutions, narrowing the scope for efficient non-network alternatives and undermining competitive neutrality.

A rule change that embeds a bias toward network investment is inconsistent with efficient market development, prudent expenditure and consumer interests. Any revised framework must require transparent, rigorous assessment of both network and non-network options and avoid defaulting to capital-intensive solutions where lower-cost alternatives are available.

Clauses 5.16 and 5.16A already provide for alternative or expedited RIT-T processes where urgent network issues arise. Even in these cases, at least one stage of public consultation should occur before publication of any Project Assessment Conclusions Report. All network investments—expedited or otherwise—must be subject to minimum transparency and stakeholder scrutiny.

More concerning on the RIT-T is the number of projects that are now captured by the RIT-T process as they are now higher than the \$8 million threshold set by the AER in July 2024. Since 2024 we have seen significant inflationary pressures on all parts of the economy, but particularly on electricity projects, as every nation is competing for the limited supply chain of equipment. This has resulted in many projects that would not require a RIT-T now requiring a RIT-T, placing internal pressures on TNSPs to resource RIT-Ts, including those for essential system services.

4. Notice of Closure

While we understand AEMO's preference to extend the notice of closure period from 3.5 to 5 years, existing and committed resources have already submitted closure dates.

Participants face significant uncertainty in forecasting accurate closure dates five or more years ahead, particularly given the lack of reliable information on the commissioning and availability of new generation and transmission projects. Extending the notice period is likely to reduce accuracy, not improve it.

5. NSCAS Gap Definition

AEMO's proposal to amend the definition of an NSCAS gap by removing the requirement to first revise inertia requirements or minimum three-phase fault levels appears to reflect shortcomings in AEMO's planning processes rather than the reasons stated in its rule change request. Any change to a generator's closure date would naturally trigger changes to these parameters.

AEMO's proposal to extend the timeframe for declaring NSCAS gaps to match the lead times for commissioning new resources duplicates the intent of its proposed changes to the RIT-T process. This "double-dip" approach would materially expand AEMO's intervention window without appropriate governance safeguards.

AEMO's push for earlier trigger points and longer timeframes risks disincentivising TNSPs from procuring system security services and increasing the likelihood of duplicative system security assets. These governance issues must be resolved before expanding AEMO's NSCAS powers.

Under the NSCAS framework, AEMO should not become a de facto market participant by procuring and operating long-lead-time equipment. Its role should remain focused on providing clear system security requirements in a planning timeframe and procuring services from third parties only when short-term shortfalls arise.

6. New Technologies

AEMO should already be proactively testing new system security technologies. The fact that AEMO has sought rule changes to facilitate this essential function suggests it is not doing so. We therefore support a rule change that requires AEMO to undertake this work.

CONCLUDING REMARKS

We support the AEC/CEC request to clarify the governance and planning of essential system services, including system strength and inertia. We consider that the AEC/CEC rule change request should be progressed ahead of AEMO's request, as implementing the governance improvements it contains would likely render many of AEMO's proposed changes unnecessary.

The EUAA welcomes further discussions around the issues raised in this submission.

Do not hesitate to be in contact with EUAA Policy Manager Dr Leigh Clemow, should you have any questions.



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