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Australian Energy Market Commission
15/60 Castlereagh St
NSW, 2000, Australia

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Submission to ERC0424 and ERC0428 consultation: National Electricity Amendment Rules for Security framework enhancements and Clarity and transparency in security frameworks

Dear Victoria,

Fluence Energy Pty Ltd (Fluence) welcomes the opportunity to respond to the AEMC's consultation on two rule change projects which the AEMC refers to as: Security framework enhancements (submitted by AEMO), and Clarity and transparency in security frameworks (submitted by the Australian Energy Council (AEC) and Clean Energy Council (CEC)). We appreciate the AEMC prioritising the delivery of such a significant enabler of Australia's energy transition and the team's proactive engagement to date.

Fluence is a leading battery energy storage solutions provider

Fluence Energy Pty Ltd is an indirect subsidiary of Fluence Energy, Inc. (Nasdaq: FLNC). Fluence is a global market leader in energy storage products and services, and digital applications for renewables and storage. As of 31 December 2025, Fluence had deployed or contracted over 50 GWh of energy storage across 296 projects in 48 markets globally, and optimised or contracted 17 GW of wind, solar, and storage assets using Fluence Mosaic™ bidding system.

Fluence is not a project owner or Market Participant. Fluence provides technology, software and services that help its customers (typically market participants) build, operate and trade BESS and renewable assets. Australia is one of the core markets for Fluence, which has ambitious renewables targets, aging thermal assets and high penetration of inverter-based generation. This provides a valuable use case for energy storage, especially that with grid-forming capabilities to shift variable renewables to when they're needed most and support grid stability through the energy transition.

Fluence also has a strong track record of delivering market leading solutions to tackle some of the biggest challenges faced by our energy systems. We have delivered Storage-As-Transmission-Assets for our customers in the German market and are contracted to deliver projects under the Stability Pathfinders programme for our customers in Great Britain. In the NEM, Fluence has pioneered innovation in the storage industry and has previously worked with customers to secure Australian Renewable Energy Agency (ARENA) funding to deploy grid-forming capability. Fluence's Mosaic bidding system helps our customers manage their obligations under critical system security contracts including system integrity protections schemes (SIPS).

Enhancements necessary to make the ESS frameworks fit for purpose

Fluence's key pillars of feedback are below with detailed feedback set out in the appendix:

- Fluence supports the intent of the inertia and system strength frameworks (referred to collectively as the essential system services (ESS) frameworks) but considers that deficiencies in timing, assessment and procurement risk undermining their effectiveness through the energy transition. Fluence supports both the AEMO and AEC-CEC rule change requests, which seek to address gaps and lessons learned from early implementation of the ESS frameworks.

- The absence of a transparent and standardised ESS procurement framework is the most significant limitation in the current arrangements. Opaque and bespoke procurement approaches reduce competition, deter non-network investment and increase costs for consumers, in contrast to competitive procurement models used elsewhere in the NEM.
- Fluence recommends a single, service-based competitive procurement framework, under which AEMO clearly defines system security needs and service specifications through the Transition Plan for System Security (TPSS), and transmission network service providers (TNSPs) competitively procure technology-neutral solutions from network and non-network providers. This approach would improve transparency, strengthen competition and accelerate ESS delivery.
- Clear, consistent and forward-looking articulation of ESS requirements is critical to support timely investment and manage transition risks, including near-term plant closures such as Eraring. Fluence encourages the AEMC to jointly consider the rule change requests and prioritise targeted, staged amendments to provide regulatory certainty and minimise costs to energy consumers.

We would like to thank the AEMC for the opportunity to provide feedback on the consultation paper. We are available to discuss any of the comments in this submission in more detail, on request. Please direct any inquiries about this submission to Sam.Markham@fluenceenergy.com.

Regards,

Sam Markham – Manager, Policy and Market Strategy

Appendix – Fluence detailed feedback

Issues feedback (questions 1 and 2)

Timing of ESS procurement against transition points

Fluence recognises three key issues regarding the timing of ESS procurement and its interrelationship with transition points.

- **Clear requirements should be established for each transition point.** AEMO's annual TPSS provides a valuable set of information about transition points and requirements for inertia and system strength. However, the depth of detail provided in the TPSS and exactly how the transition points interact with the requirements has been highly variable in two years since the requirement was introduced. Should the AEMC wish for investments in ESS ahead of transition points, this should be explicitly outlined in the TPSS and part of the requirements issued to TNSPs. For example, the most significant near-term transition point is the ESS procurement required to facilitate the safe and secure closure of Eraring power station in NSW – greater transparency on how far ahead of the proposed closure certain ESS requirements should be made available. Fluence encourages the AEMC to consider the governance frameworks, to ensure the Rules have sufficient transparency and clarity to produce AEMO's desired system security benefits quickly and efficiently.
- **The TPSS must provide a long-term roadmap to incentivise ESS development.** It is also crucial to support continued investment in ESS project development in Australia, for project developers to have clear visibility into the location (e.g. area of grid interconnection) and specific attributes (e.g. grid-forming characteristics) of the types of projects that will be most beneficial for non-network options, and for investment decisions related synchronous condensers for network options.
- **Procurement timeframes should be maintained, as they are an inherent design feature of the framework.** The recently introduced frameworks make a trade-off between AEMO making ESS requirements with the best available information against the ability for a range of solutions to provide those ESS requirements. Retaining a T-3 threshold will also ensure consistent progress towards delivering ESS and enable the timely (or even accelerated) closure of thermal assets using the most competitive and technology-neutral solutions. However, we recognise the current procurement and cost benefit analyses are lengthy and not fit for purpose within this timeframe and have proposed amendments later in this submission. Improved procurement frameworks may make it unnecessary to increase the binding timeframe from 3 to 5 years.

Assessment and procurement processes for system security investments

Unfortunately, unless they are corrected, deficiencies in assessment and procurement processes will significantly disrupt the efficacy of the recently introduced frameworks:

- **Assessment:** All investments, especially those ultimately funded by energy consumers, should be rigorously modelled and assessed. The Regulatory Investment Test for Transmission (RIT-T) is a great example of a process established to assess large projects addressing a new "identified need" by a network. However, the ESS framework does not need to follow the same regulatory standard. TNSPs should simply be given a requirement by AEMO to procure to meet a need which can be met by a range of network or non-network technologies.

- **Procurement:** The current frameworks do not provide any defined procurement processes. In practice, this creates bilateral contracting arrangements that are opaque in type, tenor and technical specifications particularly between “network” (e.g. synchronous condensers) and “non-network” (e.g. grid forming BESS) solutions. This exists in stark contrast to other schemes in the NEM such as the NSW Roadmap, Capacity Investment Scheme (CIS), and South Australia’s Firm Energy Reliability Mechanism (FERM). All three schemes have defined contracts, clearly defined biddable parameters and tenders administered by a single body, ASL. The current frameworks should be aligned with other procurement schemes, to ensure clear contracting expectations, which will in turn result in further ESS project development investments and commercial revenue viability.

One possible solution the AEMC should consider throughout this rule change process is a transparent, procurement framework with clear services and cost parameters (e.g. total cost associated with providing the service, safety, cybersecurity, project delivery schedule, technical specifications for each ESS). This would allow the assessment and the procurement to take place in a single process, via several procurement rounds over time (e.g. procurement in 2026 for 1 GWh of assets needing to serve specific non-network and network objectives that are available for delivery in 2029; procurement in 2027 for 2 GWh of assets needing to serve specific non-network and network objectives that will be available for delivery in 2030, and so on). Such a procurement framework would simultaneously address several issues at once, streamline the process, and are common in most markets around the world. This is set out in the proposed solutions section of Fluence’s submission.

Proposed solutions feedback (questions 3 to 5)

Throughout this section, Fluence has numbered the solutions set out in the AEMC’s consultation for ease of reference. In our view, the most significant enhancement to the recently introduced frameworks would be to define and standardise procurement of ESS.

Procurement, cost assessments and timeframes

At its core, there are three solutions raised in the AEMC’s consultation are closely related and should be jointly considered. These include:

- Solution 1¹ – extending the binding timeframe for meeting ESS requirements to 5 years
- Solution 3² – streamlining or establishing an alternative to the RIT-T process for system security investments
- Solution 10³ – standardising security service definitions and procurement processes.

Fluence has drafted one possible procurement framework below. This proposal should address many of the questions raised by the AEMC in page 40 of the consultation paper. The RIT-T and undefined procurement from the existing framework would be replaced by a single procurement process, via several rounds of procurement over time.

¹ Solution 1: Proposal submitted in AEMO’s rule change request to extend the binding timeframe for meeting system security requirements from 3 to 5 years. AEMC consultation paper, pp.24-26.

² Solution 3: Proposal submitted in AEMO’s rule change request to develop a streamlined or alternative RIT-T process for system security investments. AEMC consultation paper, pp.26-28.

³ Solution 10: Proposal submitted in the AEC-CEC rule change request to standardise security service definitions and procurement processes. AEMC consultation paper, pp.38-41.

1. AEMO would identify ESS needs

- The annual transition plan for system security (TPSS) would specify the type, quantity, location, and timing of system security needs.
- The needs would be expressed explicitly as *volumes of defined services*. This is likely to substantially increase the analysis required by AEMO in the TPSS from the current forecast which focuses on volume of IBR. However, operating under the current governance arrangements, we considered it would be most appropriate for AEMO to provide a complete view of the ESS needs and then the TNSP procure those needs.

2. AEMO would define service specifications

- This would be a requirement specified in the Rules for AEMO to determine NEM-wide specifications for:
 - Inertia
 - System strength (both for fault current and stable voltage waveform)
- Specifications would be performance-based, technology-neutral, and measurable, with significant input from TNSPs
- Where possible, any additional ESS that emerges overtime would be subject to the same requirement to consult on and define service specifications.

3. Competitive TNSP procurement

- A procurement guideline would be established where the AER (or another entity) would determine minimum tender requirements (such as the process, contract structure, etc.) for system security procurement with clear services and cost parameters.
- TNSPs would then run a service-based procurement for each identified need at each location.

4. Single-stage procurement process

- One-round, time-limited tender per year (in line with TPSS timeframes). Should previous rounds of procurement address future years, a procurement round in a later year/s may not need to take place.
- Standard documents and published evaluation criteria
- Procurement decisions would consider the best fit, in line with the procurement parameters, to the TNSP of providing the service as required in AEMO's TPSS (it would include no wealth transfer consideration which currently applies under the RIT-T). The role of the TNSPs would then shift to providing upfront insight and input into AEMO's TPSS rather than as part of the procurement process.

5. Technology-neutral competition

- TNSP network solutions (e.g. synchronous condensers) would bid equally alongside non-network providers.

6. Standard non-network service contracts used must be capable of enablement

- Fixed risk allocation with limited departures and delivery schedule requirements.
- Any contract for a non-network option procured through the tender process would receive automatic ex-ante approval through the existing ISF cost-recovery approach.
- Any contract for a network option procured through the tender process would also receive automatic ex-ante approval and become a regulated asset.
- Cost recovery by networks to energy consumers via existing frameworks.

7. Procurement progress reporting

- TNSPs would be required to regularly report on their status of procurement to meeting ESS requirements.
- Should such reporting identify that TNSPs would be unlikely to meet the ESS requirements, this would then trigger the opportunity for AEMO to procure additional network support and control ancillary services (NSCAS).

This proposal has implications for some of the topics raised in the AEMO and AEC-CEC rule change requests.

- **Expanding the timeframe from T-3 to a longer period (solution 1)⁴ – considered in the context of our procurement proposal.** Given Fluence’s above proposal, we encourage the AEMC to determine the most appropriate timeframes as part of the draft Rule.
- **Revised inertia and system strength requirements for NSCAS gap (solution 4)⁵ – considered in the context of our procurement proposal:** Fluence’s recommended procurement process would increase overall transparency on TNSPs progress towards meeting their requirements and potentially remove the need for AEMO to expand NSCAS.
- **Investment approval processes for NSCAS (solution 7)⁶ – considered in the context of our procurement proposal:** Broadly, Fluence considers the RIT-T process should not apply for ESS procurement, especially for emergency backstop mechanisms like NSCAS. Fluence encourages the AEMC to consider the approval processes that apply for the Reliability and Emergency Reserve Trader (RERT) and whether such processes could be applied to NSCAS.
- **Governance (solutions 8 and 9)⁷:** Fluence’s procurement proposal set out above does not contemplate enhancements to the existing governance, reporting, and transparency of the ESS framework. Fluence supports any Rules needed to make the newly introduced frameworks fit for purpose. Many of the proposed roles and duties would align with the existing governance, though Fluence recognises there are opportunities for this to be enhanced.

Fluence’s feedback on other solutions raised in the AEMC’s consultation

- **Generator notice of closure (solution 2)⁸ – oppose.** This would be a significant change to the existing regulatory frameworks and is not directly relevant to enhancing the newly introduced ESS frameworks.
- **Extending the time period for an NSCAS gap (solution 6)⁹ – oppose.** The NSCAS framework is designed to act as a backstop mechanism for ESS for instances where the core framework cannot deliver on time and/or the need changes significantly. In many ways, NSCAS is the ESS backstop mechanism like the Reliability and Emergency Reserve Trader (RERT) for resource adequacy. Accordingly, there is no need for the AEMO to require an additional 2 years to procure such services.

⁴ Solution 1: Proposal submitted in AEMO’s rule change request to extend binding timeframe for meeting system security requirements from 3 to 5 years. AEMC consultation paper, p.26.

⁵ Solution 4: Proposal submitted in AEMO’s rule change request to remove the requirement for inertia and system strength requirements to be revised before an NSCAS gap can be declared. AEMC consultation paper, pp.28-29.

⁶ Solution 7: Proposal submitted in AEMO’s rule change request for system strength and inertia NSCAS to be subjected to a streamlined investment approval process and have access to early works funding. AEMC consultation paper, p.30.

⁷ Solutions 8 and 9: Proposal submitted in the AEC-CEC rule change request to enhance governance by: specifying a party (potentially an independent panel) that is responsible for determining the “efficient” level of ESS to be procured; and including extra rules guidance on the TPSS to include specific, actionable plans. AEMC consultation paper, pp.31-38.

⁸ Solution 2: Proposal submitted in AEMO’s rule change request to create a streamlined or alternative RIT-T process for system security investment. AEMC consultation paper, pp.26-28.

⁹ Solution 6: Proposal submitted in AEMO’s rule change request to extend the time period for which an NSCAS gap can be declared. AEMC consultation paper, pp.29-30.

Benefits, risks, implementation and process feedback (questions 6 to 8)

Benefits and risks

Fluence broadly agrees with the characterisation of costs and benefits outlined in both the AEMO and AEC-CEC rule change requests. Fluence encourages the AEMC to assess the proposed changes based on the incremental costs associated with the change weighed against the benefits of creating a technology-neutral, long-term framework that enhances innovation and minimises total costs for consumers. Enhancements to the existing frameworks to encourage non-network options will ensure that – where practical and cost-effective – new investments play multiple roles in supporting the grid as the NEM decarbonises.

Coordination and process

Fluence considers enhancing the ESS framework to operate as originally intended will be a critical enabler of the energy transition to enable thermal closures at lowest cost for energy consumers.

- **Jointly consider the AEMO and AEC-CEC rule change requests.** The issues raised in both the AEMO and AEC-CEC rule change requests are so interrelated that they should be jointly considered to maximise regulatory certainty and be more likely to deliver an enduring final rule.
- **Prioritise rule changes related to ESS directly, before progressing other reform processes.** This rule change should progress regardless of other reform programs outlined in the consultation paper. The reform programs outlined consider (or are likely to consider) a significant breadth of issues which could potentially touch on ESS, but where ESS is not a core focus or consideration. Fluence encourages the AEMC to lead the way via this rule change process to provide regulatory certainty for ESS, which will in turn influence the other reform initiatives, rather than vice versa.
- **Enable accelerated implementation via incremental changes to existing frameworks.**
 - Fluence recognises that the inertia and system strength frameworks were recently introduced, however the changes to the frameworks proposed by Fluence, AEC and CEC reflect core deficiencies in the frameworks rather than challenges associated with their implementation. Addressing the issues raised in the AEMO and AEC-CEC rule change requests promptly, through targeted amendments, will ensure the frameworks operate as intended, provide regulatory certainty, and minimise costs for energy consumers throughout the energy transition.
 - Fluence understands that TNSPs have completed their first system strength RIT-Ts. However, service specifications and procurement to ensure timing of delivery of synchronous condensers and procurement for non-network options remains far too opaque. Accordingly, rule amendments are required to ensure AEMC achieve their originally intended outcomes. We encourage the AEMC to consider how Fluence, AEC and CEC's proposed rule amendments will support the completion of a first round of procurement, followed by subsequent rounds of procurement.
 - Fluence supports the rapid implementation of our proposed rule amendments, along with the AEC and CEC rule amendments, and encourages the AEMC to work with AEMO on the timing and practicality of early implementation. Regulatory certainty is also critical through the energy transition. To best enable certainty, the rule amendments could be structured to support in staged implementation of procurement

for needs identified on 1 December 2026, and broader changes to the TPSS and governance that would apply for 1 December 2027.

Assessment framework

Fluence appreciates the AEMC’s consultation of the assessment framework and broadly agrees with the four pillars. Fluence offers some nuanced feedback for how each aspect of the assessment framework should be applied.

Assessment criterion	Fluence feedback
1. Safety, security and reliability	Support
2. Principles of market efficiency	Support with caveats. Fluence encourages the AEMC to also explicitly consider <u>technology neutrality</u> in addition to the other aspects of market efficiency. Rule amendments should support technology-neutral competitiveness, based on which technologies are best-placed to deliver on system needs.
3. Innovation and flexibility	Support with caveats Fluence encourages the AEMC to explicitly consider how to <u>support innovation</u> in this rule change process, especially for non-network solutions. Rule amendments should support innovators and technology disruptors to: 1) develop competitive products that meet system needs, and 2) bid to support the grid with these products.
4. Implementation considerations	Alternative proposal of <u>simplicity and transparency</u> . Fluence encourages the AEMC to refine this criterion to instead focus on “simplicity and transparency”. Rule amendments should be easily understood by all affected parties, be easily implemented, and align with the intention of the recently implemented frameworks.