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Hydro Electric Corporation
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16 April 2026

Australian Energy Market Commission (AEMC or the Commission)
Submitted via AEMC website

Dear Ms Banks,

Clarity and transparency in security frameworks (ERC0428) and the Security framework enhancements (ERC0424) – Consultation Paper

Hydro Tasmania welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC) *Security Framework Enhancements* and *Clarity and transparency in security frameworks* Consultation Paper. Hydro Tasmania is Australia's largest generator of renewable energy and has been an active contributor to the AEMC's security reforms over the past several years.

We generally support the intent of the rule changes submitted by the Australian Energy Market Operator (AEMO), the Australian Energy Council (AEC) and the Clean Energy Council (CEC). In particular, we support:

- efforts to improve consistency across system security frameworks;
- enhancements to address issues with network incentives to procure non-network options; and
- extending the system strength and inertia binding requires from three to five years.

However, we have concerns related to:

- the proposed changes to generator notice of closure requirements; and
- the potential for duplication within the NSCAS procurement framework.

Please find our detailed responses to the consultation questions in Attachment 1. Please contact Shannon Culic at shannon.culic@hydro.com.au to discuss any follow up to this letter.

Yours sincerely

John Cooper
Manager Policy & Regulation

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ATTACHEMENT 1 – Response to Consultation Paper

Hydro Tasmania does not support the proposed changes to generator notice of closure requirements

We do not support AEMO's proposal to extend the minimum notice period for generator closures from 42 months (3.5 years) to five years. While the intent is to provide the market with additional time to respond to potential system security needs, we do not consider that this change would achieve its objective.

In practice, a five-year horizon is often too long for generators to have a clear and realistic view of whether their plant will retire within that timeframe. As a result, generators are likely to adopt a conservative approach to ensure compliance, signalling potential closure earlier than necessary. Given it is easier to delay a retirement than to bring it forward under the proposed framework, this could lead to an overstatement of closure risk. An increase in precautionary closure notices would make it more difficult to form an accurate view of future market conditions, potentially undermining investment confidence.

On balance, we consider the current 42-month notice period strikes an appropriate balance between providing sufficient time for the market to respond to potential security shortfalls and aligning with the practical realities faced by generators in making closure decisions.

Hydro Tasmania supports measures to reduce barriers to non-network solutions

We support the issues raised by both rule change requests that the current regulatory framework inherently favours network solutions, even where non-network options could be procured more cheaply and delivered more flexibly. While non-network options are permitted under the Rules, in practice they often face higher barriers and greater commercial uncertainty than network investments.

Standardising system strength service definitions and technical specifications at a NEM-wide level would materially reduce these barriers by improving clarity, reducing region-by-region re-engineering costs and providing greater certainty for proponents of non-network solutions such as grid-forming batteries or contracted synchronous services. Similarly, greater consistency and transparency in procurement processes, including clearer signals on volumes, timing and contract terms, would improve bankability and support earlier, more efficient co-optimised investment.

Without reforms of this nature, there is a risk that the framework will continue to default to network solutions by design rather than by merit, increasing costs to consumers and limiting the role that non-network options could play in delivering system security outcomes efficiently.

If the Commission were to recommend alternatives to the regulatory investment test for transmission (RIT-T), whether for non-network solutions or security investments more broadly, we encourage the AEMC to ensure that robust cost discipline and transparency are maintained within the investment process.

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Hydro Tasmania supports improved consistency across system security frameworks

Hydro Tasmania supports the intent of the AEC–CEC rule change to improve transparency and consistency within system security frameworks. In this context, we see value in promoting consistency not only within individual frameworks, but also across them. In particular, there appears to be some overlap and ambiguity regarding when TNSPs utilise the NSCAS framework as opposed to network support agreements, with approaches differing across jurisdictions. This variability can be difficult to navigate. Greater clarity on the appropriate application of each framework would therefore be beneficial.

Hydro Tasmania supports extending the system strength and inertia binding requirements from three to five years

We consider this change would provide a more robust and credible forward pricing signal by better aligning regulatory obligations with the practical lead times required to develop, finance and deliver both network and non-network security solutions.

In particular, a five-year binding horizon would improve investment certainty for providers of system strength and inertia by giving earlier and clearer visibility of future demand. This would enable more efficient investment decisions, including the ability to co-optimise security capabilities with generation or storage projects at earlier stages of development, rather than relying on late-stage procurement or short-term contracts. Longer lead times are especially important for capital-intensive assets and emerging technologies, where revenue certainty is critical to securing financing.

We also consider that extending the binding timeframe supports better outcomes for consumers by reducing reliance on short-notice interventions and backstop mechanisms, which are typically higher cost and lower efficiency. By allowing security needs to be signalled and addressed further in advance, the framework is more likely to encourage competition between a broader range of solutions and avoid defaulting to reactive investment.

Hydro Tasmania supports a more effective NSCAS backstop, subject to appropriate guardrails to minimise duplication

We support the intent of AEMO's rule change request to enhance the effectiveness of the NSCAS framework as a genuine "backstop" mechanism. However, it is important that this role is supported by clear guardrails around both AEMO's procurement functions and those of TNSPs, to ensure there is no ambiguity regarding roles and responsibilities, and to avoid consumers paying for the same services more than once.

We note that the Commission's 2011 review of the NSCAS framework clarified the arrangements by establishing that TNSPs have primary responsibility for procuring NSCAS under the Rules. This reform improved the overall clarity and efficiency of the arrangements. It is important that any further changes build on, rather than undermine, this foundation, and avoid reintroducing duplication or uncertainty into the framework.

In this context, we provide in-principle support for AEMO being able to declare an NSCAS gap where there is a material risk that system strength or inertia requirements will not be met, even if the

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underlying security requirement has not formally changed. Allowing AEMO to act in these circumstances would improve the practical effectiveness of NSCAS as a backstop and better reflect real-world delivery risks, including delays in commissioning or unexpected changes in system conditions. We are also supportive of expanding the current three-year restriction on procuring system strength and inertia through NSCAS to five years to align with the proposed extension of the primary frameworks binding requirements.

We are supportive of allowing TNSPs to procure system strength up to the efficient level through the NSCAS framework. We consider this is aligned with the intent of the framework as a backstop mechanism and to complement, not replace, the primary procurement frameworks.

However, we are cautious about permitting AEMO to procure system strength up to the efficient level through the NSCAS framework. In our view, this represents an overstep into economic optimisation, which is inconsistent with AEMO's intended role within the planning framework and risks duplication with TNSP functions. AEMO's role under NSCAS should remain limited to addressing minimum system security gaps only.

This position is consistent with the intent of the *Improving security frameworks* rule change, which enabled system strength to be procured through NSCAS where necessary to meet the minimum required for security.[1] It is also aligned with the Commission's 2011 NSCAS review, which intentionally limited AEMO's procurement role to system security and reliability, giving TNSPs the sole responsibility for providing NSCAS which deliver market benefits.[2] While we acknowledge that the efficient level of system strength is not identical to market benefit ancillary services, there is some overlap, and extending NSCAS procurement beyond minimum security risks shifting AEMO's role in the framework away from a security backstop function. If the AEMC were to permit AEMO to be able to procure system strength up to the efficient level through the NSCAS framework, we consider that additional guardrails on AEMO's procurement role and stronger oversight of security investment decisions, as proposed in the CEC and AEC rule change request, would be beneficial.

[1] For more information see: ISF final determination, p. 35.
[2] For more information see: https://www.aemc.gov.au/sites/default/files/content/b3970415-6f8b-4a05-8846-2fc87e7e67cb/Final-Rule-Determination.PDF, p. 13.