

20 August 2026

Australian Energy Market Commission

Submitted online at: <https://www.aemc.gov.au/contact-us/lodge-submission>

Re Minimum system load governance and market arrangements – consultation paper

The Australian Energy Council (AEC) welcomes the opportunity to provide comment on the Minimum system load governance and market arrangements consultation paper (consultation paper).

The AEC is the peak industry body for retailers and generators operating in energy markets. Our members generate and sell energy to over 10 million homes and businesses. We seek to deliver a market that allows consumers to benefit from the transition to a reliable, affordable and decarbonised energy system. The AEC supports the transition to net zero emissions by 2050, and the role of the electricity sector in unlocking opportunities for reductions in other sectors. AEC members are major investors in the renewable energy, firming and energy security services needed to deliver an effective transition.

Overall Views

The AEC understands the importance of managing system security as the energy market transitions to a low emission future. Minimum system load (MSL) is one key component of this.

Our high-level views on the key aspects of the rule-change proposals are as follows:

- Risk of MSL events – the risk of future MSL events is uncertain. There is some evidence that recent trends towards greater requirements to manage MSL events may be changing. We suggest that the AEMC work with AEMO to further investigate the likely level, duration and severity of future MSL events. This analysis may indicate that only modest policy modifications are required at this stage.
- Governance arrangements – AEMO has prudently developed an MSL framework which we understand is not formally contained in the National Electricity Rules. We suggest there is merit in examining how greater structure could be included in this process, including if some aspects should be included in the Rules. In particular, improved reporting and visibility of MSL conditions may assist market participants in responding to potential MSL events.
- Floor price proposal – it is difficult to provide informed comment on the proposed floor price concept for MSL events, without a practical model for its implementation. The AEC is not yet convinced that such a policy is required or that it will help address the stated problem.

- MSL market ancillary service – we understand the potential advantage of this proposal is to provide a market signal to solve for MSL events, which may be more efficient than current mechanisms such as directions. We suggest this proposal warrants further investigation, which should also include a thorough analysis of the potential costs and benefits, including in comparison to other options.
- Alternatives – building on existing Transitional Service Contracts to procure load response and load reserves could provide a simple way to procure services, if MSL conditions are not expected to significantly worsen.
- Compensation frameworks - as MSL events can involve the use of directions, it is important that issues considered in this rule change process are also thoroughly considered as part of the separate *Improving Compensation Frameworks* process.
- Timing of rule change process - we suggest that it may be practical to consider some elements on a faster track, such as changes to MSL governance.

What is the problem?

The AEC generally agrees with the problem statement from the CEC¹ that MSL is being caused by the ongoing increase in distributed solar PV coupled with the slow pace at which system security requirements are transitioning away from reliance on older synchronous generating units.

‘The CEC characterises the MSL issue as the confluence of two trends in the energy transition: the rising penetration of distributed photovoltaics (DPV), which is reducing operational demand during daylight hours; and the slower pace at which the power system’s security requirements are transitioning away from reliance on synchronous — predominantly coal — generating units that must run at a minimum stable operating level to provide essential system services.’

We believe the cause of the problem is highly relevant when examining the proposals put forward in this rule change process. Credible solutions must clearly target the root cause of the problem, and do so in an efficient and practical way.

Risks of MSL events

The AEC understands the importance of managing system security as the energy market transitions to a low emission future. Minimum system load is one key component of this and has been highlighted in recent reports such as AEMO’s 2025 Transition Plan for System Security². For example, Table 1³ highlights the ‘Continuing MSL’ risks in all NEM jurisdictions (except Tasmania) from 2027 onwards.

However, we acknowledge the uncertainty surrounding the future frequency, duration and severity of MSL events. Whilst a trend towards greater management of MSL events has been growing in recent years, there are some indications that the deployment of batteries (both utility and home), as well as the growth of other loads, may be changing this dynamic. For example, the

¹ Consultation paper, page 37.

² AEMO, 2025 Transition Plan for System Security, 2025

³ AEMO, 2025 Transition Plan for System Security, 2025, page 8

most recent AEMO Quarterly Energy Dynamics report⁴ highlights that the evening peak reduced slightly (compared to Q2 2025) with some demand shifted to the middle of the day. However, mild weather and other changes in demand may also have had an impact. Time and further information will be required to test if this represents a material change in recent trends.

We suggest that the AEMC work with AEMO to further investigate the level of future MSL risks. This analysis may indicate that further policy tools are not required to manage MSL events.

MSL Governance, reporting and visibility

AEMO has developed an MSL framework, based partly on the existing LOR framework. However, this framework is not formally contained in the National Electricity Rules. We believe there would be merit in examining how greater structure could be included in this process, including if some aspects should be included in the Rules. This could include introducing clear definitions of MSL conditions and requiring AEMO to forecast and report MSL levels over a 7-day outlook through the short-term Projected Assessment of System Adequacy (ST PASA) process.

In particular, improved reporting and visibility of MSL conditions may assist market participants in responding to potential MSL events.

If accepted by the AEMC, these changes should also be subject to further consultation by AEMO on the details of implementation.

Floor price proposal

One of the proposals in the consultation paper is to set the regional spot price at the market floor price when system demand is expected to be insufficient to maintain secure power system operation (under an MSL3 notice). We note that this proposal is provided as a high-level concept that leaves the design and implementation to further investigation. As such, this makes it a difficult proposal to make informed comment on. In summary, the AEC is not yet convinced that such a policy is required or that it will help address the stated problem.

If such a policy is implemented, we assume it will require a certain notice period be provided to the market, which is likely to be at least a few hours ahead, or possibly longer. This signal, if properly communicated to the market, may assist in solving the problem, such that the floor price intervention is not required. We suggest that there may be merit in the AEMC investigating how greater market visibility of predicted MSL events is provided. This could form part of improvements to the MSL Governance framework, which is discussed above.

We note that various potential problems with this proposal were raised in submissions to the recent *2026 Reliability Standard and Settings Review*. These are well summarized in the consultation paper and include:

- Proposal does not target the underlying cause - this appears to be intervening in the wholesale market for a problem that may not be capable of being addressed in this market. The risk of MSL events is in part being caused by distributed solar PV generation, most of which is not responsive to a wholesale price signal. Further, because of security concerns, remaining synchronous units (largely coal) may need to be retained by being

⁴ AEMO, Quarterly Energy Dynamics Q2 2026, 2026

directed on. Finally, wholesale prices are already expected to be very low during MSL periods, so it is not clear how forcing them even lower will elicit a greater response.

- Unintended consequences – the consultation paper notes potential concerns with the how market participants may bid if an MSL event is notified. We suggest this requires further investigation, as it may create further problems which undermine any potential benefits from the proposal.
- Financing concerns – some participants raised concerns that thermal plant may bear disproportionate costs of the policy if they are directed on during periods of highly negative prices.

MSL market ancillary service

The CEC has proposed a new MSL market ancillary service, a MSL reserve service, that would pay a market participant on an individual resource basis, to provide a load response defined over a specific timeframe and volume.

The proposal involves market participants bidding into the MSL market one day ahead. AEMO would set the MSL response requirement and issue enablement instructions to registered assets to hold dispatchable load capacity across the trading intervals. Importantly, AEMO would aggregate capacity to achieve the lowest cost outcome.

Enabled providers would receive a payment whether or not an actual MSL event occurred, with prices set on a marginal basis. When an MSL response is required, AEMO would issue dispatch instructions and enabled assets would act in accordance with these. This may require some notice⁵ (e.g. for batteries to create headroom).

The CEC contend that the benefit of an open market ancillary service is that it would promote more efficient price formation than the current reliance on directions and transitional service contracts. In particular:

- Reducing the risk of directions would reduce discouraging investment in energy storage.
- An open market would deliver better outcomes than tenders for Type 1 contracts.

We generally agree with these arguments that show the potential benefits an MSL market could provide compared to the status quo. However, the new market will also involve costs. The CEC state that the costs would be similar to the recently introduced fast frequency response market, with cost recovery from market customers. This would involve a once off cost for implementation and ongoing administration costs.

We suggest that this proposal warrants further investigation, which should also include a thorough investigation of the potential costs and benefits, including in comparison to other options.

⁵ We suggest that the AEMC should consider how the proposed service may induce additional charging response from batteries, assuming that batteries would already be charging during MSL periods as spot prices in the energy market would likely be negative.

Other alternatives

The consultation paper lists a number of other alternatives which are briefly discussed below:

- Build on existing Transitional Service Contracts to procure load response and load reserves – this could provide a simple way to procure services, especially if MSL conditions are not expected to significantly worsen. However, as the consultation paper notes, this may require extending the duration of Type 1 contracts, or modifying the arrangements. Whilst relatively simple, we agree with the CEC that these contracts may be a less optimal solution than the proposed MSL market ancillary service which could provide a more transparent price signal.
- Reconfigure existing market ancillary service (such as FCAS) to deliver load response – we agree with the CEC that reconfiguring existing services such as FCAS is unlikely to be effective.
- Two-way wholesale demand response mechanism (WDRM) – the WDRM has suffered from a lack of activity. Baselines for a two-way system appear highly complex and are unlikely to provide a better outcome than the MSL market ancillary service in this rule change proposal.
- Consideration of MSL reserves through the Reliability and Emergency Reserve Trader (RERT) arrangements – similar to comments on the WDRM, this appears to be a more complex proposal and sub-optimal to the proposed MSL market ancillary service.

In our view, none of these alternatives appear compelling.

Compensation frameworks

We note that the AEMC is currently considering a separate rule change on *Improving Compensation Frameworks*. As MSL events can involve the use of directions, it is important that issues considered in this rule change process are also thoroughly coordinated with the compensation frameworks process.

Generally, the AEC believes that any reforms to compensation frameworks should be aimed at providing clarity, consistency and timeliness to the compensation regime, remain fixed in market-based principles and focus on preserving commercial decision-making to the greatest extent possible. Fundamentally, an appropriate compensation regime is necessary for the NEM to function smoothly at times of market stress to the ultimate benefit of energy consumers.

Timeframes for consideration

We understand that the consultation paper includes three distinct proposals – MSL governance, floor price proposal and the MSL market ancillary service. We also understand that the proposals have not been formally consolidated yet, and the AEMC has various options available on how it could proceed.

We suggest that it may be practical to consider some elements on a faster track, such as changes to MSL governance. Additional time could be given to consider the other policy proposals. This may also allow further opportunity to consider updated information from AEMO regarding the risk, duration and severity of future MSL events, which may not be available until the end of this calendar year.

Any questions about this submission should be addressed to Matthew Kaspura, by email matthew.kaspura@energycouncil.com.au

MKaspura

Matthew Kaspura
Director, Energy Markets