akaysha

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Ben Hiron

Australian Energy Market Commission

Submitted via AEMC Webportal

20 August 2026

Dear Ben

ERC0439 and ERC0417: Minimum System Load (MSL) framework

Akaysha Energy (Akaysha) appreciates the opportunity to provide the Australian Energy Market Commission (AEMC) with a response to the initial Consultation Paper in respect of the Minimum System Load (MSL) framework and floor price proposal (ERC0439), as well as the minimum system load reserve service (ERC0417).

We recognise that this is a complex area and that there is not a single, obvious pathway that provides for addressing MSL issues. However, Akaysha believes that this is an important Rule Change process being considered at the right time. As the AEMC notes there is uncertainty regarding the future outlook of MSL between now and 2031. The upper end of the projected number of future MSL3 days over this outlook ranges from 2 days in NSW to 135 days per year in South Australia – with Victoria (up to 53 days) and Queensland (up to 33 days) falling in between with a not insignificant upper-bound projection of MSL3 days.

The main drivers for finding a long-term solution for managing MSL risk in the NEM is to avoid market directions, reduce the need for transitional services, and avoid other market interventions. These interventions are already occurring in South Australia – and the upper limit of possible MSL3 events represents a possibly significant number market directions across the NEM on an annual basis between now and 2031.

While we appreciate that the total projected number of interventions is unknown – the fact that this is unknown creates market risks. The AEMC also notes that there is a general upwards trend in the projected number of MSL days. Our views on the appropriate pathway and response to key points raised by the AEMC in the Consultation Paper are below.

1. **Market signals for MSL**

The current market is not well suited to providing signals for managing MSL. The technology type most responsible for creating MSL risk – rooftop solar – is the least capable of responding to market price signals. An emergency backstop mechanism exists, but it sits outside the NER and, in recent years, has been applied prospectively only to new solar installations rather than existing assets.

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By nature, bidirectional storage assets are well placed to provide a solution for MSL. The issue is that most operational utility-scale storage assets are 2–4 hours in duration, while MSL risk exists over the entirety of the daytime solar generation period. MSL risk tends to be most pronounced in the early-to-late-afternoon hours, when the existing storage fleet has already charged during low-price periods and is sitting idle at a high state of charge. The lack of a market signal to stagger charging behaviour, or to pause charging until higher-risk MSL periods, has resulted in AEMO increasingly relying on directions to force an exact charging window from BESS assets. In Akaysha's view, the market does not currently provide the right signals to adequately manage MSL risk.

The Consultation Paper highlights that the impacts of MSL may be mitigated by increased storage and data centre growth, as well as other policy signals such as the Solar Sharer program. We would caution against relying on future generation and demand projections as a reason to defer market reform. Data centre load projections in particular remain uncertain, and the energy policy requirements likely to apply to data centres are still under development. Both the AEMC's data centre advice and the NSW Guidelines have proposed that data centres be supported by new-build renewable energy and firming capacity – this may result in any MSL benefits provided by data centres being netted out.

2. **It is not unreasonable for the AEMC to plan long-term solutions for an infrequent market need**

While the exact number of potential MSL3 events is unknown – this should not prevent work being done on a long-term market solution. As with the Reliability and Emergency Reserve Trader (RERT), it is better to have a solution in place that can provide the necessary services in the case of need. Or to avoid market intervention. We believe that the AEMC should be focused on the MSL impacts – both on the market and on storage and generation assets that are receiving interventions – rather than focusing on the frequency of potential MSL3 events.

Our concern is that if the AEMC postpones an MSL decision until MSL3 events hit a certain frequency level, then we will likely see a solution implemented several years after it has become an obvious problem – accounting for the time it takes for a Rule Change to progress through the various Rule Change process requirements. If the AEMC decides to defer an MSL decision until a time at which the issue is more pronounced, it would be useful for the Draft Determination to articulate how a solution can be implemented in a compressed timeline.

3. **Market directions should be a last resort**

Akaysha is concerned that in the absence of a market solutions, AEMO interventions will be seen as the simplest mechanism to manage MSL risks.

Regardless of the solution and position put forward by the AEMC it would be useful to assess AEMO's position on the pathway that is going to be most likely to reduce future market interventions and directions. The Draft Determination should also explore whether this can be resolved primarily through an improved governance framework.

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4. Transitional arrangements are not a permanent solution

Transitional arrangements should not be viewed as long-term solution. The transitional arrangements – particularly the type 1 transitional arrangements, were introduced to give AEMO the power to directly procure system strength and inertia services to fill security gaps that existing frameworks (like NSCAS or network contracts) couldn't address quickly or flexibly enough. They were introduced because the existing planning frameworks for system strength and inertia didn't provide sufficient time or flexibility to respond to the range of variables that can materially alter system operating conditions through the transition.

In the case of MSL, there is a reasonable understanding of the range of MSL3 days that each of the NEM states will face between now and 2031, and two possible mechanisms for managing this risk put forward by the Reliability Panel and the CEC. The AEMC might want to consider the direct procurement model used in the Type 1 transitional arrangements for MSL services as a third option under an AEMC preferable rule change process. However, we would not want to rely on transitional arrangements as a permanent solution.

5. Governance improvements

Akaysha is supportive of the improved governance frameworks related to MSL included in the Consultation Paper. An explicit MSL governance framework is warranted – this should be used to clearly set out roles and responsibilities, as well as the hierarchy of solutions for managing MSL. For instance – if market directions for utility scale assets and utilisation of the rooftop solar backstop mechanism are both considered to be a last resort, in which order are those solutions enabled. We are also supportive of added definition being put to the different lack of load and MSL conditions.

6. Proposed solutions – CEC market-based solution and changes to MFP

Of the two solutions considered in the Consultation Paper – the CEC proposal for a new MSL market, and the Reliability Panel proposal to set the regional spot price at the market floor price (MFP) – the Reliability Panel solution appears to be the simplest to implement.

As noted above, the preferred solution should be the one that ultimately drives the lowest amount of AEMO directions – so it would be useful for the AEMC Draft Determination to set out whether the Reliability Panel solution is likely to result in fewer overall market directions.

At this stage Akaysha would suggest that the CEC market-based solution still warrants further consideration – but we recognise that it is a complicated solution that may take significant time to develop.

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An alternative option would be to consider whether there are elements of the Type 1 transitional arrangements that could be implemented as a more structured permanent solution. If the Improving Security Frameworks (ISF) scheduler is being used for Type 1 services as well as a number of other essential system security (ESS) services could this be considered as a possible longer-term solution (as above – we're not suggesting that transitional arrangements become the permanent solution – but the architecture used by the transitional services may be a solution.

Akaysha looks forward to continuing to engage with the AEMC on this Rule Change, and we would welcome the opportunity any follow-up discussions. For more information on this submission please contact Emma Fagan at emma.fagan@akayshaenergy.com.

Kind regards

Emma Fagan

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