

15 June 2022

Kevin Ly  
Group Manager Regulation  
Australian Energy Market Operator

Submitted by email to: [kevin.ly@aemo.com.au](mailto:kevin.ly@aemo.com.au)

Dear Kevin

## Response to Declared NEM Project for NEM 2025 Reform Program Consultation Paper

AusNet is pleased to have the opportunity to provide this submission to the first stage of consultation on the National Electricity Market (NEM) 2025 Reform Project as a declared NEM Project. The NEM 2025 Reform Program has been established by the Energy Security Board's (ESB) to delivery reforms essential for the transition to decentralised and grid-scale renewable energy resources.

We are supportive of the NEM 2025 Reform Program objectives and acknowledge the significant expenditure required by AEMO, network businesses and market participants to make the energy transition a success. However, at this stage the substantive rule changes are not sufficiently progressed so as to establish the scope and the net benefit of these reforms, and how they will achieve these objectives. It is important that proposed design and alternative design options are sufficiently explored and clarified before system development occurs. This will provide stakeholders with confidence that only efficient costs are being incurred and investment does not occur in advance of the scope and design being finalised.

Specifically, we anticipate the costliest components of these reforms include Dynamic Operating Envelops, Distribution Local Network Services, scheduled lite, and DER Market and System Operator integration. These reforms are still at an early stage of development. So we do not have a reliable basis for a cost benefit assessment.

As a network business, we have heard stakeholder calls for networks to be exposed to and have an incentive to reduce AEMO's costs.<sup>1</sup> These submissions call for strong engagement between AEMO and networks to ensure overall system expenditure is efficient. Considering this expectation to demonstrate efficiency and transparency, we ask AEMO to undertake a cost benefit analysis on the projects underpinning the NEM 2025 Reform Program and engaging openly with stakeholders, including networks, on its assumptions.

We are concerned that the proposed solution architecture with this declared NEM 2025 project funding presupposes an AEMO centralised solution rather than decentralised solutions. The NEM 2025 Reform Program acknowledges the role of current funded trials like Project EDGE (Energy Demand and Generation Exchange) and Symphony these trials have not been completed and the consequential industry agreement on the best approach to manage DER has not yet been reached.<sup>2</sup> Without a better understanding of the trial outcomes from these projects and broad industry consultation, we believe it is too early to develop a strategic solution for the costliest components of the NEM 2025 Reform Program.

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<sup>1</sup> EUAA's response to the Recovering the cost of AEMO's participant fees rules change consultation, <https://www.aemc.gov.au/sites/default/files/2022-05/euaa.pdf>

AER's response to the Recovering the cost of AEMO's participant fees rules change consultation, [https://www.aemc.gov.au/sites/default/files/2022-06/aer\\_submission\\_to\\_aemo\\_participant\\_fees\\_rule\\_change\\_consultation\\_paper.pdf](https://www.aemc.gov.au/sites/default/files/2022-06/aer_submission_to_aemo_participant_fees_rule_change_consultation_paper.pdf)

<sup>2</sup> Project EDGE is a multi-year project, in collaboration with AEMO, to demonstrate an off-market, proof-of-concept DER Marketplace that efficiently operates DER to provide both wholesale and local network services within the constraints of the distribution network.

Additionally, the development of centralised systems and a data strategy before changes to enforceable regulatory instruments risks increasing network businesses and market participants expenditure for systems changes. In recent significant industry developments of Power of Choice and 5-Minute Settlements, AEMO's costs were dwarfed by the combined costs of network businesses and market participants by \$100s of millions. Likewise, in preparing for and delivering changes for the NEM 2025 Reform Program it is reasonable to expect that costs of network businesses and market participants would also exceed AEMO's costs. Further, making any large investments in systems before final Rule changes are made are likely to result in higher costs for consumers, especially if the final Rules varies from AEMO's planned NEM 2025 systems and require reworking.

We recommend a program governance approach that separates the delivery of IT systems into at least two smaller batches of IT system design/development/release; this was recommended by the ENA in its response to the NEM 2025 implementation roadmap.<sup>3</sup> AEMO, in collaboration with the industry and customer representative groups, should take a phase-gate approach to delivering reform. We recommend splitting the proposed declared NEM project into two or more declared NEM projects based on industry and customer endorsement. This may involve a minimum capability release initially incorporating components of the reform associated with final rule determinations or rule changes under consultation (i.e. Flexible Trading Arrangements, and Integration of Energy Storage Systems) and then the release of a strategic solution after the conclusion of the final rule changes and collaborative industry design. This would allow AEMO to commence works on endorsed reform components that are accompanied by Rule changes and provides time to undertake and consult on a cost benefit analysis for the more significant expenditure.

In making these recommendations, we do not want to slow down system developments that are adequately defined and necessary to achieve the transition to decentralised and grid-scale renewable energy resources, and we seek to protect energy consumers from inefficient outcomes that increase energy costs. Our customers expect us to engage closely with AEMO to ensure overall system expenditure is efficient.

Additionally, we would welcome broader engagement and collaboration on the NEM 2025 market design to include more customer and businesses representatives. Although we appreciate the ENA's involvement on the Reform Delivery Committee it would be beneficial to involve more network businesses directly in the design work, perhaps in the form of working groups. Our participation at this level would provide significant value to the NEM 2025 Program given our experience in Project EDGE and in delivering customer benefits with the integration of smart meter data into our network management.

We look forward to working closely with AEMO to collaborate on project design and develop the necessary cost and benefit analysis. If you have any queries on our submission, please do not hesitate to contact Justin Betlehem on 03 9695 6288.

Yours sincerely,



Charlotte Eddy  
General Manager Regulation (Distribution)

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<sup>3</sup> ENA's submission to the AEMO's consultation NEM 2025 implementation roadmap