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AEMC submission to inquiry – cheaper, cleaner energy and the net zero transformation – interim report

The Australian Energy Market Commission (AEMC) welcomes the opportunity to provide a submission to the Productivity Commission (PC) 's interim report into the inquiry into cheaper, cleaner energy and the net zero transformation.

As the national rule maker and advisor for Australia's energy markets, the AEMC's mission is to work for Australia's future productivity and living standards by contributing to a decarbonised, affordable, and reliable energy system for consumers.

The AEMC supports the Productivity Commission's Interim Report recommendations on establishing consistent and comprehensive incentives to reduce emissions, streamlining approval processes for new clean energy projects, providing investors with clearer approval pathways for energy transition projects and addressing barriers to private investment in climate adaptation. These recommendations include:

- establishing enduring, nationally consistent market settings that incentivise the lowest-cost clean energy and embed investment signals, while phasing out jurisdiction- or technology-specific incentives
- developing national carbon values for consistent use across government
- streamlining approvals for priority renewable projects through targeted governance improvements and expediting approval processes.
- developing a national climate-risk information database and a new governance framework to improve resilience and adaptability to climate change.

We believe that these changes are in the long-term interests of consumers:

- A consistent value of emissions reductions across the economy would contribute to making more efficient, least-cost decisions, reducing long-term costs for consumers.
- Streamlining or enhancing the approvals process could improve certainty around whether key projects will proceed. This would provide more stable and credible long-term signals to consumers regarding price and reliability.
- Consumers would also benefit from having robust climate adaptation strategies in place. Given the long-dated nature of energy sector assets, early guidance on when

and where essential infrastructure will (or won't) be needed can help support system reliability – especially in the face of more extreme weather events.

We note that the Productivity Commission's recommendations include a focus on improving approval processes. The AEMC made changes to the rules in 2024, aimed at improving the connection process for new generation and storage in the National Electricity Market (NEM). We share our observations from this process below, as they may provide insights to the Productivity Commission.

The Enhancing investment certainty in the R1 process rule change introduced a 60-business day timeframe for AEMO to respond to connection applicants.

In June 2024, the AEMC made a [final rule](#) that sought to improve certainty surrounding the 'R1 process', an essential step before new generation and storage capacity can operate in the NEM.¹ In particular, plant owners and operators need AEMO to assess whether the new generator or storage unit can meet its performance standards, to ensure that the connection of their plant does not adversely affect power system security.

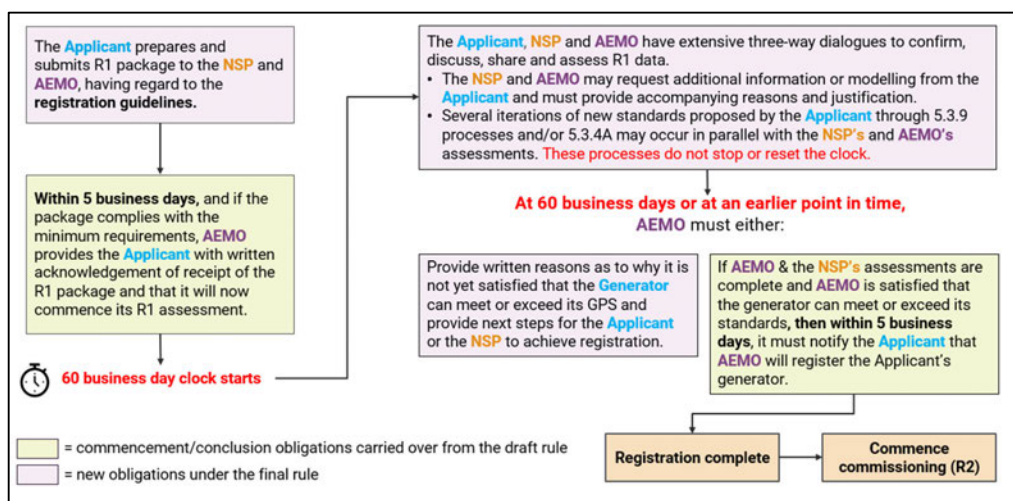
An issue raised by the rule change proponent (Clean Energy Council) was that connection applicants could face open-ended delays in the R1 process due to a lack of time-bound obligations and codification of this process in the National Electricity Rules (NER). However, the Commission considered that implementing a strict time limit for AEMO to complete its assessment process would be overly inflexible and burdensome on AEMO, largely due to the iterative and complex nature of the R1 process.

To balance the need for certainty while not being overly prescriptive, the Commission's final rule introduced a 60-business day timeframe whereby AEMO must either:

- Notify the connection applicant that it will register (or conditionally register) the connection applicant's plant, within 5 business days²
- Provide written reasons as to why it is not yet satisfied that the plant is capable of meeting or exceeding its performance standards, as well as next steps for parties to achieve registration.³

See Figure 1 for an overview of the timeframe introduced by the final rule.

Figure 1 – Diagram of the 60 business day timeframe for the R1 process



¹ See <https://www.aemc.gov.au/rule-changes/enhancing-investment-certainty-r1-process>

² NER, clause 5.3.7A(j)(1)-(2) and 5.3.7A(k)

³ NER, clause 5.3.7A(j)(3)

Although the NER does not bind AEMO to register an applicant's plant within 60 business days, it ensures that connection applicants are kept well-informed as to the status of their assessment. This minimises the risk of applicants facing open-ended delays with no clear pathway to registration. However, it also recognises that AEMO (and NSPs, through their consultation with AEMO) have important functions with regard to maintaining and improving power system security. Undue constraints on AEMO to meet strict deadlines without regard for the genuine complexity of some engineering issues could have severe consequences on power system security.

In addition, the final rule required AEMO to develop a guideline that described how it will conduct its assessment, the minimum information that is needed from connection applicants before AEMO can commence its assessment, and examples of when AEMO may require additional information and data to be provided during the process.⁴ The rule also clarified the roles and responsibilities of each party throughout the process, addressing previous ambiguity due to a lack of codification of the R1 process.⁵

The AEMC would welcome further engagement with the inquiry team to share knowledge gained through our rule change processes.

The AEMC is committed to supporting the energy transition and will continue working with the PC to share lessons from our rule change processes, provide input on approval frameworks, and ensure alignment between the AEMC's rule changes and the Productivity Commission's recommendations.

We would welcome the opportunity for continued dialogue to help deliver efficient, well-coordinated reforms. For further discussions, don't hesitate to contact me or have your team contact Dr Neil Lessem, Head of Economics, AEMC on [REDACTED]

Yours sincerely

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Geoffrey Rutledge

Chief Executive

Australian Energy Market Commission

⁴ AEMC, Enhancing investment certainty in the R1 process, Final determination, chapter 5.

⁵ AEMC, Enhancing investment certainty in the R1 process, Final determination, section 4.2