

Transitional Services Guideline

Consultation paper -
Standard consultation for the
National Electricity Market

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New South Wales | Queensland | South Australia | Victoria | Australian Capital Territory | Tasmania | Western Australia

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Explanatory statement and consultation notice

This consultation paper commences the first stage of the standard rules consultation procedure conducted by AEMO to consider proposed content for the Transitional Services Guideline (**proposal**) that AEMO is required to develop and publish under National Electricity Rules (**NER**) 3.11.11(e). The standard rules consultation procedure is described in NER 8.9.2.

Context

On 28 March 2024 the Australian Energy Market Commission (**AEMC**) made a final determination in relation to the *Improving security frameworks for the energy transition* rule change¹. The determination introduced the National Electricity Amendment (Improving security frameworks for the energy transition) Rule 2024 (**ISF Rule**)² to improve market arrangements for security services. The ISF Rule evolves existing frameworks with the aim of ensuring sufficient security services are provided as the power system continues to transition to higher penetrations of inverter-based resources (**IBR**). It also ensures AEMO can procure necessary security services that fall outside these frameworks (referred to as ‘transitional services’), and ‘enable’ these services in operational timeframes to ensure that the power system is secure day-to-day³.

Under the ISF Rule the new transitional services framework commenced on 3 June 2024, but before AEMO can start to procure transitional services it must publish the Transitional Services Guideline. A description of the matters to be dealt with in the Transitional Services Guideline is set out in NER 3.11.11(f).

Among other things, the Guideline must be designed to achieve the Transitional Services Procurement Objective, which requires AEMO to use reasonable endeavours to acquire transitional services to:

- contribute to achieving emissions reductions targets;
- achieve and maintain power system security; and
- minimise the cost of transitional services to end users.

Proposal

AEMO proposes content for the Transitional Services Guideline, considering both:

- alignment with existing non-market ancillary services (**NMAS**) Guidelines; and
- the need for flexibility in the procurement process, due to the potential nature of the transitional services AEMO may need to procure in order to satisfy the Transitional Services Procurement Objective.

For more detailed information on the proposal and AEMO’s reasoning, please refer to the subsequent sections of this consultation paper.

¹ <https://www.aemc.gov.au/sites/default/files/2024-03/ERC0290%20-%20ISF%20final%20determination.pdf>

² <https://www.aemc.gov.au/sites/default/files/2024-04/Final%20Rule%20-%20in%20mark%20up.pdf>

³ <https://www.aemc.gov.au/sites/default/files/2024-03/ERC0290%20-%20ISF%20final%20determination.pdf>, page i

Consultation notice

AEMO is now consulting on this proposal and invites written submissions from interested persons on the issues identified in this paper to NEMReform@aemo.com.au by 5:00 pm (Melbourne time) on 29 August 2024.

Submissions may make alternative or additional proposals you consider may better meet the objectives of this consultation and the national electricity objective in section 7 of the National Electricity Law. Please include supporting reasons.

Before making a submission, please read and take note of AEMO's consultation submission guidelines, which can be found at <https://aemo.com.au/consultations>. Subject to those guidelines, submissions will be published on AEMO's website.

Please identify any parts of your submission that you wish to remain confidential and explain why. AEMO may still publish that information if it does not consider it to be confidential, but will consult with you before doing so. Material identified as confidential may be given less weight in the decision-making process than material that is published.

Submissions received after the closing date and time will not be valid, and AEMO is not obliged to consider them. Any late submissions should explain the reason for lateness and the detriment to you if AEMO does not consider your submission.

Interested persons can request a meeting with AEMO to discuss any particularly complex, sensitive, or confidential matters relating to the proposal. Please refer to NER 8.9.1(k). Meeting requests must be received by the end of the submission period and include reasons for the request. We will try to accommodate reasonable meeting requests but, where appropriate, we may hold joint meetings with other stakeholders or convene a meeting with a broader industry group. Subject to confidentiality restrictions, AEMO will publish a summary of matters discussed at stakeholder meetings.

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1. Stakeholder consultation process

As required by the National Electricity Rules (NER) 3.11.11(e), AEMO is consulting on the Transitional Services Guideline (**proposal**) in accordance with the standard rules consultation procedure in NER 8.9.2. NER 11.168.3 requires AEMO to publish the first Transitional Services Guideline by 1 December 2024.

Note that this document uses terms defined in the NER, which are intended to have the same meanings. There is a glossary of additional terms and abbreviations in Appendix A.

AEMO’s indicative process and timeline for this consultation are outlined below. Future dates may be adjusted, and additional steps may be included, if necessary, as the consultation progresses.

Consultation steps	Dates
Consultation paper published	Wednesday 31 July 2024
Industry briefing	Weeks of 12 or 19 August 2024
Submissions due on consultation paper	Thursday 29 August 2024
Draft report published	Expected Friday 27 September 2024
Industry briefing	Weeks of 7 or 14 October 2024
Submissions due on draft report	Expected Friday 25 October 2024
Final report published	Expected Friday 22 November 2024

2. Background

2.1. Context for this consultation

Under the National Electricity Amendment (Improving security frameworks for the energy transition) Rule 2024 (**ISF Rule**)⁴, AEMO has been given a new power to procure non-market ancillary services that fall outside the scope of the existing services available under the NER for power system security. These services are referred to in the Rule as ‘transitional services’, and the new provisions in the NER dealing with the procurement and enablement of these services are referred to as the ‘transitional services framework’.

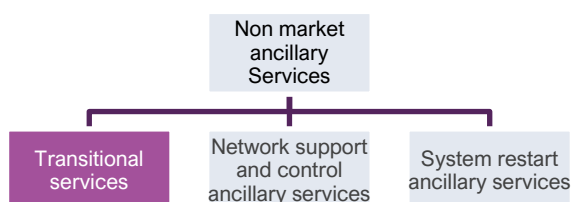
The intention of this framework is by design ‘transitional’, and it is expected to naturally become obsolete as AEMO and industry understanding and processes for the procurement of security services in the transition to a low- or zero-emissions power system continue to evolve. Subject to a review of the transitional services framework to be completed by the Australian Energy Market Commission (**AEMC**) by 1 December 2031, the framework will expire on 1 December 2039.

Two types of transitional services are introduced by the ISF Rule:

- Type 1 Services: NER 3.11.11(b)(1) defines these as *the services are required for power system security and cannot otherwise be provided by an inertia network service, a system strength service, a market ancillary service or a NMAS*⁵. Contracts for the procurement of Type 1 services may be up to three years in length and must not have a term that extends past 1 December 2029.
- Type 2 Services: NER 3.11.11(b)(2) defines these as *the services are acquired for the purpose of trialling new technologies, or a new application of existing technologies, for the management of power system security in a low- or zero-emissions power system where the particular application of the technology employed through the transitional services has not been used to provide services to manage power system security prior to 28 March 2024*. Contracts for the procurement of Type 2 services may be up to 10 years in length and must not have a term that extends past 1 December 2039.

An overview of how the transitional services relate to existing non-market ancillary services is outlined in Figure 1 below.

Figure 1 Overview of non-market ancillary services



⁴ <https://www.aemc.gov.au/rule-changes/improving-security-frameworks-energy-transition>

⁵ Non-market ancillary service.

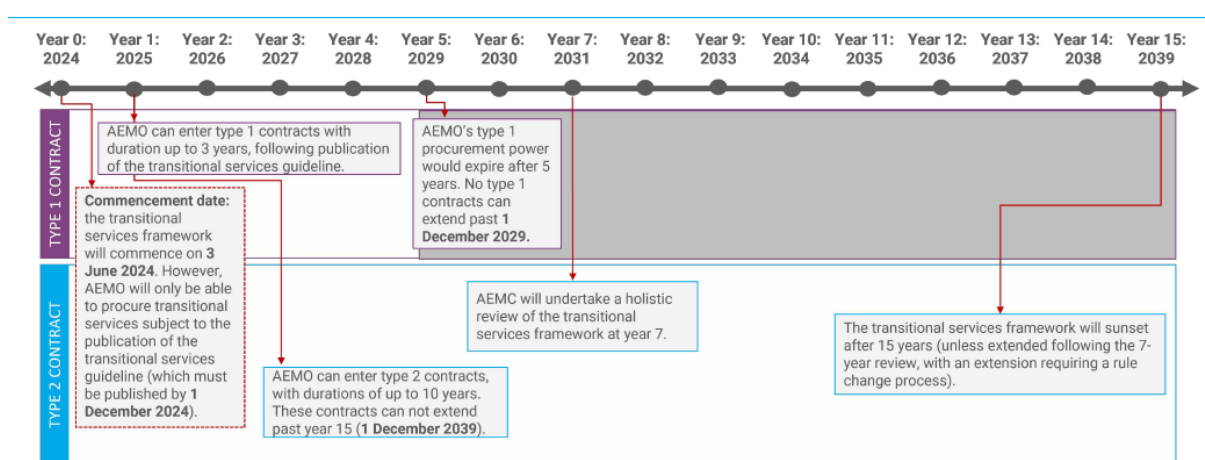
Key milestones under the transitional services framework are outlined in Figure 2 below.

The transitional services framework commenced on 3 June 2024, but before AEMO can start to procure transitional services, it must publish both the Transitional Services Guideline and a Statement of Security Need per NER 3.11.12.

The Transitional Services Guideline will provide transparency to potential Transitional Service Providers (and the industry more broadly) on the procurement processes for Type 1 and Type 2 services, and how AEMO intends to achieve the Transitional Services Procurement Objective specified in NER 3.11.11(c).

This consultation paper commences the Rules consultation process required under NER 3.11.11(e).

Figure 2 Timeline of transitional services



Note: From AEMC Final Determination, page 67 Figure 5.1

2.2. NER requirements

NER 3.11.11(e) provides that AEMO must develop and publish, and may amend, the Transitional Services Guideline in accordance with the Rules consultation procedures. NER 11.168.3(a) requires AEMO to publish the first Transitional Services Guideline by 1 December 2024.

NER 3.11.11(f) specifies the following requirements for the Transitional Services Guideline:

The Transitional Services Guideline must be designed to achieve the Transitional Services Procurement Objective and include:

- (1) *a competitive tender process to be used where practicable when acquiring transitional services;*
- (2) *guidance on the factors that AEMO must take into account when making a decision to follow a particular type of procurement process to acquire transitional services to meet the Transitional Services Procurement Objective;*
- (3) *guidance on how AEMO will achieve the Transitional Services Procurement Objective;*
- (4) *a process for AEMO to follow for contacting a potential Transitional Services Provider to negotiate the provision of transitional services without a competitive tender process;*
- (5) *a process for a potential Transitional Services Provider to contact AEMO to offer the provision of transitional services without a competitive tender process, which offer AEMO is not obliged to accept; and*

- (6) *any requirements for a Transitional Services Provider to demonstrate the relevant plant or equipment's capability to provide the transitional services.*

2.2.1. The Transitional Services Procurement Objective

NER 3.11.11(f) references the *Transitional Services Procurement Objective*. This is defined in NER 3.11.11(c), which requires AEMO to use reasonable endeavours to acquire transitional services to:

- (1) *contribute to achieving emissions reductions targets;*
- (2) *achieve and maintain power system security;*
- (3) *minimise the costs of transitional services to end users.*

2.2.2. Statement of security need

Once AEMO publishes the Transitional Security Guideline, AEMO is required under NER 3.11.12 to publish a Statement of Security Need before it can procure either Type 1 or Type 2 services.

This Statement of Security Need is required to describe:

- how the transitional services satisfy the Transitional Services Objective; and
- AEMO's intended procurement process and its reasons for choosing that process, including for any direct procurement, its reasons for not using a competitive process.

For Type 1 services, the statement is also required to describe:

- the security need necessitating the transitional services and the expected duration of the need; and
- why AEMO considers the transitional services may not be provided by an inertia network service, a system strength service, a market ancillary service or a non-market ancillary service (**NMAS**).

2.3. The national electricity objective

Within the specific requirements of the NER applicable to this proposal, AEMO will seek to make a determination that is consistent with the national electricity objective (**NEO**) and, where considering options, to select the one best aligned with the NEO.

The NEO is expressed in section 7 of the National Electricity Law as:

to promote efficient investment in, and efficient operation and use of, electricity services for the long-term interests of consumers of electricity with respect to:

- (a) *price, quality, safety, reliability, and security of supply of electricity; and*
- (b) *the reliability, safety, and security of the national electricity system; and*
- (c) *the achievement of targets set by a participating jurisdiction—*
 - (i) *for reducing Australia's greenhouse gas emissions; or*
 - (ii) *that are likely to contribute to reducing Australia's greenhouse gas emissions.*

3. Procurement processes

The Transitional Services Guideline must outline AEMO’s procurement process for acquiring transitional services and include:

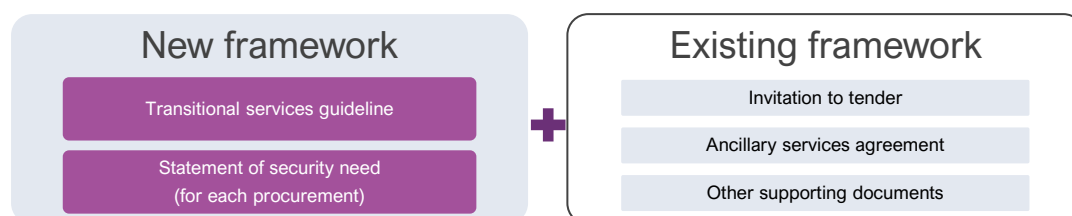
- guidance on the factors that AEMO must take into account when making a decision to follow a particular type of procurement process to acquire transitional services to meet the Transitional Services Procurement Objective (see Sections 3.1 and 3.2);
- a competitive tender process to be used where practicable when acquiring transitional services (see Section 3.3);
- a process for AEMO to follow for contacting a potential Transitional Services Provider to negotiate the provision of transitional services without a competitive tender process (see Section 3.4);
- a process for a potential Transitional Services Provider to contact AEMO to offer the provision of transitional services without a competitive tender process, which offer AEMO is not obliged to accept (see Section 3.5); and
- guidance on how AEMO will achieve the Transitional Services Procurement Objective (see Section 3.6).

In proposing the procurement processes for inclusion in the Transitional Services Guideline, AEMO recognises a need for flexibility due to the uncertainty inherent within scope of the transitional services that may need to be acquired. The transitional services framework is established in recognition that not all security needs may be met by existing security frameworks throughout the energy transition. In the case of Type 1 services, AEMO is also cognisant that a need may arise with urgency, and thus the procurement arrangements must allow for agility in responding to this security need.

AEMO also has considered the opportunity for aligning the Transitional Services Guideline with other existing NMAS Guidelines⁶. To the extent this is possible, AEMO sees benefits in doing so for the purpose of consistency, efficiency, and reduced complexity for both AEMO and industry. In the procurement processes proposed in this consultation paper, reference is made accordingly to the System Restart Ancillary Services (SRAS) and Network Support and Control Ancillary Services (NSCAS) Guideline.

Figure 3 below outlines the documents relevant to procurement of Transitional Services, highlighting the new documents introduced by the ISF Rule.

Figure 3 Documents relevant to procurement of Transitional Services



⁶ See https://aemo.com.au/-/media/files/electricity/nem/security_and_reliability/ancillary_services/sras/sras-guideline-2021.pdf?la=en and https://aemo.com.au/-/media/files/electricity/nem/security_and_reliability/ancillary_services/nsacas-tender-guidelines-2017.pdf?la=en.

3.1. Procurement options

This section sets out the procurement options AEMO may adopt for the procurement of transitional services.

AEMO may procure Type 1 or Type 2 transitional services in the circumstances set out in Section 2.1.

Under new NER 3.11.11(f), AEMO may procure transitional services using one or a combination of two processes:

- competitive tender; or
- direct request for offer.

AEMO may also consider unsolicited offers for the provision of transitional services without a competitive tender process.

If AEMO is procuring transitional services for multiple needs in the same timeframe, different procurement processes can apply for each need.

Section 3.2 describes the matters AEMO proposes to take into account in determining which procurement process to use, and Sections 3.3 and 3.4 describe the requirements of each type of process.

3.2. Considerations for determining process

New NER 3.11.11(f)(2) requires the Transitional Services Guideline to include guidance on the factors that AEMO must take into account when making a decision to follow a particular type of procurement process to acquire transitional services.

The AEMC's Final Determination for the ISF Rule emphasised the importance of using a competitive process where feasible.

Flexibility is also provided to select alternative procurement processes when implementing a competitive approach is deemed impracticable. AEMO considers this flexibility is important in the case of both types of transitional services in that:

- Type 1 security needs are likely to only be able to be met by specific assets therefore limiting the practical usefulness of a full competitive tender process; and
- Type 2 services may involve trialling of specific technologies that may only be available by specific technologies and/or one or more Transitional Service Providers.

Contracts for Type 2 services are an opportunity to foster innovation. Technology providers should be incentivised to put forward innovative proposals by being assured of some protection of unique ideas prior to contract award.

AEMO proposes to generally align its guidance for selecting a suitable procurement process for transitional services to existing guidance for SRAS procurement⁷, applied to each of Type 1 and Type 2 transitional services as outlined in the below table.

⁷ https://aemo.com.au/-/media/files/electricity/nem/security_and_reliability/ancillary_services/sras/sras-guideline-2021.pdf?la=en.

Table 1 AEMO's proposed guidance for selecting a suitable procurement process

Transitional service type	Circumstances where AEMO will procure transitional services using an appropriate competitive tender process	Circumstances where AEMO will directly request one or more Transitional Service Providers to make an offer to provide transitional services
Type 1	<ul style="list-style-type: none"> AEMO considers the available transitional services from competing Transitional Service Providers is likely to exceed the level required to meet the identified security need; or Having regard to the need for the procurement process, any specific requirements necessary to meet the security need could be provided by several competing Transitional Services Providers. 	<ul style="list-style-type: none"> Neither of the conditions for a competitive tender process apply; or there is insufficient time to conduct a competitive tender for a transitional service to address an identified security need; or the security need cannot be met unless AEMO acquires transitional services from specified system security units owned by that Transitional Service Provider(s).
Type 2		<ul style="list-style-type: none"> Neither of the conditions for a competitive tender process apply; or there is insufficient time to conduct a competitive tender for a transitional service to address an identified security need; or sharing details of the new technology or application being trialled is considered to pose a risk to the negotiation process or discourage future innovation; or the new technologies, or new application of existing technologies, cannot be procured unless AEMO acquires such transitional services from specified system security units owned by that Transitional Service Provider(s).

Questions

- **Do you agree with the above considerations for determining process?**
- **What other factors do you consider relevant when deciding to use a particular type of procurement process?**

3.3. Competitive tender minimum requirements

New NER 3.11.11(f)(1) requires a competitive tender process to be used where practicable when acquiring transitional services.

AEMO considers that a competitive tender must be open to any prospective Transitional Services Provider able to meet the technical and other requirements set out in the relevant Statement of Security Need.

AEMO proposes to align its minimum requirements for a competitive tender process for transitional services with those for existing NMAS procurement.

AEMO proposes to publish, alongside its Statement of Security Need, an additional invitation to tender (ITT) document on its website. In this document, AEMO would specify the tender process steps and timelines, and the information to be submitted in or with a tender offer, which may include:

- forms for the submission of technical information or prices;
- if applicable, the period within which a test must have been conducted prior to the date of the offer, or may be conducted after the offer;
- the proposed duration of the ancillary services agreement for the transitional service;

- any information that may be required from a network service provider (**NSP**) or other third party;
- the minimum validity period of the offer;
- any criteria or principles that AEMO proposes to apply to the evaluation of offers, in addition to those specified in the Transitional Services Guideline.

As soon as reasonably practicable after publication of the ITT, AEMO would notify those potential Transitional Service Providers that, to the best of AEMO's knowledge, would be capable of providing the relevant transitional services.

Questions

- **What other minimum requirements do you consider relevant?**

3.4. Direct request for offer process

New NER 3.11.11(f)(4) requires the Transitional Services Guideline to include a process for AEMO to follow for contacting a potential Transitional Services Provider to negotiate the provision of transitional services without a competitive tender process.

AEMO proposes to align its direct request for offer process for transitional services to the equivalent process for the procurement of SRAS.⁸

Except in the case of Type 2 services, where sharing information with other service providers may pose a risk to the negotiation process or discourage future innovation, if AEMO decides to procure transitional services by directly requesting offers, AEMO must issue a request to all potential Transitional Services Providers that, to the best of AEMO's knowledge, would:

- be capable of providing transitional service for the specific security service required; and
- would assist in meeting the security requirement as set out in the relevant Statement of Security Need. The request must specify the offer process and timelines, and the information to be submitted in or with an offer.

For any direct procurement, AEMO must set out its reasons for not using a competitive process within the relevant Statement of Security Need per new NER 3.11.12(a)(3).

3.5. Unsolicited offers

Under new NER 3.11.11(f)(5) the Transitional Services Guideline is required to include a process for a potential Transitional Services Provider to contact AEMO to offer the provision of transitional services without a competitive tender process, which AEMO is not obliged to accept.

AEMO proposes to align its process for unsolicited offers for transitional services to AEMO's process for unsolicited offers for SRAS⁹. This process is described as:

⁸ https://aemo.com.au/-/media/files/electricity/nem/security_and_reliability/ancillary_services/sras/sras-guideline-2021.pdf?la=en

⁹ https://aemo.com.au/-/media/files/electricity/nem/security_and_reliability/ancillary_services/sras/sras-guideline-2021.pdf?la=en

- A Transitional Services Provider may at any time submit to AEMO an expression of interest or offer to provide transitional services.
- AEMO may develop and publish, on its website, a form for the submission of expressions of interest or offers.
- If no form is published, a Transitional Services Provider must identify the proposed *system security unit* and include in its expression of interest or offer sufficient information to allow AEMO to assess the technical capability of the proposed transitional service and any other applicable requirements.
- An expression of interest or offer is valid for the period specified by the Transitional Service Provider in its submission.
- If no period is specified, AEMO must assume it remains valid for two years.
- AEMO:
 - may at any time request further information from a Transitional Service Provider to assess the capability of a transitional service proposed;
 - may, but is not obliged to, accept any offer to provide transitional services; and
 - must, before commencing a procurement process for a transitional service, notify any Transitional Service Providers who have submitted expressions of interest or offers for proposed transitional services that AEMO considers technically capable of meeting the requirement for which the transitional service is to be procured.

3.6. Selection of transitional services to meet the Transitional Services Procurement Objective

New NER 3.11.11(f)(3) provides that the Transitional Services Guideline must provide guidance on how AEMO will achieve the Transitional Services Procurement Objective.

In doing so, AEMO must provide guidance on how it will balance each of the objectives of contributing to achieving emissions reductions targets, achieving, and maintaining power system security, and minimising the costs of transitional services to end users.

The AEMC’s final determination recognises that AEMO may find it most appropriate to balance security, cost and emissions reductions on a case-by-case basis when comparing procurement options.

Not only will the balance need to be considered on a case-by-case basis, AEMO considers that the way each of these factors is considered may vary depending on the security need and type of transitional service.

Examples of the interrelated and intertemporal nature of each of these factors within the Transitional Security Procurement Objective (TSPO) are provided in the below table.

Table 2 Examples of interrelated factors within the TSPO

Transitional service	Example
Type 1	<p><i>“The maintenance of system security and reliability is a crucial component of the progressive replacement of thermal generators with VRE. Compromised security could lead to a significant deceleration of progress towards emissions targets, as we would have to rely more frequently on market interventions and costly measures.”</i> AEMC Final Determination page 72</p>

Transitional service	Example
	In this way, AEMO sees the procurement of Type 1 services as both addressing the security need, and as a consequence avoiding deceleration of progress towards emissions targets. By following a competitive process where feasible, AEMO considers it to be achieving the TSPO overall.
Type 2	Trials of new technologies or new applications of existing technologies present a chance to demonstrate how such technologies or applications can supply or facilitate the supply of system security services through-out the progressive retirement of thermal generators. While trials inherently do not have guaranteed success, it is important to consider the potential learnings when valuing the security service’s contribution to items listed in the Transitional Services Procurement Objective.

The following sections set out the factors AEMO is considering in relation to each of Type 1 and Type 2 services in terms of security, cost and emissions reductions and guidance around how these will be balanced.

3.6.1. Achieve and maintain power system security

Factors AEMO is considering in relation to Type 1 services:

- AEMO would not be procuring unless there was a need. Procurement is aligned to the circumstance outlined in NER 3.11.11(b)(1): *“the services are required for power system security and cannot otherwise be provided by an inertia network service, a system strength service, a market ancillary service or a NMAS.”*
- The Statement of Security Need will outline the security shortfall to be met via the procurement process.
- If the agreement is longer-term (for example, longer than one year), AEMO may have regard to the impact of forecast or expected power system development on the enduring need for transitional services.

Factors AEMO is considering in relation to Type 2 services:

- The purpose of procurement of Type 2 services is to trial new technologies, or a new application of existing technologies, for the management of power system security in a low- or zero-emissions power system.
- Type 2 services may be procured ahead of the security need emerging operationally, for the purpose of keeping the NEM ahead of the engineering challenges of the energy transition before they emerge operationally for power system security.
- Thus, there may not be a short-term need for Type 2 procurement, however the objective is to increase the technologies and supply available for system security services, such that power system security can be achieved and maintained over the longer term.
- Guidelines must provide flexibility for the varying nature of potential Type 2 services:
 - Type 2 contracts may be utilised to conduct specific and defined trials, and in doing so agreements may be short (possibly months in duration) and with defined outcomes. Outcomes of these trials could then inform the provision of system security by new technologies or a new way of operating the power system once the operational security need arises.

- Conversely, Type 2 contracts may serve as a sustaining revenue source for new technologies and may be longer in duration (up to 10 years). In this circumstance, the transitional service under contract may be used directly to address an operational security need.

3.6.2. Contribute to achieving emissions reductions targets

In the Transitional Services Guideline, AEMO must outline how emissions will be taken into account in its procurement decisions.

The AEMC’s final determination noted that:

“AEMO could choose to either take a more quantitative, prescriptive approach to considering emissions or a qualitative approach, for example:

- *AEMO could decide that in situations where two contracts both meet security requirements and are the same cost, it would choose the lower emissions option.*
- *AEMO could choose to use the value of emissions reduction and estimate the emissions reductions from each option.*

While this would extend to type 2 contracts, we expect that most type 2 contracts will be procured from low- or zero-emission technologies. This could mean that procurement options for these trials are less differentiated by their emissions impacts.”

Also in the final determination, the AEMC said:

“...we consider that providing a more flexible approach for AEMO to consider emissions in its procurement decisions is appropriate for the framework’s objective.

Achieving a low- or zero-emissions power system is beyond the scope of this framework alone, and the transitional services framework is designed to complement, rather than lead, industry progress towards government emissions and renewable targets for the energy system. We are therefore not setting specific targets for procurement from zero-emission resources through this framework, particularly given uncertainty over how quickly new technology will contribute to security provision.”

AEMO’s general position on the above is that it:

- Appreciates the scope for flexible interpretation of how to consider emissions.
- Is likely to take a qualitative approach for both types of transitional services, for different reasons.
- Agrees that where there is more than one valid offer and these offers are otherwise equivalent, AEMO would take the lower emissions option.

AEMO provides the below considerations that outline how it proposes to take emissions into account in its procurement decisions, for each of Type 1 and Type 2 services:

Type 1

AEMO:

- Considers the direct emissions impact associated with *transitional service* provision is likely to be relatively low given the short-term nature of Type 1 services (maximum of three years).
- Recognises the possibility of limited competition, and that it may not have a choice between equivalent providers, one with higher emissions and one with lower.

- Views the procurement of Type 1 services to meet security requirements as preventing deceleration of progress towards emissions targets. Thus, the emissions resulting from operation of a transitional service provider are not the only consideration for meeting this element within the TSPO.

AEMO therefore proposes the following:

- **Where there are similar providers, AEMO may use emissions as criteria for selection between providers. Where there are multiple offers via a competitive process, AEMO may either consider relative emissions between potential security service providers, or the relative emissions reductions enabled by competing offers.**
- **AEMO will account for relative emissions as a tie breaker to choose between otherwise equivalent offers, where following either a competitive process or a direct request for offer process.**

Type 2

For Type 2 services, a key question is whether this technology will provide benefit to support low-emissions systems.

AEMO considers:

- There are possibilities that:
 - security services themselves will be low emissions, or
 - A security service being offered will support a move to a low-emissions power system, despite operation of the security service unit itself not being low-emissions technology.
- It is unlikely that direct comparison of emissions levels of security services being offered will be the sole consideration in satisfying this element of the TSPO.

AEMO therefore proposes to have regard to:

- **Where there are similar providers, AEMO may use emissions as criteria for selection between providers. Where there are multiple offers via a competitive process, AEMO may consider relative emissions between potential security service providers, or the relative emissions reductions enabled by competing offers.**
- **AEMO will account for relative emissions as a tie breaker to choose between otherwise equivalent offers, where following either a competitive process or a direct request for offer process.**
- **In making the procurement decision, AEMO will consider broader impacts to long-term emissions reduction across the power system, for example, scalability, and whether the security service is supportive of future low-emissions power system development/operation.**

Questions

- **Do you agree with the qualitative approach AEMO proposes for considering a security service’s contribution to achieving emissions reductions?**

3.6.3. Minimise the costs of transitional services to end users

Using the offers submitted, AEMO will identify each service or combination of services that meets the requirements set out in the Statement of Security Need.

Using the offers submitted by Transitional Service Providers, AEMO will use reasonable endeavours to select and seek to procure the service or combination of services that meets the requirements at the lowest cost to end users, having regard to other elements of the TSPO as set out in previous sections.

AEMO may determine the lowest cost as the lowest total cost of procuring a service or combination of services.

By way of example and without limitation, the following may be relevant considerations for AEMO in determining the portfolio of transitional services likely to result in the lowest long-term cost and may take account of the following factors in doing so:

- the ability to share risk, for example through callable options or renegotiation triggers; and
- the potential to facilitate or accelerate the investment, development, maintenance, and availability of capabilities required to achieve and maintain power system security under expected future power system conditions.

If, using reasonable endeavours, AEMO is unable to acquire sufficient services to meet the requirements set out in the Statement of Security Need, AEMO may (but is not obliged to) acquire service/s that meet the TSPO as closely as reasonably possible.

AEMO is under no obligation to enter transitional services contracts. The Rules (NER 3.11.11 (f) – (j)) set out requirements for AEMO to conduct competitive procurement and negotiate contracts, but do not impose an obligation on AEMO to enter into a contract nor to select the lowest priced contract. This is important because there may be limited competition in providers of transitional services and in the instance AEMO does not enter transitional services contracts (for Type 1 contracts), security can continue to be met via directions.

Questions

- **Can you suggest other factors as considerations for AEMO in meeting the lowest cost element of the Transitional Services Procurement Objective?**

4. Technical capability

Under new NER 3.11.11(f)(6), the Transitional Services Guideline must also include any requirements for a Transitional Services Provider to demonstrate the relevant plant or equipment's capability to provide the transitional services. These requirements could apply either prior the intended commencement date of an agreement for the provision of transitional services, or as part of the agreement, as applicable to the service type.

4.1. Type 1 contracts

AEMO will not enter into an agreement for the provision of Type 1 services unless it is satisfied that the capability to provide the contracted transitional service has been successfully demonstrated by the Transitional Services Provider. This capability should be evidenced by a test report demonstrating that the provider is able to deliver the service described in the Statement of Security Need prior to the intended commencement date of the agreement.

Tests where practicable should be performed as both a desktop study as well as on-site physical test:

- The Transitional Services Provider is expected to, using a sufficiently accurate model (PSCAD™, PSS@E, Simulink, or other approved by AEMO) demonstrate the relevant plant or equipment's capability in accordance with the procured service. The simulation test results must be validated and accepted by AEMO.
- A physical on-site test where practicable should also be performed at AEMO's discretion.

Tests should be conducted:

- (a) no less than every 12 months;
- (b) within eight weeks following a major overhaul of the relevant plant or equipment that could impact its ability to meet its contracted service; and
- (c) within eight weeks of a written request from AEMO.

Tests should be undertaken within 8 weeks after the date of the Transitional Services Provider's notice to AEMO that the service is ready to be returned to service following a major overhaul.

Test results must be provided to AEMO within 20 business days of completion of the relevant test. Tests may be substituted by a real-world operation if it has occurred to a satisfactory level within the last three months and at AEMO's absolute discretion.

4.2. Type 2 contracts

Given the range of potential projects under contracts for Type 2 services, and that a Type 2 service may have the purpose of demonstrating capability, AEMO does not propose the Transitional Services Guideline specify testing requirements and/or demonstration of technical capability in respect of Type 2 services. Instead, AEMO proposes that such requirements will be specified within the Statement of Security Need, or will form scope of a trial once a contract for Type 2 services is entered into.

At a high level, the Statement of Security Need should describe how the project will be technically capable of contributing to building understanding and confidence in managing security in a low- or zero-emissions power system.

4.3. Type 1 and Type 2 contracts

Generally, for all transitional services AEMO proposes that a transitional service must be provided using plant or equipment that:

- meets the applicable technical requirements detailed in the Statement of Security Need as evidenced by (as applicable) tests, modelling and assessment and has data communication facilities meeting the applicable requirements of the Power System Data Communication Standard published by AEMO under NER 4.11.2.
- Where the transitional service is intended to be scheduled alongside security services procured by transmission network service providers (**TNSPs**), must have regard to AEMO's Security Enablement Procedures (or provisional version where prior to publication of full security enablement procedures).
- Otherwise, must have capability to establish arrangements for receiving instructions for enablement/activation of services from AEMO.

5. Other guideline content

The AEMC’s final determination clarifies that the *"transitional services guideline must also include any further relevant procurement requirements of processes (for example, requirements for information, equipment testing, requirements for NSPs or other Registered Participants to identify and resolve issues relating to the provision of the service)."*

Type 1 needs may arise with urgency that require a need for flexibility. Beyond that outlined in Section 4, AEMO considers that other technical requirements, requirements for information and/or requirements for NSPs or other Registered Participants will vary on a case-by-case basis.

With this in mind, AEMO proposes to include any additional requirements in the relevant Statement of Security Need, or supporting documents. AEMO may provide supporting documents, such as Fact sheets, and update them at any time with more specific requirements on modelling, assessment, testing as appropriate.

For Type 2 services, AEMO also proposes to adopt the above arrangements due to the potentially widely varying nature of services provided under Type 2.

6. Proposed effective date

The proposed effective date of the Transitional Services Guideline is 1 December 2024, aligned with the date by which AEMO must publish the Transitional Services Guideline under NER 11.168.3.

7. Summary of issues for consultation

Two types of transitional services are introduced by the ISF Rule. AEMO proposes content for the Transitional Services Guideline, considering both:

- alignment with existing non-market ancillary services (NMAS) Guidelines; and
- the need for flexibility in the procurement process, due to the potential nature of the transitional services AEMO may need to procure in order to satisfy the Transitional Services Procurement Objective.

Submissions may be made on any matter relating to the proposal discussion in this consultation paper. AEMO would welcome comment and feedback on the following matters:

Section		Questions
3.2	Considerations for determining process	Do you agree with the above considerations for determining process? <hr/> What other factors do you consider relevant when deciding to use a particular type of procurement process?
3.3	Competitive tender minimum requirements	What other minimum requirements do you consider relevant?
3.6.2	Contribute to achieving emissions reductions targets	Do you agree with the qualitative approach AEMO proposes for considering a security service’s contribution to achieving emissions reductions?
3.6.3	Minimise the costs of transitional services to end users	Can you suggest other factors as considerations for AEMO in meeting the lowest cost element of the Transitional Services Procurement Objective?

Appendix A. Glossary

Term or acronym	Meaning
AEMC	Australian Energy Market Commission
IBR	Inverter-based resources
ISF Rule	National Electricity Amendment (Improving security frameworks for the energy transition) Rule 2024
ITT	Invitation to tender
NER	National Electricity Rules
NMAS	Non-market ancillary services
NSCAS	Network Support and Control Ancillary Service
NSP	Network service provider
SRAS	System Restart Ancillary Service
Statement of Security Need	The statement AEMO is required to publish per NER 3.11.12.
TNSP	Transition Network Service Provider
Transitional services	A service provided by plant, equipment or facilities to meet a power system security need as a result of the transition to a low- or zero-emissions power system.
Transitional services objective	Has the meaning in NER 3.11.11(a).
Transitional services procurement objective (TSPO)	Has the meaning in NER 3.11.11(c).
Transitional services provider	A person who agrees to provide one or more transitional services to AEMO under an ancillary services agreement.
Transitional services unit	A production unit registered with AEMO under NER 3.11.11(n).