

# Transitional Services Guideline

Draft Report – 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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## Executive summary and consultation notice

The publication of this draft report commences the second stage of the standard consultation procedure conducted by AEMO to develop the Transitional Services Guideline (the **proposal**) under the National Electricity Rules (**NER**).

This consultation is undertaken as required by NER 3.11.11(e), following the procedure in NER 8.9.2.

Under the National Electricity Amendment (Improving security frameworks for the energy transition) Rule 2024 (**ISF Rule**)<sup>1</sup> to improve market arrangements for security services, the new transitional services framework commenced on 3 June 2024. However, 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).

AEMO proposed in its consultation paper content for the Transitional Services Guideline, considering both:

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

Submissions received from stakeholders identified ways the Guideline can better consider how to minimise the costs of transitional services to end users, and ways to bring transparency to requirements for contracting for both Type 1 and Type 2 services. AEMO has considered these comments and points raised and included changes to the Guideline in response to submissions:

- Confirming AEMO may require assurance from the potential Transitional Service Providers, and may also require assurance from relevant Network Service Providers, before entering into a transitional services contract that the same service is not and will not be contracted to an NSP for the period of the contract.
- AEMO will continue to keep the requirement of Type 1 contracts to have testing conducted no less than every 12 months, rather than updating it to 24 months. However, AEMO will include in the Guidelines the ability to waive this requirement.

AEMO's draft proposal is to make the Transitional Services Guideline in the form published with this draft report, with a proposed effective date of **22 November 2024**.

### Consultation notice

AEMO invites written submissions from interested persons on the draft proposal and issues identified in this draft report to [NEMReform@aemo.com.au](mailto:NEMReform@aemo.com.au) by 5:00 pm (Melbourne time) on **25 October 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.

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<sup>1</sup> See <https://www.aemc.gov.au/sites/default/files/2024-04/Final%20Rule%20-%20in%20mark%20up.pdf>.

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. AEMO 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 National Electricity Rules (NER) 3.11.11(e), AEMO is consulting on the proposed Draft Transitional Services Guideline (the **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 process and expected timeline for this consultation are outlined below. Future dates may be adjusted and additional steps may be included as needed, as the consultation progresses.

**Table 1 Consultation process and timeline**

Consultation steps	Dates
Consultation paper published	31 July 2024
Industry briefing (webinar)	22 August 2024
Submissions closed on consultation paper	29 August 2024
Draft report published	27 September 2024
Industry briefing	22 October 2024 (at EWCF meeting)
Submissions closed on draft report	25 October 2024
Final report published	Expected 22 November 2024

AEMO’s consultation webpage<sup>2</sup> for the proposal contains all previous published papers and reports, written submissions, and other consultation documents or reference material.

In response to its consultation paper on the proposal, AEMO received two written submissions.

AEMO thanks all stakeholders for their feedback on the proposal to date, which has been considered in preparing this draft report, and looks forward to further constructive engagement.

<sup>2</sup> <https://aemo.com.au/consultations/current-and-closed-consultations/transitional-services-guideline-consultation>

## 2. Background

### 2.1. Purpose

The Transitional Services Guideline recognises a need for flexibility due to the uncertainty inherent in the 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.

### 2.2. Context for this consultation

Under the National Electricity Amendment (Improving security frameworks for the energy transition) Rule 2024 (**ISF Rule**)<sup>3</sup>, AEMO has been given a new power to procure non-market ancillary services (**NMAS**) that fall outside the scope of the existing services available under the NER for power system security. These services are referred to in the ISF 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:

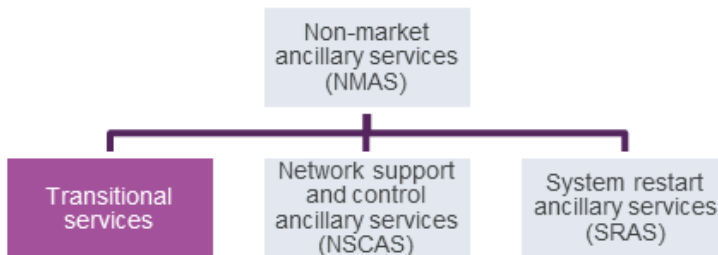
- Type 1 Services: NER 3.11.11(b)(1) defines these as *the services are required for power system security and cannot otherwise be provided by an inertia network service, a system strength service, a market ancillary service or a NMAS*. Contracts for the procurement of Type 1 services may be up to three 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.

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<sup>3</sup> See <https://www.aemc.gov.au/rule-changes/improving-security-frameworks-energy-transition>.

Figure 1 outlines how the transitional services relate to existing NMAS.

Figure 1 Overview of non-market ancillary services



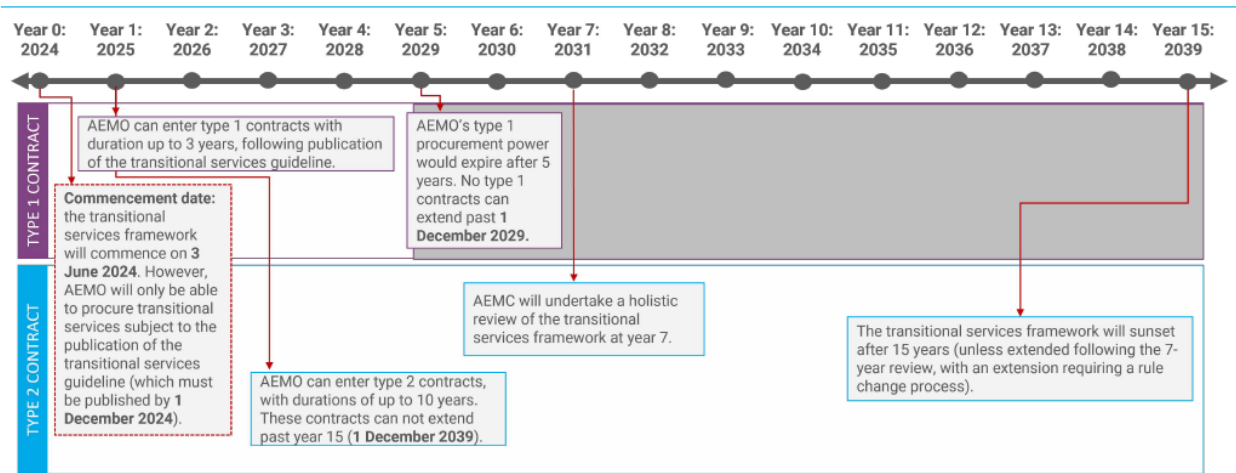
Key milestones under the transitional services framework are outlined in Figure 2 below.

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 (NER 3.11.12).

The Transitional Services Guideline will provide transparency to potential Transitional Service Providers (TSPs), 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 draft report constitutes the second stage of 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.

### 2.3. 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.*

### 2.3.1. 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.*

### 2.3.2. Statement of security need

Once AEMO publishes the Transitional Services Guideline, AEMO is required under NER 3.11.12 to publish a Statement of Security Need prior to acquiring 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 NMAS.

## 2.4. 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. List of material issues

The key material issues arising from the proposal or raised in submissions or consultation meetings are listed in the following table:

**Table 2 List of material issues**

No.	Issue	Raised by
1	How to minimise the costs of transitional services to end users	Powerlink
2	A more open and transparent process for both Type 1 and Type 2 services	Powerlink and Tesla

A detailed table of issues raised by stakeholders in written submissions to the consultation paper, with AEMO’s responses, is in Appendix B.

Each of the material issues in Table 2 is discussed in Section 4.

## 4. Discussion of material issues

### 4.1. How to minimise the costs of transitional services to end users

#### 4.1.1. Issue summary

The submission from Powerlink asked AEMO to consider how to maintain minimisation of costs for transitional services to end users. Powerlink was concerned that contracts, if not appropriately managed, could have transmission network service providers (**TNSPs**) and AEMO contracting with the same assets to provide different security services, which could increase costs for consumers. Powerlink suggested that AEMO include into the Guideline both:

- how AEMO decides which contract is enabled when AEMO and a TNSP have contracts with the same asset; and
- what the cost-recovery mechanisms are for different enablement applications for each contract.

#### 4.1.2. AEMO's assessment

AEMO has assessed this issue through NER 3.11.11 (minimises the cost of transitional services to end users) and assumed that when a unit has a security contract with a TNSP and AEMO, AEMO will consider costs as part of which service to enable, which will be developed in the Security Enablement Procedure.

Before entering into a transitional services contract AEMO may require assurance from the potential TSP, and may also require assurance from relevant NSPs, that the same service is not and will not be contracted to an NSP for the period of the contract.

AEMO considers that scheduling mechanics, how one contract would be chosen from the other, will be addressed in its Security Enablement Procedure.

The Security Enablement Procedure will be consulted on in 2025, and stakeholders will be invited to comment on the principles of lowest cost to meet security need/s, and overall ability for each contract to satisfy the security need at hand.

#### 4.1.3. AEMO's conclusion

AEMO may require assurance from the potential TSP, and may also require assurance from relevant NSPs, before entering onto a transitional services contract that the same service is not and will not be contracted to an NSP for the period of the contract.

### 4.2. A more open and transparent process for both Type 1 and Type 2 contracts

#### 4.2.1. Issue summary

AEMO received two submissions commenting on the elements involved in contracting Type 1 and Type 2 transitional services and the value in increasing the transparency around these processes.

Tesla challenged the technical capability of Type 1 contracts in requiring tests to be conducted no less than every 12 months, considering it an overly onerous requirement to the service provider. Tesla suggested this should be updated to 24 months.

Powerlink considered that the tender evaluation process should assess whether directions may be more cost-effective for consumers, while Tesla encouraged AEMO to procure services through a competitive tender process instead of directly requesting from TSPs. Tesla also supported more detail around the eligibility of assets for the contracts with the 28 March 2024 cutoff, and more information defining what would count as a new application of the technology within an existing grid-forming asset.

Tesla said visibility of AEMO's requirements will encourage the growth of emerging technologies, even if they are unable to meet the needs immediately. Tesla also acknowledged that many of the Type 1 contracts would be highly location-dependent, meaning there could be a greater and more diverse spread of assets able to participate in these tenders going forward.

#### 4.2.2. AEMO's assessment

AEMO considered and assessed each of the issues and points made, through the principle that AEMO has the responsibility to operate and manage the security of the network.

AEMO has considered that it is appropriate and within the Guideline to commence the need for a transitional service via a tender process. AEMO would reserve its right to not undertake this as a first step when there are circumstances where this is not practicable.

Regarding Type 1 contracts, AEMO assessed that as they are for a short-term need, AEMO does not consider them appropriate for growth of emerging technologies.

However, Type 2 contracts, which are contracts to be used for industry to leverage learnings, could be indirectly used for industry through the new Transition Plan for System Security report, which AEMO is required to publish annually and which includes outcomes, actions and learnings from Type 2 contracts.

#### 4.2.3. AEMO's conclusion

AEMO will continue to keep the requirement of Type 1 contracts to have testing conducted no less than every 12 months, rather than updating it to 24 months. However AEMO will include in the Guideline the ability for AEMO to waive this requirement – for example, tests may be substituted by a real world operation if it has occurred to a satisfactory level within the last three months and supported by evidence – but at AEMO's absolute discretion.

AEMO will publish outcomes, actions and learnings from Type 2 contracts through the annual publication of the new Transition Plan for System Security report.

## 5. Draft determination on proposal

Having considered the matters raised in submissions to the consultation paper, AEMO's draft determination is to make the Transitional Services Guideline in the form published with this draft report, in accordance with NER 3.11.11(e).

AEMO considers that this proposal meets the NEO with respect to reliability and security of supply of electricity and the reliability, safety and security of the national electricity system. AEMO anticipates that the proposal will not involve material costs for market participants, beyond those already assessed by the AEMC in the ISF Rule determination. The benefits of this change were discussed in the AEMC's consultation on the ISF Rule.

### Effective date

AEMO's proposed effective date for the determination is **22 November 2024**, aligning with the expected release date of the final Transitional Services Guideline.

## Appendix A. Glossary

Term or acronym	Meaning
AEMC	Australian Energy Market Commission
ISF Rule	National Electricity Amendment (Improving security frameworks for the energy transition) Rule 2024
NER	National Electricity Rules
NMAS	Non-market ancillary services
NSCAS	Network Support and Control Ancillary Service
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).

## Appendix B. List of submissions and AEMO responses

Stakeholder	Issue	AEMO response
Powerlink	<p><b>Minimise the costs of transitional services to end users</b></p> <p>Transmission Network Service Providers (TNSPs) and AEMO could contract with the same assets to provide different security services. If not appropriately managed, these arrangements could raise costs for consumers unnecessarily.</p> <p>Recommend to include in Guidelines:</p> <ul style="list-style-type: none"> <li>• how AEMO would decide which contract is enabled (TNSP or AEMO) under different circumstances, where AEMO and a TNSP have a contract with the same asset; and</li> <li>• the cost-recovery mechanisms used for different enablement applications for each contract.</li> </ul>	<p>AEMO acknowledges arrangements need to consider costs for consumers. AEMO will consider costs as part of which service to enable, which will be developed in the Security Enablement Procedure. Before entering onto a transitional services contract AEMO may require assurance from the potential TSP, and may also require assurance from relevant NSPs, that the same service is not and will not be contracted to an NSP for the period of the contract for the same service.</p> <p>In terms of scheduling mechanics, and how enablement of those services contracted would be chosen from the other, AEMO considers this issue will be addressed in its Security Enablement Procedures, to be consulted on and finalised as per the ISF Rule by 31 August 2025. Stakeholders will have an opportunity to engage through this consultation process. Principles of lowest cost to meet security need/s, and overall ability for each contract to satisfy the security need at hand, indicatively proposed to be considered.</p> <ul style="list-style-type: none"> <li>• Refer NER 3.11.11 – minimises the cost to transitional services to end users.</li> </ul>
Powerlink	<p><b>Considerations for determining process</b></p> <p>Expect that AEMO would engage with TNSPs to understand any existing contractual relationships for system security services and work with the TNSP to identify a suitable procurement approach.</p>	As above.
Powerlink	<p><b>Type 1 contracts</b></p> <p>Powerlink also considers that the tender evaluation process should assess whether directions may be more cost-effective for consumers.</p>	This is part of general discretion for AEMO – cost comparison is part of the process for evaluating for direction.
Tesla	<p>Tesla challenges the technical capability of type 1 contracts in requiring tests to be conducted no less than every twelve months, as we believe this frequency to be overly onerous to the service provider. Tesla believes this should be updated to twenty-four months, with testing requirements for (b) and (c) acceptable as is</p>	<p>AEMO acknowledges the concerns of onerous testing requirements. However, the expectation is the service provider would have been available for the service for which has been contracted which is only confirmed through either periodic testing or evidence of an actual real world operation. AEMO will keep the 12 months but have the ability to waive this requirement. 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.</p>





Stakeholder	Issue	AEMO response
<p><b>Tesla</b></p>	<p><b>Type 1 contracts</b></p> <p>Additionally, in response to AEMO’s consideration for determining its procurement process, Tesla encourages AEMO to procure services through a competitive tender process instead of directly requesting from Transitional Service Providers. Tesla believes that an open and transparent process for type 1 and type 2 contracts to achieve the best outcomes for the grid, as the visibility of AEMO’s requirements will encourage the growth of emerging technologies, even if they are unable to meet the needs immediately.</p> <p>Whilst Tesla acknowledges that many of the type 1 contracts will be highly locational dependent, we still support an open and competitive tender process to cater for future scenarios. For example, Tesla is converting existing grid-following BESS to grid-forming through the 5.3.9. process, meaning that there is a greater and more diverse spread of assets that will be able to participate in these tenders going forward.</p>	<p>AEMO has the responsibility to manage the security of the network. AEMO intends to bring a tender process as first option where possible. There may be circumstances where AEMO will not be able to run a tender process and we reserve our right to do this, or when this is not practicable.</p> <p>Type 1 contracts are a short-term need.</p>
<p><b>Tesla</b></p>	<p><b>Type 2 contracts</b></p> <p>Given the relative infancy and low proliferation of grid-forming BESS, Tesla supports more detail around the eligibility of assets for the contracts with the 28 March 2024 cutoff and defining what would count as a new application of the technology within an existing grid-forming asset.</p>	<p>Type 2 contracts can be acquired where the particular application of the technology has not been used to provide services to manage power system security prior to 28 March 2024 (ref NER 3.11.11(b)(2)).</p> <p>Where an existing asset has a particular capability to support power system security but has not yet been able to demonstrate this capability, it may be eligible for a Type 2 contract. For example, an existing asset may ordinarily be operating in a manner that does not enable demonstration of the desired capability, but by modifying its operational parameters, its configuration, or the configuration of the surrounding network, it could appropriately demonstrate this capability. In this case, the asset would be eligible for a Type 2 contract, assuming that this situation represented a ‘new’ demonstration (that is, such a demonstration had not previously occurred, through procurement of a Type 2 service or through other means).</p> <p>Stakeholders wishing for further clarity on Type 2 contracts, or to be notified of future updates on AEMO’s grid-forming inverter work, can contact AEMO at <a href="mailto:FutureEnergy@aemo.com.au">FutureEnergy@aemo.com.au</a>.</p>