



# Draft Report – VSR Incentive Mechanism Procedure

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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 Voluntary Scheduled Resource (VSR) Incentive Mechanism Procedure (the **proposal**) under the National Electricity Rules (**NER**). AEMO is developing the VSR Incentive Mechanism Procedure as part of the implementation of the Integrating Price Responsive Resources (IPRR) into the National Electricity Market (NEM) reform project.

This consultation is undertaken as required by NER 3.10B.2(c), following the procedure in NER 8.9.2.

On 19 December 2024, the Australian Energy Market Commission (AEMC) made the National Electricity Amendment (Integrating price-responsive resources into the NEM) Rule 2024 (Final Rule) to allow aggregated consumer energy resources (CER) to be scheduled and dispatchable in the NEM. The operation of the new “dispatch mode” will commence on 23 May 2027.

The Final Rule included an incentive mechanism to encourage participation in dispatch mode - the VSR incentive mechanism (VIM). AEMO is required to run a tendering mechanism for short term incentive payments to successful bidders thereby lowering the barriers to entry.

A list of VSR Incentive principles have been set out in NER 3.10B.2(e), which AEMO must apply in the development of the VIM procedure.

NER 11.180.3(a)(3) requires that the VIM Procedure is made and published by the earlier of 1 December 2026, or the date of the first tender process. However, to assist participants that may be considering participating in the VIM, AEMO will publish a final determination by 27 October 2025 in the anticipation of a first VIM tender tentatively scheduled to take place in the second quarter of 2026.

In April, AEMO published a first-round consultation paper requesting feedback to a number of questions AEMO raised with respect to the development of the VIM procedure. AEMO received five submissions to the consultation paper which raised three key issues:

- AEMO should share the individual weighting of each selection criteria when publishing tender documentation
- AEMO should publish the methodology for calculating the incentive MW price cap.
- AEMO should increase the engagement with Distribution Network Service Providers (DNSP) in the process.

### Selection Criteria

Some stakeholders encouraged AEMO to publish with the pre-tender documentation, the weighting that each of the selection criteria would be given by AEMO when considering the merits of a bid. The reasons put forward in stakeholder submissions were that:

- sharing the weighting criteria may also increase transparency and confidence in the process; and
- to not include the weighting of assessment criteria creates a tendency for bidders to ‘second guess’ where AEMO’s priorities are, ultimately shaping responses to a ‘perceived’ rather than ‘actual’ needs.

Under the VSR incentive principles, AEMO should take into consideration a diversity of resources and providers participation in dispatch. AEMO has determined that to publish weightings of each of the selection criteria would encourage bidders to over accentuate the main weighted criteria to the

detriment of all others, and unnecessary distort the formation of the VSR market by discouraging variety in providers. In other words, AEMO is encouraging participants to bid what they have and AEMO will apply the VSR incentive principles in determining the winning bids.

This is discussed in more detail in section 4.1.

### **Price cap methodology**

The Final Rule requires that AEMO, prior to each tender, determine an incentive MW price cap to apply to each region. AEMO must not exceed this cap when agreeing to a Participation Agreement. AEMO must notify AEMC and AER of this price cap, who will be required to ensure this is not disclosed and kept confidential.

Some stakeholders recommended that AEMO should publish the methodology that it will use to determine the incentive MW price cap. Stakeholders argued that it would increase transparency and confidence in the process. One stakeholder further recommended that AEMO outline whether it will be seeking to make changes to its methodology for future tenders.

AEMO has interpreted the intention of the incentive MW price cap not to be a mechanism to set an equilibrium price or to act as a cap on profitability of VSR resources. Rather, it is intended to be a check on AEMO to ensure that money recovered from participants for use in the VIM is allocated efficiently.

AEMO recognises participant concerns raised in the feedback, however, AEMO considers that the opportunity for back solving and therefore gaming of offers that the AEMC raised in the final determination means it is not appropriate for AEMO to publish the methodology for calculating the price cap.

This is discussed in more detail in section 4.2.

### **DNISP engagement in the VIM**

The draft VIM Procedure does not include provision for inclusion of DNISPs in the VIM. CitiPower, Powercor and United Energy's feedback is that this is an oversight that needs to be addressed, in particular that the VSR incentive objective will compromise a DNISP network's ability to forecast demand and that consequently, DNISPs need visibility and awareness of when VSR contracts are entered into with customers.

It wasn't clear from the submission exactly what should be included in the VIM procedure. However, AEMO would not contemplate DNISP participation in the tender selection process for reasons of confidentiality.

AEMO considers that the impacts of CER aggregations on DNISP forecasting are better managed in the appropriate forums. In particular AEMO encourages DNISPs to:

- Participate in the consultation process for the VSR Guideline.
- Participate in related CER Roadmap consultations.

This is discussed in more detail in section 4.3.

AEMO's draft proposal is to make the Voluntary Scheduled Resource (VSR) Incentive Mechanism Procedure in the form published with this draft report, with a proposed effective date of Monday, **27 October 2025**.

## 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 (Sydney time) on Monday, 11 August 2025.

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. 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**) 3.10B.2(c), AEMO is consulting on the VIM Procedure (the **proposal**) in accordance with the standard rules consultation procedure in NER 8.9.2.

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
Pre-consultation stakeholder workshop	Tuesday, 4 March 2025
Consultation paper published	Tuesday, 1 April 2025
Submissions due on consultation paper	Friday, 2 May 2025
Draft report published	Friday, 11 July 2025
<b>Submissions due on draft report</b>	<b>Monday, 11 August 2025</b>
Final report published	Monday, 27 October 2025

AEMO’s consultation webpage for the proposal is at <https://aemo.com.au/consultations/current-and-closed-consultations/vsr-incentive-mechanism-procedure>, containing all previous published papers and reports, written submissions, and other consultation documents or reference material (other than material identified as confidential).

In response to its consultation paper on the proposal, AEMO received **five** written submissions including **one** confidential or partly confidential.

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.

## 2. Background

### 2.1. Context for this consultation

On 19 December 2024, the AEMC made a final determination in the Integrating price-responsive resources into the NEM rule change, which will allow aggregated CER, distributed energy resources (DER) and price-responsive loads to be scheduled and dispatchable in the NEM. Unscheduled price-responsive resources are not currently able to participate in dispatch as they are not effectively integrated into the NEM's planning and operation functions and are not visible to AEMO or the electricity market more broadly. Inability to participate in dispatch and energy markets, therefore, restricts these currently unscheduled price-responsive resources from contributing to the real-time matching of supply and demand. Importantly, they are missing out from potential value streams accessible in the market that could enhance benefits to consumers who own CER, such as regulation frequency control ancillary services (FCAS).

The Final Rule establishes a framework, called “dispatch mode”, that allows for aggregated resources, such as virtual power plants, small stand-alone generators or energy storage systems, community batteries, flexible loads and other price-responsive resources to participate in NEM dispatch. This includes the ability to bid into the market, set spot prices, receive and follow dispatch instructions, and participate in energy markets.

Dispatch mode commences in May 2027. Alongside the dispatch mode framework (VSR Guideline)<sup>1</sup>, the Final Rule includes an incentive framework to encourage participation in dispatch mode. In addition, the AEMC has mandated a monitoring and reporting framework, to allow AEMO (and other stakeholders) to understand and manage the impact of unscheduled price-responsive energy resources on demand forecasting processes and market outcomes.

AEMO is consulting separately on both the VSR Guidelines and monitoring and reporting framework, with information on how to engage on these consultations accessible on AEMO's Integrating price-responsive resources website<sup>2</sup> under its NEM Reform program.

### 2.2. NER requirements

This section provides the requirements placed on AEMO by the AEMC's final IPRR rule in relation to the VIM Procedure.

NER 3.10B.2(c)-(f) state:

- c) AEMO must develop, publish and maintain, and may amend, the VSR incentive procedures in accordance with the Rules consultation procedures and paragraphs (d) and (f).
- d) The VSR incentive procedures must give effect to the VSR incentive principles and must specify:

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<sup>1</sup> [https://aemo.com.au/-/media/files/stakeholder\\_consultation/consultations/nem-consultations/2025/voluntarily-scheduled-resources-guidelines-consultation/development-of-the-vsr-guidelines---consultation-paper.pdf?la=en](https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2025/voluntarily-scheduled-resources-guidelines-consultation/development-of-the-vsr-guidelines---consultation-paper.pdf?la=en)

<sup>2</sup> <https://aemo.com.au/initiatives/major-programs/nem-reform-program/nem-reform-program-initiatives/integrating-price-responsive-resources-into-the-nem>



- (1) the criteria which a VSR incentive mechanism participant must satisfy to be eligible to participate in the VSR incentive mechanism, which must include a prohibition on participation by a Voluntarily Scheduled Resource Provider in respect of a qualifying resource where that person is, or has been, a party to a VSR participation agreement in respect of that qualifying resource as part of a voluntarily scheduled resource;
  - (2) to the extent there is any external funding for a VSR tender process, any further requirements for VSR incentive mechanism participants to satisfy in order to be eligible to receive such external funding;
  - (3) the procedures for conducting the VSR incentive mechanism;
  - (4) the timing of the phases of a VSR tender process;
  - (5) the requirements for offers submitted by VSR incentive mechanism participants into a VSR tender process, which must include that offers:
    - (i) are in \$/MW;
    - (ii) are specified to apply for a region;
    - (iii) are specified to apply for particular types of qualifying resources or voluntarily scheduled resources;
    - (iv) specify the proposed term of a VSR participation agreement that would apply if the VSR incentive mechanism participant were successful in the VSR tender process, subject to subparagraph (j)(2); and
    - (v) specify the proposed availability of the qualifying resource or voluntarily scheduled resource (as applicable) during the term identified pursuant to subparagraph (iv);
  - (6) the assessment criteria and methodology for selecting successful VSR incentive mechanism participants from each VSR tender process;
  - (7) the procedures and timetable for settling participation payments; and 34 National Electricity Amendment (Integrating price-responsive resources into the NEM) Rule 2024 No. 24
  - (8) the requirements for VSR participation agreements and any standard form VSR participation agreement.
- e) The VSR incentive principles are that the VSR incentive mechanism should be structured and run in a way that achieves the VSR incentive objective, taking into consideration:
- (1) the relative availability of voluntarily scheduled resources having regard to expected capacity factors and any planned hibernation notices under clause 3.10A.2;
  - (2) the extent to which each voluntarily scheduled resource is expected to vary its generation or consumption in response to expected spot prices; and
  - (3) the benefits of building capability across a number of Voluntarily Scheduled Resource Providers with a variety of voluntarily scheduled resources (including in relation to aggregation) in order to have multiple Voluntarily Scheduled Resource Providers with a diversity of resources participating in central dispatch. Participation price, incentive MW price cap and participation payments

- f) The VSR incentive procedures must also give effect to the following requirements:
- (1) a participation price must not exceed the incentive MW price cap; and
  - (2) the aggregate of all participation payments payable under all VSR participation agreements must not exceed \$50 million plus the value of all external funding.

The VSR incentive objective is defined in NER 3.10B.1 as follows:

**“VSR incentive objective** is to maximise VSR Benefits in the long run by incentivising Market Participants with qualifying resources to nominate those resources as voluntarily scheduled resources, while minimising the cost of facilitating participation through participant payments.”

## 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. 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.	The tender documentation should include the relevant weights for each for the selection criteria for the upcoming tender	Enel X and EEC
2.	AEMO should publish the methodology for calculating the Incentive mechanism price cap.	EEC and AGL
3.	DNSP engagement in the process.	Citipower, Powercor and United Energy

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

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

## 4. Discussion of material issues

### 4.1. Weighting of Selection Criteria

#### 4.1.1. Issue summary and submissions

Enel X and EEC recommended that AEMO should publish with the tender documentation the weighting that each of the selection criteria would be given by AEMO when considering the merits of a bid. The EEC stated in its submission:

*“The EEC recommends that the weighting is shared so that potential VSRPs can tailor their offers to what AEMO (and the grid) requires. Sharing the weighting criteria may also increase transparency and confidence in the process.”*

In its submission, Enel noted:

*“... AEMO’s ambition to encourage proponents to submit their ‘best offer’, but excluding information on weighting of assessment criteria creates a tendency for bidders to ‘second guess’ where AEMO’s priorities are, ultimately shaping responses to a ‘perceived’ rather than ‘actual’ needs.”*

#### 4.1.2. AEMO’s assessment

In its final determination, the AEMC provided guidance that the problem being solved by the VIM was that “Being scheduled does not always provide the scheduled participant with benefits.” AEMO has interpreted the VIM as a mechanism to support visibility of existing generation and loads, as well as new builds or new aggregation. That is, blocks of generation and load that can be included in the dispatch process but are not currently participating because of the cost of administration, technology or hardware can overcome that barrier through the VIM.

AEMO does not intend for the VIM to define the market for VSR in terms of technologies or providers, rather AEMO is seeking to lower the barriers to entry for providers of VSR. By being overly prescriptive in tender documents the VIM may exceed its mandate, the VIM is meant to be the enabler of participation, not the primary driver of VSR participation.

The focus for AEMO in operating the incentive mechanism is to ensure that AEMO meets the VSR objectives and principles as required under the NER. What AEMO is endeavouring to avoid is promoting bidding behaviour that is not desirable, that is, to encourage bidders to over accentuate the main weighted criteria to the detriment of all others.

AEMO does agree that it should clearly articulate criteria and categories in the pre-tender material so as to make it clear to interested parties the criteria that AEMO is looking for. AEMO has assumed for example, that an existing Virtual Power Plant would be able to provide a strong bid due to its relatively low cost and size of load (potentially) when considered on an efficiency criterion.

AEMO raised the original rule change as a way to improve the dispatch process by “uncovering” blocks of coordinated generation and load by bringing them into the dispatch process. In that regard, AEMO is largely technology agnostic. That said, AEMO may choose to run tenders with multiple subcategories to ensure an even playing field for each technology type. This will be made clear in the pre-tender material for that particular tender. This approach is contemplated in the VSR Incentive Principles (3.10B.2(e)),

that AEMO should take into consideration a diversity of resources and providers participation in dispatch.

#### 4.1.3. AEMO's conclusion

AEMO's conclusion is that to publish weightings of each of the selection criteria would encourage bidders to over accentuate the main weighted criteria to the detriment of all others. As such, AEMO's draft decision is to not include a requirement for AEMO to publish those weightings in the procedure.

Ultimately, it is a commercial decision for each Respondent to consider how it can best structure its offer to ensure it meets the VIM objectives/principles, against the set criteria and at its most competitive price that also provides it with the necessary return to ensure its investment is viable and sustainable.

Furthermore, disclosing criteria weightings provides limited value as a significant set of requirements may be non-weighted i.e., risk, legal compliance, financial viability, or even price.

The draft procedure will require AEMO to:

- Publish the selection criteria as part of the pre-tender documentation (draft clause 2.3(b)(i)-(xi)).
- Publish pre-tender documentation 6 weeks in advance of commencement of a tender (draft clause 2.3(a)).

## 4.2. Methodology for Calculation of the Incentive Price Cap

### 4.2.1. Issue summary and submissions

The Final Rule requires that AEMO, prior to each tender, determine an incentive MW price cap to apply to each region. AEMO must not exceed this cap when agreeing to a Participation Agreement. AEMO must notify AEMC and AER of this price cap, who will be required to ensure this is not disclosed and kept confidential.

Both the EEC and AGL recommended that AEMO publish the methodology it uses to determine the incentive MW price cap.

EEC:

*"The EEC notes that the price cap will be determined by AEMO and remain confidential. The EEC recommends that AEMO shares the methodology in relation to determining the cap (but not the cap itself) to increase transparency and confidence in the process."*

AGL:

*"AEMO could consider reporting on the methodology utilised to set the price cap (even if the price cap is not public), how the prices paid under VSR participation agreements compared against the price cap (in aggregate), and outline whether AEMO will be seeking to make changes to its methodology for future tenders."*

### 4.2.2. AEMO's assessment

In its final determination, the AEMC noted the importance of keeping the incentive MW price cap confidential:

*"The price cap would be kept confidential during the incentive period, and only communicated to the AER and the AEMC to inform internal analysis of the incentive program. Keeping the*

*price cap confidential would also assist in keeping offers more accurate and cost reflective, minimising the risk of gaming offers.”*

In AEMO’s submission to the IPRR rule change draft determination, AEMO requested that the AEMC provide more prescription in the way that AEMO would be required to calculate the price cap. Amongst other reasons, the AEMC noted that that “prescription on how to calculate the price cap could reveal the cap and result in potential gaming of offers.”

AEMO agrees with the AEMC that publication of the methodology that AEMO uses to calculate the incentive MW price cap could be back solved by participants and lead to inefficient price outcomes.

AEMO has interpreted the intention of the incentive MW price cap not to be a mechanism to set an equilibrium price or to act as a cap on profitability of VSR resources. Rather, it is intended to be a check on AEMO to ensure that money recovered from participants for use in the VIM is allocated efficiently.

AEMO currently does not have an in-house economic modelling capability for the purpose of determining the cap. As such, AEMO is considering using the IES modelling,<sup>3</sup> which the AEMC used in its benefits calculation for IPRR, as the basis for its price cap determination. .

#### 4.2.3. AEMO's conclusion

While AEMO recognises participant concerns raised in the feedback, AEMO considers that the opportunity for back solving and therefore gaming of offers that AEMC raised in the final determination means it is not appropriate for AEMO to publish the methodology for calculating the incentive MW price cap.

### 4.3. DNSP engagement in the process

#### 4.3.1. Issue summary and submissions

The draft VIM Procedure does not include provisions for inclusion of distribution network businesses in the VIM. CitiPower, Powercor and United Energy’s feedback is that this is an oversight that needs to be addressed:

*“CitiPower, Powercor and United Energy’s broader concern is that the objective for VSR may come at the expense of the NEO, specifically reliability and security of supply of electricity within the DNSP networks, without adequate controls, engagement and awareness.*

*A clear unintended consequence may be that the VSR objective will compromise a DNSP network’s ability to forecast demand (e.g. by creating unexpected peak demands) and will introduce short term market sensitivity to otherwise market-insensitive customers and loads. This is one key reason that DNSP networks need visibility and awareness of when VSR contracts are entered into with customers. “*

#### 4.3.2. AEMO's assessment

As outlined in the discussion about the incentive MW price cap methodology in section 4.2.2 above, the qualifying resources that will form part of VSRs are already interacting with the NEM, however, they aren’t visible to AEMO. This is the problem the IPRR rule change seeks to solve. AEMO acknowledges

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<sup>3</sup> <https://www.aemc.gov.au/sites/default/files/2024-07/IES%20size%20of%20the%20prize%20benefits%20modelling%20final%20report.pdf>

that the same issues that lead to AEMO initiating the IPRR rule change will be more or less applicable to DNSP's in managing their networks.

While AEMO cannot contemplate DNSP participation in the VIM tender selection process for reasons of confidentiality, AEMO does understand the requirement for DNSPs to have access to information on VSRs in their network. The importance of DNSP and relevant TNSP access to data for visibility is captured in section 12 of the draft VSR Guideline, and discussed further in the ongoing VSR Guideline consultation<sup>4</sup>.

On the 1<sup>st</sup> of May, as part of the development of the VSR Guidelines, AEMO conducted a DNSP and TNSP focused workshop to consider how AEMO can better understand NSP perspectives in relation to VSR.<sup>5</sup>

AEMO noted at the workshop that it will be important for networks to have full visibility of what VSR is doing in their network area. Specifically, networks will have access to the following to achieve this visibility:

- NMI's in their network that are within a VSR DUID.
- Access to standing data for VSR (including VSR mode).
- Visibility, alongside VSRPs and AEMO, of five-minute metering data

AEMO recognised that VSR pre-dispatch targets could be more useful than bids, but both are currently confidential to the participant and the Final Rule did not change this - NER 3.8.20(j).

AEMO encourages DNSP's to participate in that consultation noting that it is slightly more progressed than this process for the VIM Procedure. AEMO further notes that the National CER Roadmap processes more deeply consider the respondent's concerns.<sup>6</sup>

#### 4.3.3. AEMO's conclusion

The feedback from CitiPower, Powercor and United Energy has highlighted an emerging issue for DNSP's to manage, but did not articulate any proposed processes or requirements for addressing the issue that could reasonably be included in the VIM Procedure. The respondents are encouraged to:

- Participate in the consultation process for the VSR Guideline
- Participate in related CER Roadmap consultations.

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<sup>4</sup> <https://aemo.com.au/consultations/current-and-closed-consultations/voluntarily-scheduled-resources-guidelines-consultation>

<sup>5</sup> <https://aemo.com.au/-/media/files/initiatives/improving-security-frameworks-for-the-energy-transition/nsp-stakeholder-workshop--vsr-guidelines---1-may--2025.pdf?la=en>

<sup>6</sup> <https://www.energy.gov.au/energy-and-climate-change-ministerial-council/working-groups/consumer-energy-resources-working-group>

## 5. Other matters

### Frequency of payment

AEMO intends to set the timing of payments under participation agreements at monthly in arrears. This payment frequency has been reflected in the draft VIM Procedure that accompanies this second-round consultation. The reason for this is twofold:

- AEMO's funding arrangements, which means it does not have the reserves to pay participants in advance of receiving funds from cost recovery market participants; and
- VSR performance against what was agreed in the Participation Agreement should be assessed prior to payment. This will ensure that AEMO has a lever to ensure ongoing compliance with the agreement.

AEMO is interested in participant feedback as to whether a less frequent payment cycle would create any issues for participants.



## 6. Draft determination on proposal

Having considered the matters raised in submissions to the consultation paper, AEMO's draft determination is to make the **VSR Incentive Mechanism Procedure** in the form published with this draft report, in accordance with NER 3.10B.2(c).

### Effective date

AEMO's proposed effective date for the determination is 27 October 2025.

## Appendix A. Glossary

Term or acronym	Meaning
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
DNSP	Distribution Network Service Provider
IPRR	Integrating Price Responsive Resources
NEO	National Electricity Objective
NER	National Electricity Rules
NSP	Network Service Provider
TNSP	Transmission Network Service Provider
VIM	VSR Incentive Mechanism
VSR	Voluntary Scheduled Resource

## Appendix B. List of Submissions and AEMO Responses

No.	Respondent	Comment	AEMO response
		<b>1. Do you agree with AEMO's initial approach to conducting the VIM tenders?</b>	
1	AGL	Based on the information available, AGL agrees with the proposed approach. AGL would welcome the opportunity to engage in AEMO's pre-tender market engagement and further clarity on the process.	AEMO notes the comment from AGL.
2	Citipower/Powercor	<p>At a high level, CitiPower Powercor and United Energy have no issues with the general tender approach, however:</p> <ul style="list-style-type: none"> <li>CitiPower Powercor and United Energy do not see any process to engage and inform DNSPs of the outcomes (so we know who is participating) and checking that the tendered resource can perform in the way proposed in tender without impacting DNSP networks</li> <li>CitiPower Powercor and United Energy do not see any acknowledgement that, broadscale dispatch (up or down) of resources will impact customers, DNSP network performance and security of supply. For example, broadscale dispatch of CER in an area with 5min response will impact voltage performance and, in Victoria, this exposes us to significant Tier 1 penalties under EDCoP</li> </ul> <p>CitiPower Powercor and United Energy strongly recommends that DNSPs must be engaged in the process to ensure no unintended consequences or negative impacts, in line with the NEO.</p>	<p>This feedback has highlighted a potential emerging issue for DNSP's to manage however It isn't clear from the feedback what is required from the VIM Procedure.</p> <p>AEMO would not contemplate DNSP participation in the tender selection process for reasons of confidentiality. DNSP's however may have other suggestions for information flows that AEMO would consider on merit.</p> <p>AEMO encourages DNSP's to participate in the VSR Guidelines consultation process that is being conducted concurrently.</p> <p>Stakeholders should note that the intention of the VIM is to encourage owners/operators of resource to provide AEMO with visibility of blocks of load moving in a coordinated fashion. AEMO's approach is that the VIM isn't necessarily aimed at encouraging the development of new resources, although this may happen.</p>
3	Enel X	<p>Enel X recommend:</p> <ul style="list-style-type: none"> <li>AEMO undertake 'market sounding' to align tender requirements and ambitions with capabilities of potential tenders</li> <li>The proposed procedure should aim to reduce uncertainty in the tender process by:</li> </ul>	AEMO agrees with this comment, however AEMO does not intend to codify the market sounding process in procedure.

No.	Respondent	Comment	AEMO response
		<ul style="list-style-type: none"> <li>- explicitly setting out targets and categories</li> <li>- excluding time extensions for individual tenders, and expressly limiting the circumstances that extensions may be provided to all tenders</li> <li>- disclosing weighing of selection criteria</li> <li>• provide a minimum of 6-weeks for notification of an upcoming tender</li> </ul> <p>Enel X appreciate that AEMO is still relatively early in its considerations as how it will operate the VIM tenders. While experience in running tenders in-line with current AEMO practice, for example the Reliability and Emergency Reserve (RERT) is relevant, the requirements set out in the NER for the Incentive Mechanism are quite different in nature to the procurement of services such as RERT.</p> <p>Enel X is mindful that AEMO should not repeat the missteps of the WDRM where an ill-fitting participation framework failed to recognise the capabilities of potential resources thereby choking participation of otherwise capable resources and disincentivising investment from aggregators.</p> <p>As dispatch participation of flexible demand is an emerging capability, Enel X recommends AEMO undertake a 'market sounding' to inform the initial notice to the expression of interest, request for proposal or request for tender. The market sounding would also serve to inform AEMO's preferences on the types of technology, capacity, capacity factor and dispatch capabilities that best meet the principles and objectives set out in the NER.</p> <p>Given the potential for a rapid learning curve by participants, consumers, and AEMO there is merit in expanding the tender rounds to ensure that the Incentive Mechanism is investing in the activities</p>	<p>If AEMO receives a request for an extension, AEMO would consider it Note also that should an extension request be accepted, the extension would be granted to <b>all</b> tenderers.</p> <p>AEMO agrees that a minimum period of 6 weeks is acceptable, AEMO intend to go earlier.</p> <p>AEMO agrees to articulate criteria and categories in the tender material.</p> <p>AEMO agrees with the AEMC in its final determination on IPRR that publication of tender weightings is not the best approach because it promotes behaviour that is not desirable i.e. it over accentuates the main weighted criteria to the detriment of all others. AEMO does not intend to publish or disclose specific weightings, tenderers should provide "best offer".</p> <p>AEMO agrees on providing notice of upcoming tender.</p> <p>AEMO's approach is for AEMO to find value for money by satisfying the VSR objectives and principles under the tender process as required under the rules.</p>

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		likely to deliver the greatest impacts on improving security, reliability and lowering costs.  Enel X acknowledge AEMO's ambition to encourage proponents to submit their 'best offer', but excluding information on weighting of assessment criteria creates a tendency for bidders to 'second guess' where AEMO's prioritises are, ultimately shaping responses to a 'perceived' rather than 'actual' needs.	
4	SA Water	SA Water strongly supports AEMO's proposal to model the VIM on RERT tenders. We welcome the flexibility of this approach noting the strong focus on market engagement and market sounding and high level of probity this approach offers.	AEMO notes the comment from SA Water.
	<b>2 Based on the proposed timeline, is there enough time from the publication of the final VIM procedure to the date of the first tender for your business to prepare?</b>		
	<b>3. if not, please explain why?</b>		
5	AGL	AGL is broadly supportive of the proposed timeline, but notes that access to the technical specifications will be critical to prepare for the tender. AGL supports AEMO's intent to release draft specifications as early as possible but notes the current timelines indicate that the final specifications will only be released a few months ahead of the tender commencement. This would constrain industry's ability to prepare its bids, regardless of the publication of the VIM procedure.	AEMO acknowledge that time frames are tight. Participants should recognise that AEMO will perform more than one tender, participants not ready could wait for that.
6	Citipower/Powercor	As per the above response, CitiPower Powercor and United Energy has identified that there are missing consultation steps that have not been considered, that could affect and potentially extend timelines.  CitiPower Powercor and United Energy requests AEMO efficiently aligns the timeline of this initiative with the timelines of other initiatives, to avoid duplication or unnecessary effort.	See response 2 above.  AEMO Acknowledge that there is significant change in industry that needs to be managed.  AEMO's program is designed to fit in with those other market activities, that is, AEMO is party to those same industry changes.

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			<p>AEMO considers that the earlier it can articulate process timings etc, the better equipped participants will be able to prepare.</p> <p>AEMO aims to best manage timelines so as not to clash with other initiatives that limit participant capability to respond.</p>
7	Enel X	Enel X recognize the need to commence the tender process as soon as practical. In our view the proposed timeline contains adequate time ahead of the first tender provided AEMO continue to provide early feedback on progress in formalising technical and procedural matters.	See AEMO responses above with respect to timing of the tenders.
8	SA Water	Yes, SA Water believes six months is sufficient time to prepare for the tender so long as details of the deliverables required for a successful tender are clearly articulated.	AEMO notes the comment from SA Water.
	<b>4. Is there enough time from the completion of the tender, for your business to prepare to participate in dispatch?</b>		
	<b>5. If not, please explain why?</b>		
9	AGL	<p>AGL is broadly supportive of the proposed timeline, but notes the following considerations:</p> <ul style="list-style-type: none"> <li>• [Confidential]</li> <li>• Market uncertainty: Unanticipated market changes could occur within the 6 – 9 month window, and during the lifecycle of the project itself, affecting the participation price (\$/MW) in the bids. AGL encourages AEMO to consider means to enable bidders to account for these uncertainties as part of the tender process.</li> </ul>	<p>AEMO notes the comment from AGL with respect to the proposed timeline.</p> <p>AEMO can't manage uncertainty – participants will need to manage it themselves noting that this issue is the same for everyone.</p>
10	Citipower/Powercor	As above	
11	EEC	The EEC notes that the tender is due to open in Q2 2026, with 'go-live' on 23 May 2027. If the tender results are announced in Q3 – Q4 2026, VSRPs will have less than a year to prepare for 'go-live'. During this time VSRPs will need to do significant work to get prepared. Earlier access to tender results would be favourable.	<p>See AEMO response to comment 9, Participants will have to manage that future uncertainty by pricing accordingly.</p> <p>AEMO's approach is to not allow for variations, the uncertainty as a result of the time between the tender and the commencement of the incentive period is the</p>

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		The EEC also notes that there could be a significant shift in wholesale prices during this time, and for the duration of market participation. The EEC kindly requests that AEMO clarifies whether there would be the ability for VSRPs to seek variations on their initial bids.	same for all participants, AEMO anticipates that tenderers will factor in this uncertainty when making the offers..
12	Enel X	As an existing DRSP participant the proposed timeline is adequate for Enel X to prepare to participate in dispatch. Given the need for the industry to rapidly build capability, future tender rounds may reasonably be used to accommodate participants with longer implementation timeframes.	AEMO notes the comment from Enel X.
13	SA Water	Yes, SA Water believes nine months is sufficient time for participants who are successful in the tender to prepare for dispatch mode participation, noting that participants will have six months to prepare for the tender and should therefore be able to commence delivery as soon as an agreement is signed.	AEMO notes the comment from SA Water.
<b>6. Do you agree that AEMO will achieve the VSR incentive objective and VSR incentive principles in its proposed VIM procedure?</b>			
<b>7. If not, please explain why?</b>			
14	AGL	AGL does not have enough information to determine this. However, AGL supports the objective and principles of the VIM.	AEMO notes the comment from AGL.
15	Citipower/Powercor	<p>CitiPower, Powercor and United Energy's broader concern is that the objective for VSR may come at the expense of the NEO, specifically reliability and security of supply of electricity within the DNSP networks, without adequate controls, engagement and awareness.</p> <p>A clear unintended consequence may be that the VSR objective will compromise a DNSP network's ability to forecast demand (e.g. by creating unexpected peak demands) and will introduce short term market sensitivity to otherwise market-insensitive customers and loads. This is one key reason that DNSP networks need visibility and awareness of when VSR contracts are entered into with customers.</p>	See comment above.

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16	Enel X	<p>Enel X believe AEMO's proposed VIM procedure requires further refinement to achieve the VSR incentive objective and implement the VSR incentive principles. Given the restricted appeal of VSR participation it is imperative that the tender processes minimise risks and costs for potential proponents.</p> <p>Q7 comment:</p> <p>Enel X is wary that the AEMO's proposed tender approach is not sufficiently transparent to encourage participation in the way that the VSR incentive objective envisages. The AEMC included the incentive mechanism in recognition of the limited appeal of bringing flexible load into the dispatch process via the IPRR. To achieve both participation and minimisation of incentive payments objectives the tender process must be as streamlined as possible to minimise participation cost and risk.</p> <p>Please refer to our responses to question 1 for recommendations to reduce tender's risks and costs</p>	Refer to our response to your question 1
17	SA Water	We believe that AEMO has designed a mechanism that is capable of achieving both the VSR incentive objective and the VSR incentive principles as outlined in the proposed procedure. Participation in VSR is also critical and we do not believe that the proposed VIM procedure imposes material barriers that might inhibit engagement by potential participants.	AEMO notes the comment from SA Water
	8. Do you agree that AEMO has captured the key clauses in this table?		
	9. If not, please explain why?		
18	AGL	AGL is broadly supportive of the proposed clauses in the high-level procedure,...	AEMO notes the comment from AGL



No.	Respondent	Comment	AEMO response
19	Citipower/Powercor	<p>CitiPower, Powercor and United Energy's broader concern is that the objective for VSR may come at the expense of the NEO, specifically reliability and security of supply of electricity within the DNSP networks, without adequate controls, engagement and awareness.</p> <p>To CitiPower, Powercor and United Energy's knowledge, AEMO has not yet published an evaluation methodology or specific assessment criteria for VIM tenders. DNSP networks must be consulted as part of this review.</p>	See response to comment 1
20	Enel X	Enel X have not identified any potential amendments to the proposed high level procedure inclusions needed to ensure the VIM Procedure is aligned with relevant NER requirements	AEMO notes the comment from Enel X.
<b>10. Do you have any comments to specific clauses?</b>			
21	AGL	<p>AGL is broadly supportive of the proposed clauses in the high-level Procedure, but flags the following considerations:</p> <ul style="list-style-type: none"> <li>• Clause 15 – Tenderers / AEMO should be able to nominate multiple Contact Persons, or allow Contact Persons to delegate their authority, to account for staff changes and availability.</li> <li>• Clause 32 – Voluntary Scheduled Resources (VSRs) comprised of aggregated CER will need to comply with the VSR guideline requirements / NER obligations while accounting for customer churn. If AEMO seeks to incentivise participation from these resources, then its compliance requirements should be supported by fit-for-purpose technology systems that enable easy registration / deregistration of NMIs.</li> <li>• Clause 34 – AEMO could consider reporting on the methodology utilised to set the price cap (even if the price cap is not public), how the prices paid under VSR participation agreements compared</li> </ul>	<p>AEMO considers that a single point of contact is more effective.</p> <p>Clause 15 - AEMO will need to manage multiple potential contracts within tight time frame.</p> <p>Clause 32 – AEMO is proceeding on the expectation of a validity period of 180 days, participants will need to notify of any changes, and AEMO will manage it. AEMO can certainly agree to a process in the PA to vary the NMIs covered under the agreement.</p> <p>Clause 34 - AEMO can give high level/principles but not detail to prevent back calculation.</p>

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		<p>against the price cap (in aggregate), and outline whether AEMO will be seeking to make changes to its methodology for future tenders.</p> <ul style="list-style-type: none"> <li>• Clause 41 – While AGL recognises AEMO could be required to allocate external funding to specific technology types, technology neutral tenders would lead to higher and more cost-effective uptake of dispatch mode in early years. If AEMO / external parties sought to incentivise the participation of certain technologies, this would ideally be accompanied by industry engagement to ensure the VSR guidelines and technical specifications effectively enable participation from these resources in dispatch mode.</li> </ul>	<p>Clause 41 – AEMO will see to procure efficiently but may take the opportunity to allocate a proportion of funding to specific technologies, but this would only be within the boundaries of the VSR principles and VSR objective. In any case, this would be identified in pre tender documentation.</p> <p>AEMO <i>may</i> run tenders with multiple subcategories to ensure even playing field for each technology type.</p>
22	Citipower/Powercor	CitiPower Powercor and United Energy requests AEMO reference responses to prior comments and questions noted above. We strongly recommend these comments be included in the expected publishing of the draft VSR Guidelines on 22 May. We will further elaborate on our position during the Draft Determination response timeframe.	<p>AEM notes the comment from Citipower/Powercor</p> <p>AEMO notes the importance of ensuring the that the distribution businesses are able to continue to manage their networks in a safe and effective manner. These comments are out of scope for this consultation and best addressed with the VSR guideline, we note that Citipower/Powercor has indicated that it will be participating in the next stage of that consultation process.</p>
23	SA Water	The clauses in the table in chapter 4 seem appropriate and comprehensive. SA Water notes that under the NER many of the clauses are required to be included in the procedure.	AEMO notes the comment from SA Water.
	<b>General comments</b>		
24	AGL	AGL would welcome further information on AEMO's pre-tender market engagement process, as the consultation paper does not specify the timing and form of this engagement. AGL also notes the consultation paper specifies that AEMO may seek to procure specific capabilities as part of its tender process. AGL would welcome AEMO's guidance on whether there is a class of unscheduled price-responsive resources that would ideally be captured in the initial years of dispatch mode and the opportunity to discuss whether the requirements of dispatch mode can be feasibly met by these technologies in the short-term.	<p>See earlier comments</p> <p>AEMO is considering building feedback into the development of its procurement strategy. At the minimum, AEMO will be conducting a market sounding process for each tender.</p> <p>Detail will be provided in the tender documents, AEMO intends to provide as much early notice as it can for each tender as it recognises that it is in AEMO's best interest to do so.</p>
25	Citipower/Powercor	CitiPower Powercor and United Energy requests AEMO articulates the linkages between FTA and IPRR, to ensure that the NEM Reform	AEMO notes that these linkages were provided in the AEMC process for the IPRR rule.

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		<p>designs capture and cater for these linkages and don't result in duplicated or unnecessary effort.</p> <p>Please note any information/data that comes from this bidding process that is expected to be updated in DNSP network systems, is not currently considered and will take cost and effort to do so.</p> <p>CitiPower Powercor and United Energy recommends that these issues (linkages to FTA/IPRR and data expectations) be included in the Draft Determination when published.</p>	<p>AEMO notes that the VIM is a part of the IPRR rule change undertaken by the AEMC.</p> <p>See AEMOs response to comment 2 above.</p> <p>Data expectations and the delivery phase are being conducted through the existing NEM forums (ITWG, NEM Reform Implementation Forum and the PCF. Participants are encouraged to raise issues through these groups.</p>
26	EEC	<p>the EEC has no comment on AEMO's market approach strategy in relation to the tenders. This submission focuses on key areas of the VSR Incentive Mechanism (VIM). Beyond these areas, the EEC supports AEMO applying the general principles of maximising transparency and allowing sufficient time for Voluntary Scheduled Resource Providers (VSRPs) to prepare.</p> <p>As noted in the consultation paper, potential VSRPs will need to have sufficient time to review the 'dispatch mode' technical specifications before being able to participate in the VIM tender process. AEMO states that it will endeavour to release a draft of the technical specifications as early as possible.</p> <p>The EEC suggests that the failure to release a draft of the technical specifications within a suitable timeframe may result in low participation in the tender process</p> <p>The EEC notes that the price cap will be determined by AEMO and remain confidential. The EEC recommends that AEMO shares the</p>	<p>AEMO is endeavouring to publish the technology specifications ASAP. Participants are encouraged to participate in the VSR guidelines consultation process as well as the various market forums noted in comment 25 above.</p>

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		<p>methodology in relation to determining the cap (but not the cap itself) to increase transparency and confidence in the process.</p> <p><b>Weighting</b></p> <p>The consultation paper notes that the weighting for each selection criteria will not be shared. The EEC recommends that the weighting is shared so that potential VSRPs can tailor their offers to what AEMO (and the grid) requires. Sharing the weighting criteria may also increase transparency and confidence in the process.</p>	<p>As noted in section 4.3, AEMO is unable to publish the methodology without participants back solving the number. Participants should note that Price cap is about managing AEMO, not participants, which is overseen by AER/AEMC.</p> <p>Weightings, see comments above.</p>
27	Enel X	<p>To improve the quantity and quality of tender response Enel X recommends that amendments are made to:</p> <ul style="list-style-type: none"> <li>• Market notification of upcoming tender (reference 2) – Enel X recommends that the 4-week minimum notification is extended to a 6-week minimum based on our experience of the typical decision-making processes within commercial and industrial end-users that could consider VSR participation.</li> <li>• Time extensions for tenders (reference 16) – Enel X recommend that AEMO do not provide time extensions for bidders as this undermines confidence in the impartiality of the tender process. To ensure a level playing field it is more appropriate that all bidders work toward a common set of requirements.</li> </ul>	<p>See comment 3 above re extensions</p> <p>AEMO has included a 6 week notification period in the draft procedure published with this draft determination.</p>