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Mr Arek Gulbenkoglou
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Lodged via email: anthony.weir@AER.gov.au

Dear Arek

System Security Network Support Payment guideline

Transgrid welcomes the opportunity to respond to the Australian Energy Regulator's (**AER**) draft System Security Network Support (**SSNS**) Payment Guideline (**the Guideline**) for ex-ante review of draft system security network support payment contracts. The Guideline sets out how the AER will determine whether proposed SSNS expenditures in draft contracts are likely to result in prudent and efficient expenditure.

Transgrid is responsible for ensuring the power system in NSW remains secure and safe, by maintaining specified levels of key system security services including system strength, inertia, and voltage control. For system strength, we are seeking a portfolio of solutions to best meet power system requirements at the lowest costs to consumers.

We welcome the AER's guidance on how the AER will review significant draft SSNS contracts including the nature of the AER's determination, the criteria the AER must have regard to, the process we will follow, and the type of information we may consider. We support the AER's:

- Outlined purpose of the Guideline. That is to provide further clarity to TNSPs when seeking determinations from the AER on proposed payment or payment methodology.
- Linking any decision by the AER on an ex-ante submission to the opex objectives, criteria and factors under National Electricity Rules (**NER, Rules**) clauses 6A.6.6A (a)(1)-(3).

However, we are concerned with:

- Consumers being negatively impacted by the high cost of some SSNS contracts (in particular, existing generators).
- Lack of assurance provided in the Guideline to TNSPs for cost recovery and thus ability to commit to SSNS contracts.

Addressing these key issues is essential to ensuring that consumers have greater certainty, price stability and ultimately reducing the cost of delivering system strength solutions.

As a member of Energy Networks Australia (**ENA**) we support their submission to this consultation. The rest of our submission further highlights key issues for Transgrid.

Certainty in ex-ante determination

The AER Guideline highlights how a TNSP is allowed (but is not required) to seek an ex-ante AER review from the AER prior to incorporating the expenditure in its annual prices. The AER highlights that a TNSP can outline in its ex-ante submission the proposed expenditure for a SSNS payment, or a methodology for such a payment. This is required to be consistent with the operating expenditure objectives, criteria and factors.

The AER highlights that it will not approve a specific forecast amount of expenditure as part of an ex-ante review, rather they will assess if the proposed payment or payment methodology in the draft contract is *likely* to result in a prudent and efficient amount of expenditure if the contract terms are followed.

Transgrid welcomes the opportunity to submit an ex-ante proposal to the AER for expected expenditure for in SSNS payments contracts. However, we are very concerned with the level of comfort it will give. Specifically, the use of the word 'likely'. This does not provide TNSPs with the level of comfort required to be able to commit to contracts.

Under the NER, Transgrid is responsible for ensuring the power system 'heartbeat' in NSW remains strong, by maintaining specified levels of key system security services including system strength, inertia and voltage control. For system strength, Transgrid is required to provide the efficient level of system strength in NSW, guided by AEMO's Inverter Based Resource (**IBR**) forecasts. A power system with inadequate system strength risks instability and supply interruptions. Therefore, meeting this need is fundamental to limiting disruptions to consumers and ensuring that costs are minimised as we transition to net zero.

Given the large quantum of payments associated with SSNS, we would encourage the AER to provide greater assurance for ex-ante determinations. We are concerned that the use of the word '*likely*'¹ in the AER's proposed Guideline does not give the level of comfort required by TNSPs to enter into these material contracts.

To provide consumers with the optimal level of solutions at the lowest costs, Transgrid would encourage the AER to provide further clarification on situations in which it would consider its assessment of prudence and efficiency in any subsequent assessments that differs from an ex-ante decision. This could include:

- New contractual terms that were not originally reviewed, hence a new assessment would be required. Detail regarding the types of TNSP actions and decisions following a positive ex-ante assessment that would be considered to result in a decision that the payments assessed ex-post were now not considered prudent and efficient.

¹ On page 7 - <https://www.aer.gov.au/system/files/2024-10/AER%20-%20Draft%20System%20Security%20Network%20Support%20Payment%20Guideline%20-%20October%202024.pdf>

- Highlighting TNSP's actions and decisions in delivering other solutions, such as the network component in a portfolio of system strength solutions and how that would impact future assessments of prudence and efficiency of payments.

Cashflow risk

In March 2024, the AEMC made a final decision on *Improving security frameworks for the energy transition*². The final decision makes AEMO responsible for the operational enablement of security contracts that have been procured in the planning timeframe whilst making TNSPs responsible to manage the enablement payments.

Transgrid has concerns regarding the cashflow risks the SSNS payments entail. Enablement payments are predicted to be large, highly variable and uncertain because:

- Wholesale prices movements – contracts that are exposed to wholesale price fluctuations will entail a high level of unpredictability and volatility. This is outside the control of TNSPs and are largely unpredictable.
- Enablement of contracts are done by AEMO – there will be forecast uncertainty about how much and how frequently the services will be enabled. TNSPs will not know how many times, if any, a contract is enabled by AEMO during the year.

As a result of these new obligations, Transgrid has significant concerns with the SSNS payments as they will be substantial and unpredictable, and as a result will create significant cashflow risk for TNSPs, and highly variable and unstable prices for consumers. Modelling suggests it could more than double our regulatory operating expenditure, which would have significant impacts on the level and stability of network charges that would ultimately be passed on to consumers.

We encourage the AER to provide more guidance by describing how the AER will consider the structure of a contract and payments as being prudent or efficient based on it minimising the financial risk to the TNSP. For example, how will the AER consider a fixed payment approach that has been taken to avoid cashflow risks caused by uncertainty and magnitude of variable payments.

Eligibility criteria

The AER's draft guideline includes the following eligibility criteria:

- The application must be made after completion of all relevant regulatory processes (including RIT-T appeals and material changes in circumstances) and before a contract is executed.
- All services in the draft contract being reviewed must be 'preferred options' under a completed RIT-T, or a 'secondary option' approved by the AER on the basis it is a lower cost option than the RIT-T preferred options.
- The application must include the relevant information outlined in Chapter 4 of this Guideline.

We would encourage the AER to consider the following:

² See - <https://www.aemc.gov.au/rule-changes/improving-security-frameworks-energy-transition>

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- Provide flexibility in the Guideline in circumstances where it would be prudent to submit an ex-ante review for a SSNS contract prior to the end of the RIT-T. We believe there will be circumstances where this would be appropriate in the coming months where commencing contracts prior to the completion of the RIT-T, for non-network services that have an extended lead time, would help address gaps in system strength in coming years.
- The AER should provide flexibility in the guideline for circumstances where a contract has been executed to be reviewed by the AER through this process. There may be circumstances where it is prudent to execute the contract to ensure services are provided as soon as possible to meet an urgent need, whilst contractual terms may allow for amendment to the contract based on any feedback received through the AER review.

The AER can accommodate both above-mentioned recommendations through minor amendments to the guideline by including an exception clause – where the TNSP can make a valid case for an eligibility criterion to not apply it would review the contract.

Materiality threshold

The AER's draft guideline sets a materiality threshold that must exceed 1% of AER approved unsmoothed revenues for a draft contract's expected average annual payment.

Transgrid is concerned that the proposed threshold is too high which would exclude a significant proportion of potential contracts, especially with grid forming BESS projects. Thus, making these potential non network solutions ineligible for an AER ex-ante contract review. This may stifle innovation and would increase the risk of cost recovery for smaller contracts. To mitigate this, TNSPs reconsider contracts and solutions in order to reduce cost recovery risks.

We encourage the AER to remove the threshold requirement or:

1. Lower the proposed materiality threshold to 0.5% of MAR,
2. include an exception clause that would allow the TNSP to submit a contract (that does not meet the threshold) for ex-ante review where the AER's review is integral to progressing with the project and,
3. Allowing TNSPs to submit a group of similar contracts that collectively meet the threshold.

Transgrid does not believe that the potential administrative burden on the AER with a lower threshold (or removal of the threshold) significantly increases. However, this will provide significant comfort to TNSPs in getting contracts reviewed and cost recovery risk minimised.

We look forward to continuing to work with the AER to ensure we are best placed to deliver the optimal solutions to consumers whilst minimising risks to TNSPs. If you or your staff require any further information or clarification on this submission, please contact Zainab Dirani, Policy and Advocacy Manager at zainab.dirani@transgrid.com.au.

Yours faithfully



Monika Moutos
General Manager of Regulation, Policy and Governance