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infrastructure partner

System Security Network Support Payment Guideline - AER draft guideline

APA Submission

30 October 2024



Mr Arek Gulbenkoglul
General Manager
Australian Energy Regulator
GPO Box 3131
CANBERRA ACT 2601

Lodged by email: [REDACTED]

30 October 2024

RE: APA Submission to AER System security network support payment draft guideline

Dear Mr Gulbenkoglul,

Thank you for the opportunity to provide a submission to the AER's System security network support payment draft guideline (Draft Guideline). We support initiatives that clarify how Transmission Network Service Providers (TNSPs) recover the cost of procuring system security services such as Network Support and Control Ancillary Services (NSCAS).

APA is an Australian Securities Exchange (ASX) listed owner, operator, and developer of energy infrastructure assets across Australia. As well as an extensive network of gas pipelines, we own or have interests in gas storage and generation facilities, electricity transmission networks, renewable generation infrastructure and battery storage.

We support the transition to a lower carbon future. In September 2024, we published our FY24 Climate Report, detailing our progress against our Climate Transition Plan, which outlines our commitments to support Australia's energy transition and pathway to net zero operations emissions by 2050.

Since October 2022, APA has been the proud owner of the Basslink interconnector connecting Tasmania to Victoria. Interconnectors such as Basslink will play an essential role in the decarbonisation of the energy system. Following the Victorian coal power station, Loy Yang A, going off-line on 13 February this year, Basslink played an important role in maintaining reliability in Victoria by transporting hydro power from Tasmania.

APA is currently seeking to have Basslink become a fully regulated asset from 1 July 2025. Network support agreements to support the ongoing operation of the Basslink will be required to ensure that Basslink can operate at its full capacity and in compliance with relevant operating standards. These agreements will include contracts with generators and large customers to provide generator tripping and load interruption services.

The Australian Energy Market Commission made the *Improving security frameworks* rule in March 2024 (the ISF Rule) clarifying that Network Support Control Ancillary Services (NSCAS) includes services which maintain or increase the power transfer capability of the transmission network so as to maximise net economic benefits. A key element of the ISF Rule is an update of mechanisms for TNSPs to recover the costs of procuring these system security services.

APA feedback on the Draft Guideline

The ISF Rule also provides TNSPs with an option of seeking an ex-ante determination by the AER that expenditure for a proposed system security network support payment is consistent with the relevant operating expenditure and network support criteria in the National Electricity Rules. The AER has set out how it proposes to undertake these ex-ante reviews in the Draft Guideline.

In the dot points below we provide views on the Draft Guideline:

- **Eligibility criteria** – the eligibility criteria outlined in the Draft Guideline may not be appropriate for smaller, or intending, TNSPs.¹ For example, the eligibility criteria propose that all services in a draft contract must be preferred options under a completed RIT-T or a 'secondary option' approved by the AER. Basslink is not yet a TNSP, and the only network solution that could alleviate the requirement to procure load tripping or generation tripping is a second interconnector.

Recommendation: the eligibility criteria in the Draft Guideline should be updated to provide flexibility in the steps that need to have been completed before seeking ex-ante approval from the AER.

- **Materiality threshold** – the Materiality threshold in Box 2 of the Draft Guideline states that the 'draft contract's expected average annual payment must exceed 1% of AER approved unsmoothed revenues...'. This is despite the March 2024 rule change stating that there is no materiality threshold for network support pass throughs under clause 6A.7.2.²

Due to the small Tasmanian market, it is likely that Basslink will be required to source System Protection Services from multiple parties. The Draft Guideline recognises that system security services may be procured through a 'portfolio' of contracts.³

We agree that the AER should only be required to approve ex-ante financially significant contracts. However, the materiality threshold should provide greater flexibility in the contracts that can receive an ex-ante determination by the AER.

Recommendation: the materiality threshold should be updated to:

- accommodate intending TNSPs that do not yet have an approved revenue; and
- provide greater flexibility in the type of contractual arrangements that can be approved ex-ante by the AER.

The Materiality threshold in Box 2 could be updated as follows:

The draft contractual arrangements' expected average annual payment must exceed 1% of AER approved unsmoothed revenues (for TNSPs) or 1% of forecast revenues (for intending TNSPs)

¹ AER, *Draft Guideline*, October 2024, p9

² AEMC, *Improving security frameworks for the energy transition Rule Determination*, 28 March 2024, p44

³ AER, *Draft Guideline*, October 2024, p13

- **Consultation timelines** – section 3.6 of the Draft Guideline states that the AER proposes to adopt similar timeframes for an ex-ante draft contract review as it does for ex-post pass through applications. That is, the AER will make a determination within 40 business days, with the possibility of extending to 60 business days. Sixty days is a very long period of time for a counterparty to keep an agreement open pending AER review.

Recommendation: We suggest that 40 business days be the maximum time limit outlined in the guideline.

The Draft Guideline states that the AER's existing Transmission Pricing Methodology Guideline does not need updating following the ISF Rule.⁴ However, we consider that there may be a need to update this guideline to reflect those aspects of the ISF Rule which come into effect on 1 December 2024. We would appreciate the opportunity to discuss the amendments we see as necessary in more detail.

If you have any questions about our submission, please contact me on [REDACTED]
or [REDACTED]

Regards,

[REDACTED]

John Skinner
Senior Policy Manager
Strategy and Corporate Development

⁴ AER, *Draft Guideline*, October 2024, p2