

AER SYSTEM SECURITY NETWORK SUPPORT PAYMENT DRAFT GUIDELINE

30 OCTOBER 2024

INTRODUCTION

The Energy Users' Association of Australia (EUAA) is the peak body representing Australian commercial and industrial energy users. Our membership covers a broad cross section of the Australian economy including significant retail, manufacturing, building materials and food processing industries. Combined our members employ over 1 million Australians, pay billions in energy bills every year and in many cases are exposed to the fluctuations and challenges of international trade.

Thank you for the opportunity to make a submission under AER's System Security Network Support Payment Draft Guideline.

The EUAA supports AER's role in ex-ante reviews of draft system security network support payment contracts to ensure that system security investments by TNSP's are prudent and efficient.

We do, however have concerns with the Draft Guideline as it currently reads.

Firstly, the option *Consultation on an application* at part 3.4 of the Draft Guideline seems at odds with Part 1.4 *Confidentiality*.

It would appear to us that consultation will be worthless due to the requirement for redaction of commercial-in-confidence material in the draft contract. We consider that the AER needs to think about what they will be consulting on with stakeholders. Potentially this might be a draft determination rather than the redacted application. Whichever way that the AER proceeds on the consultation process, AER needs to ensure that the consultation is worthwhile for stakeholders and not a "tick-a-box" approach.

Secondly, in several places throughout the Draft Guideline, AER mentions:

"Information we could have regard to determine this includes whether the payment and / or payment methodology in a draft contract is for a SSNS service that:

- is required to comply with the minimum level of system security identified by an AEMO shortfall forecast*
- has been identified as a 'preferred option' through the RIT-T process, or an amendment to the process or a 'secondary option' approved by the AER on the basis it is a lower cost option than the RIT-T preferred option"*

Which implies that AEMO performs its system security shortfall forecast followed by TNSP's performing a RIT-T. This process infers a reactive approach by TNSPs rather than the current proactive approach.

We believe this differs from the AEMC's *Improving Security Frameworks Determination*

"Instead, TNSPs will adopt an annual process for forecasting and recovery of system security costs for non-network solutions to minimise the magnitude of expected true up payments to variations to forecasts only."

and:

"The AER will now:

- provide guidance for how TNSPs set their expected annual system security network support payments.*
- make a determination on whether expenditure under a TNSP's proposed system security network support contract is consistent with the operational expenditure objectives, criteria, and factors to promote economic efficiency in advance when requested"*

Additionally, EUAA is a member of four TNSP advisory groups, and all four are currently proactively investigating system security on their own networks and developing plans for system security implementation, taking into account the publicly announced closure of the existing thermal generation units. It is these TNSP developed system security plans that then feed into AEMO's whole of NEM system security shortfall forecast, which also takes into account the interplay between each of the regions and provides TNSP's opportunities to perform RIT-T's on any shortfalls identified by AEMO and caused by the interconnected system.

It would be a step backwards for AEMO to prepare the system security shortfall forecast ahead of the TNSP system security plans, as TNSPs may become reactive rather than proactive. In this case, reactive investments are highly likely to be more costly than proactive plans, and ultimately consumers will pay for a costlier process.

Lastly, the Draft Guideline states:

"We note that we do not approve a specific forecast amount of expenditure as part of an ex-ante review, rather we 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. We are also not required to provide a view on other terms in the proposed draft contract, or on the efficiency of AEMO's operational enablement of the contract, once executed, to meet real-time system security needs."

While we understand and support the limitations imposed on AER through the *Improving security frameworks for the energy transition* rule change, we expect AER to provide clarity throughout the Draft Guidelines. As we understand the intent of the *ISF Rule Change*, we would expect to see a line such as "we will review all clauses that have a financial implication" or similar.

CONCLUDING REMARKS

The EUAA is supportive of AER providing ex-ante reviews of system security network support payments to allow TNSPs to know that the contracts they are entering into are prudent and efficient in the context of the whole NEM. However, we consider that the Draft Guidelines should not provide for “tick-a-box” processes, should not unnecessarily impact existing good practice and should be clear to all stakeholders

Do not hesitate to be in contact should you have any questions.



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