

31 October 2024

Mr Arek Gulbenkoglou
General Manager
Australian Energy Regulator
GPO Box 3131
Canberra ACT 2601

Dear Mr Gulbenkoglou,

System security network support payment guideline

The Justice and Equity Centre (JEC, formerly known as PIAC) welcomes the opportunity to respond to the Australian Energy Regulator's (AER) System security network support payment draft guideline (the draft guideline).

We are concerned that as proposed, the regulatory framework overseeing system security network payments does little to align the interests of the transmission network service provider (TNSP) with the interests of consumers, whose money they are effectively investing. There is no mechanism to incentivise the TNSP to work to reduce costs beyond the minimum expectation implied by the AER's either/or test. Assuming the investment is deemed prudent and efficient by the AER, TNSPs are able to pass the entire cost to consumers via their opex budgets.

Given this, the effectiveness of the regulatory framework rests on the adequacy of the AER's assessment establishing this baseline level of prudence and efficiency. Unfortunately, there is not likely to be adequate capacity for the AER to meaningfully assess decisions made by TNSPs. This is because the key assessments of expected demand and the implications on the optimal level of investment in system security implied by that forecast are divided between the Australian Energy Market Operator (AEMO) and the TNSP. The AER has no capacity to assess the TNSP's interpretation of the implications of AEMO's demand forecast and will be expected to simply take this as given.

This is of particular concern as the details of this interpretation will have implications for the optimal structuring of the contracts between TNSPs and system security service providers. For instance in the weighting between fixed and as needed costs.

We propose first that the task of assessing how much system security services are needed is moved to AEMO. That is, AEMO produces a shortfall forecast, as it has in the past.

Second, when requesting approval from the AER, TNSPs should be required to identify alternative modes of procuring the required services, including directing existing generators to

provide them on an as needs basis, or to positively assert that no alternatives to procuring from a dedicated system security service provider exists.

Redundancy arrangements with respect to system security

It is unclear what expectations the operator sets TNSPs in terms of redundancy. For many areas in the NEM, the provider of system security services will often be coal generators. As these age, there may be instances where the capacity of other generators to dispatch may be jeopardised due to the inability of these coal generators to provide system security due to their unreliability.

For the purposes of the AER's assessment of what procurement of services is prudent and efficient, we recommend AEMO clarify the minimum requirements in terms of system security redundancy.

We would welcome the opportunity to meet with the AEMC and other stakeholders to discuss these issues in more depth. Please contact me at [REDACTED] regarding any further follow up.

Yours sincerely,

Michael Lynch, PhD
Senior Policy Officer

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