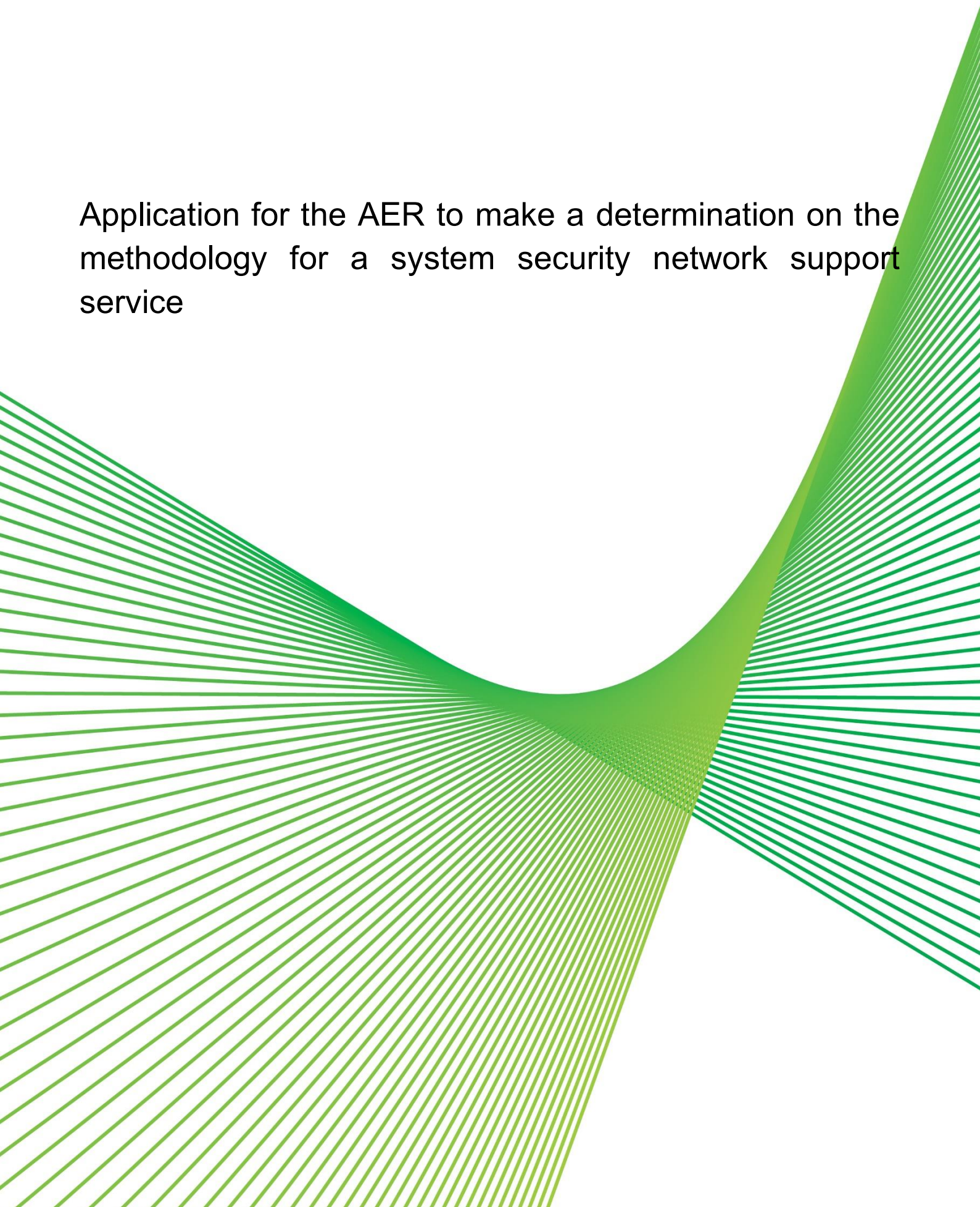


Application for the AER to make a determination on the methodology for a system security network support service

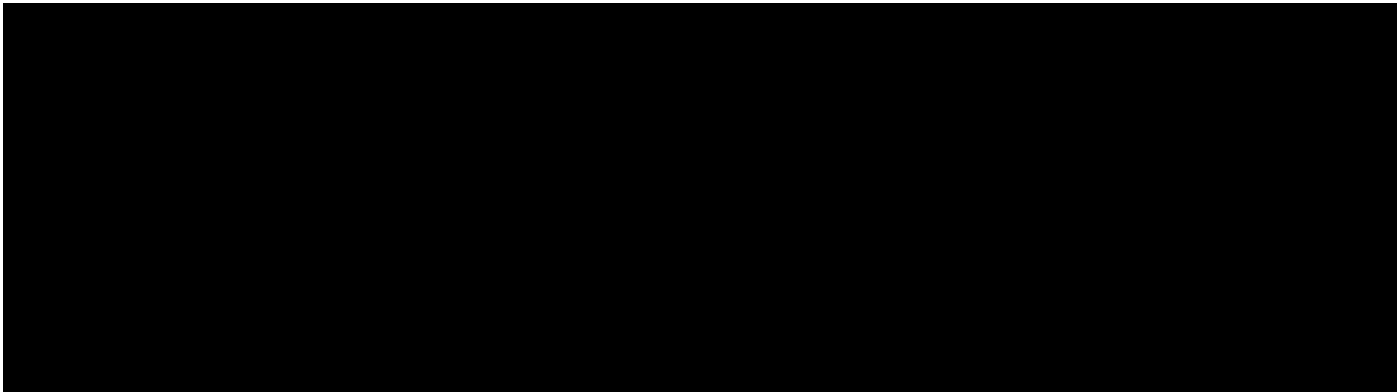
A large, abstract graphic composed of numerous thin, parallel green lines that curve and sweep across the bottom half of the page, creating a sense of motion and energy. The lines are more densely packed in some areas, creating a gradient of green intensity.

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1. Executive summary

Transgrid is responsible for ensuring sufficient system strength services are available to maintain the stability of the NSW power system. The forecast retirement of NSW coal generators in the coming decade (80% retiring by capacity) and the growth in inverter-based resources (IBRs) is driving an urgent need to add new sources of system strength.

NER S5.1.14 provides that from 2 December 2025 “a Transmission Network Service Provider who is a System Strength Service Provider (SSSP) must use reasonable endeavours to plan, design, maintain and operate its transmission network, or make system strength services available to AEMO”, to meet the following requirements at system strength nodes on its transmission network in each relevant year:

- maintain minimum fault levels specified by AEMO (or the ‘minimum’ level to ensure protection systems and the existing power system remain secure)
- achieve stable voltage waveforms (or the ‘efficient’ level to securely host renewables).

Transgrid’s ‘Meeting system strength requirements in NSW’ Regulatory Investment Test for Transmission (RIT-T) Project Assessment Conclusions Report (PACR) identified the use of hydro ‘re-dispatch’ (which is an increase in operating hours compared to typical market operations) as the preferred option to meet minimum level requirements for the first two years until further coal plants retire. This RIT-T examined network and non-network solutions to ensure compliance with the National Electricity Rules (NER or ‘the Rules’) and ensure identified solutions provide the greatest net market benefit to the energy market and ultimately to consumers.

Transgrid initiated a Request for Proposal (RFP) to secure the required services from existing NSW hydro plants to provide system strength in FY26 and FY27, with two key identified proponents. The RFP evaluation applied transparent criteria, with benchmarking where appropriate, under appropriate probity and governance arrangements to safeguard an efficient and prudent outcome. Following this process, Transgrid identified it optimal to implement a system security network support (SSNS) service with Snowy Hydro for use of the Tumut 3 Power Station (which has 6 individual units with pre-existing synchronous condenser (syncon) mode capability).

The purpose of this application is to request the AER to make an ex-ante determination that the SSNS service payment methodology set out in the draft contract is likely to result in prudent and efficient expenditure under clause 6A.6.6A of the NER. The parties to the draft contract are Snowy Hydro Limited (ABN 17 090 574 431) (Snowy Hydro) and NSW Electricity Networks Operations Pty Limited (ACN 609 169 959) as trustee for NSW Electricity Networks Operations Trust (ABN 70 250 995 390) (Transgrid).

This application demonstrates that the relevant eligibility and threshold criteria set out in the AER’s System Security Network Support Payment Guideline (Guideline) are met, including that:

- all relevant regulatory processes are complete
- the SSNS service is a preferred option from a RIT-T and set out within a draft contract
- the application includes relevant information requirements set out in the AER’s Guideline
- the expected average annual payment under the draft contract for the first full year of operation with Snowy Hydro [REDACTED] above the AER’s Guideline materiality threshold of 1% of AER approved annual unsmoothed revenues.

As required under the Rules and the AER's Guideline, it also demonstrates that the methodology for the SSNS payments under the draft agreement are prudent and efficient (i.e. consistent with the *operating expenditure objectives, operating expenditure criteria, the operating expenditure factors*). A summary of Transgrid's rationale for meeting prudence and efficiency is set out in the summary table below.

Key item	Description
Summary of draft contract	- Core obligation - Snowy Hydro must make six Tumut 3 hydro units available for AEMO to enable operationally at the following Guaranteed Quarterly Contract Availability levels: [REDACTED] - Commercial model - [REDACTED] [REDACTED]
Prudence	- Hydro 're-dispatch' identified as preferred option through the RIT-T process. AEMO has recently directed the Tumut 3 units to provide system strength on 28-Aug, reinforcing the system need and the appropriateness of the proposed solution. - Performance-linked availability payments combined with usage-based charges balances performance and value risk between Snowy Hydro and Transgrid (on behalf of NSW consumers). The contract can be extended where it is considered prudent and efficient to do so.
Efficiency	[REDACTED] [REDACTED] Transgrid achieved the lowest possible cost outcome in the circumstances by ensuring unit level ISF asset registration (minimises expected unit usage hours), limiting the usage fees to as reasonable an amount as possible [REDACTED] excluding market operation periods from usage costs and having a symmetrical energy revenue pass through (no fixed premiums). - Favourable benchmarking of Snowy Hydro's cost of supply [REDACTED] and the use of a fixed and variable structure demonstrates the efficiency of the payment methodology. Further detail on benchmarking set out in Appendix C. - On this basis, Transgrid considers that all elements of the payment method are necessary and proportionate to the service's characteristics, and that the methodology excludes unreasonable costs, components, or triggers.

This application covers only the SSNS payments and excludes Transgrid's internal costs. Any Transgrid SSNS service related costs, including Transgrid's operating costs to administer, monitor and settle the service as well as preparation for subsequent SSNS contracting requirements, will be assessed by the AER ex-post in annual network support pass through processes, subject to standard prudence and efficiency tests and evidence requirements.

2. Meeting System Strength Requirements in NSW

2.1. Identified need

Transgrid, as the SSSP for NSW, is responsible for ensuring sufficient system strength is available to maintain power system stability in NSW. In a network without adequate system strength, there are inherent stability issues. Generators may be unable to remain connected during disturbances on the power system, control of the system voltage becomes more difficult, and protection systems that ensure safe operation of the network may not operate correctly.

The forecast retirement of NSW coal generators in the coming decade (80% retiring by capacity) and the growth in inverter-based resources (IBRs) is driving an urgent need to add new sources of system strength. Transgrid has comprehensively assessed more than 100 network and non-network options to ensure we meet the NER requirements and continue to operate a safe, secure and reliable power system. The preferred portfolio of options to meet system strength requirements is presented in the PACR¹.

'Re-dispatch' of synchronous generators is a critical part of all portfolio options in the PACR to meet the minimum level of system strength before synchronous condensers are available. All portfolio options in the PACR rely on hydro re-dispatch to meet needs in the first two years (no coal or gas redispatch required).

2.2. Prudence and Efficiency based contracting approach

Under AER guidance, SSSPs must use reasonable endeavours to meet the total system strength requirement. However, the AER notes that SSSPs should take a holistic approach in assessing whether a package of steps is reasonable. For example, the AER notes that in forming a view on reasonableness, the SSSP may consider whether costs would be considered prudent and efficient expenditure.

Consistent with AER guidance, Transgrid has assessed what would constitute a reasonable package of steps to meet the system strength requirements under current market conditions (i.e. before additional coal unit retirements occur). Based on this assessment, Transgrid proposes to contract for system strength associated with additional, out-of-market enablement (i.e. 're-dispatch'), and not to contract for expected in-market dispatch modelled in the PACR that would occur with or without contracting. This expected in-market dispatch is already incentivised via energy-market revenues and for which contracting would materially increase consumer costs compared to the counterfactual (i.e. unlikely to be considered prudent and efficient expenditure). This approach ensures requirements can be met at lowest costs to consumers whilst giving AEMO the system strength services required to ensure stable operation of the power system, minimising reliance on AEMO directions.

The expected prudent out-of-market enablement of hydro units (with capability to operate in syncon mode) is outlined in Appendix C. Transgrid understands the proposed approach is consistent with other TNSPs' emerging practice.

¹ For more information on Transgrid's RIT-T see the [project webpage here](#).

Transgrid Advisory Council (TAC) engagement

Transgrid has engaged extensively with the TAC to provide briefings on the system strength RIT-T process to the broader TAC and to engage with a sub-committee of TAC members (primarily excluding Snowy Hydro's representative for commercial reasons) on system strength deep dives. This includes the following meetings:

- 23 March 2023 – System Strength RIT-T/EOI Update
- 28 April 2023 – Deep Dive – System Strength RIT-T Background and initial engagement topics
- 7 June 2023 – Deep Dive - System strength cost allocation, system strength in the operational timeframe, economic cost versus price in the RIT-T
- 27 July 2023 – Deep Dive - session organised however cancelled due to lack of TAC member attendance.
- 18 October 2023 – Deep Dive - Inclusion of emissions into the RIT-T approach, construction of credible portfolios maximising non-network competition.
- 12 March 2024 – Quarterly TAC Meeting – System Strength RIT-T update (in general session)
- 4 June 2024 – Deep Dive – System Strength PADR, calculating system strength coefficients, role of grid forming batteries, insights from initial modelling results.
- 3 December 2024 – Deep Dive – System Strength RIT-T update, non-network contracting approach.
- 16 May 2025 – Deep Dive – System Strength RIT-T update, including non-network cost forecasting.
- 28 August 2025 – Deep Dive – System Strength PACR briefing and non-network update.

Feedback from the TAC (December 2024 – August 2025) was used to set Transgrid's non network prudence and efficiency contracting approach. This approach was supported given it significantly lowers end consumer costs compared to contracting to meet the total system strength requirement including expected output from the energy market.

At Transgrid's most recent deep dive engagement with the TAC in August 2025, TAC member feedback queried the role of further consumer engagement on this application given the need to balance meaningful input with timing and confidentiality constraints. Transgrid does not consider there to be a meaningful opportunity for consumer input to inform this application, given it reflects outcomes of a commercial negotiation and the importance of confidentiality to ensure ongoing competitiveness of future non-network procurement processes. TAC feedback was important informing the overall approach taken on contracting and Transgrid will continue regular TAC engagement on system strength.

Transgrid strongly encourages the AER to make a timely determination on this application to ensure critical system security services can be made available to AEMO in December 2025. We note that AEMO approvals are required to occur prior to the services being available for operational purposes.

3. Individual Contract Details

3.1. Contract overview

The services proposed to be procured by Transgrid from Snowy Hydro under a Non-network System Security Services Agreement (SSNS Contract) will require registration of each of the six Tumut 3 hydro units with AEMO as system strength production units and for Snowy Hydro to make the units available to AEMO at a guaranteed level. The proposed contracted assets are existing hydro plants that already have the capability to operate in syncon mode (i.e. providing system strength without generating electricity).

ISF assets to be registered:

ISF Asset	DUID	Unit #
ISF Asset 1	TUMUT 3	1
ISF Asset 2	TUMUT 3	2
ISF Asset 3	TUMUT 3	3
ISF Asset 4	TUMUT 3	4
ISF Asset 5	TUMUT 3	5
ISF Asset 6	TUMUT 3	6

Guaranteed Contract Availability (GCA) is contracted and assessed on a portfolio basis for Tumut 3 units for each quarterly Availability Period as set out below:

Portfolio	% for each Availability Period

In providing the service, Snowy Hydro must comply with the requirements of the Security Enablement Procedure, including the submission of forecasts of availability for each ISF Asset to AEMO via the ISF scheduler and compliance with AEMO's enablement instructions. The service term for the SSNS Contract is 19 months from December 2025 to June 2027 which covers the first two years of the new system strength requirements, before needs may increase with coal retirements in subsequent years. The SSNS Contract includes options to extend to cover further years.

Service payments will begin following the registration of the units with AEMO, allowing the ISF Assets to be enabled by AEMO to fulfil all the conditions and requirements of the SSNS Contract to provide the contracted services.

3.2. SSNS Contract Payment Methodology

3.2.1. Pricing structure

Transgrid requested Snowy Hydro to offer:

- Fully fixed structure i.e. Availability Payments only
- Fixed and variable structure i.e. Availability payments and variable payments for enablement (Usage Payments and Energy Revenue Payments).

On this basis, Transgrid negotiated with Snowy Hydro on their proposed fixed and variable payment structure. This approach was designed to incentivise the availability of services and achieve efficient cost outcomes compared to embedding risk premiums in a fully fixed pricing structure.

The SSNS contract payment structure is set out in the section below. An extract of key contractual clauses has been included in Appendix D to assist in reviewing methodology below.

3.2.2. SSNS Contract Payment Structure

For each Contract Year [REDACTED] or part thereof) is paid through fixed monthly Availability Payments of [REDACTED]

In addition, Transgrid must pay an Energy Revenue Payment for auxiliary energy consumption when units are operated in syncon mode. Where Snowy Hydro fails to meet its Guaranteed Contract Availability, the Availability Payments will be reduced by a Shortfall Amount.

Therefore, the net payment under the SSNS Contract should reflect the following:

Total payment per annum (\$)

= Aggregate Availability Payment + Usage Payments per annum in excess of the fixed number of unit hours + Energy Revenue – Shortfall Amount

Refer to Appendix B for methodology and worked example. Details of each component of the payments are set out below.

3.2.3. Availability Payment

The Availability Payment is payable by Transgrid to Snowy Hydro for each quarterly Availability Period during the Service Period (pro-rata for any Availability Period with duration less than a quarter).

The Availability Payment based on a fixed monthly fee of [REDACTED] (adjusted by CPI, against the base CPI of September 2025 quarter) (excluding GST).

3.2.4. Usage Payment

The Usage Payment is a variable payment based on a Usage Fee (hourly fee per unit for operating in syncon mode) when each unit is enabled by AEMO for the provision of system strength services. Tumut 3 units can fulfil an enablement instruction in any mode (generation, pumping or syncon mode) but the Usage Payment only applies when the instruction is fulfilled in syncon mode. There is currently a tiered structure to the Usage Payment as set out in the table below.

[REDACTED]	
------------	--

3.2.5. Aggregate unit hours cap

If the aggregate unit hours reach [REDACTED] (or part thereof) in a contract year, this is termed a Cap Event. Once a Cap Event occurs, Snowy must give notice to Transgrid. The services continue but Transgrid can assess the relevant circumstances, at any time after this point until the end of the contract year, and determine it

prudent to pause the services for the remainder of the contract year.

3.2.6. Energy Revenue Payment

The Energy Revenue Payment (ERP) compensates Snowy Hydro for auxiliary energy consumption when a unit is enabled in syncon mode in response to an AEMO enablement instruction. Refer to Appendix B for worked examples in both high and low usage scenarios.

ERP is calculated over 5-minute trading intervals as follows:

$$\text{Energy Revenue Payment} = \sum_{i=\text{ISF Asset 1}}^{\text{ISF Asset 6}} \text{Energy Revenue}_i$$

where:

Energy Revenue_i means the energy revenue of the relevant ISF Asset for an Availability Period calculated in accordance with the following formula:

$$\sum_{i=1}^{\text{Enablement Unit TI}} \left(\text{Auxiliary Load}_i \times \frac{\text{RRP}_i}{12} \right)$$

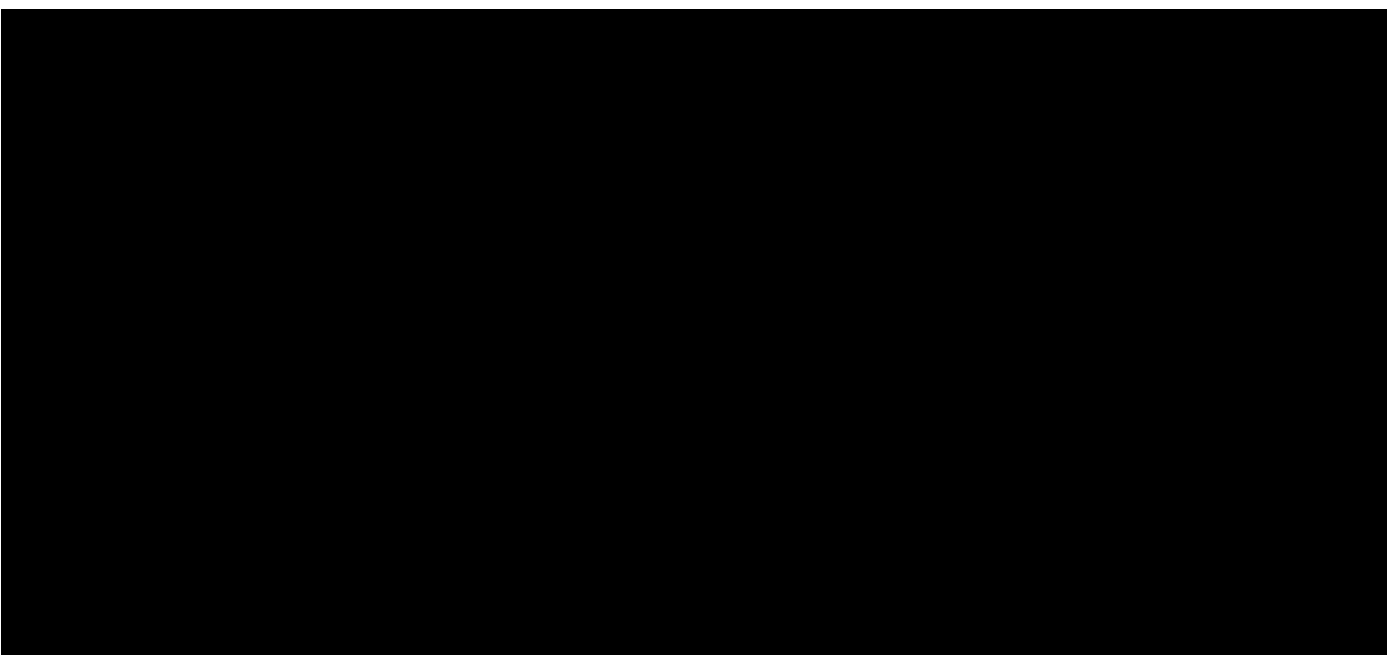
Enablement Unit TI means the *trading intervals* over the Availability Period during which the relevant ISF Asset is operating in synchronous condenser mode as a result of being enabled by AEMO under the Security Enablement Procedures.

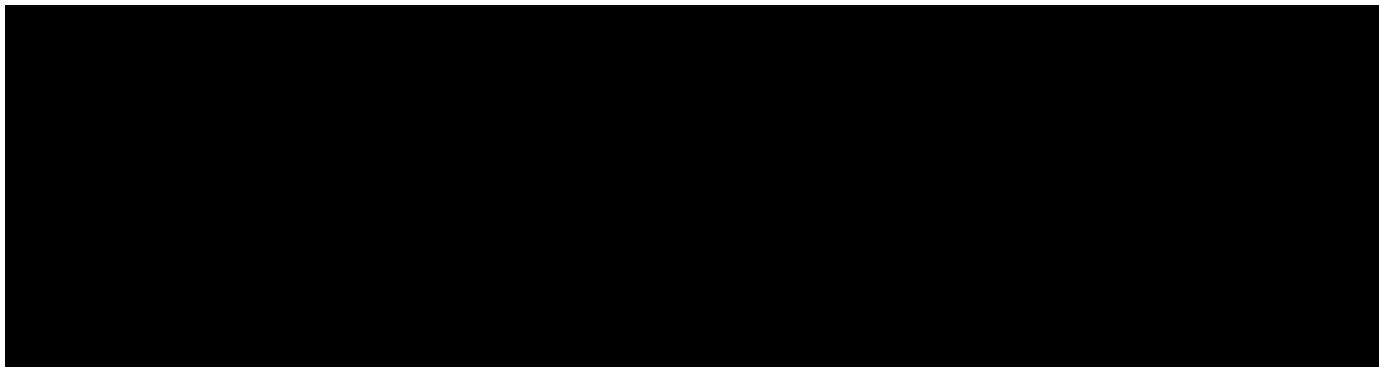
Auxiliary Load refers to the energy consumption of each hydro unit operating in synchronous condenser mode.

RRP means the Regional Reference Price for NSW for the *trading interval* (\$/MWh).

3.2.7. Shortfall Amount

If, for a given Availability Period, the Guaranteed Contract Availability is not met, then the Availability Payments will be reduced by a Shortfall Amount calculated in accordance with the formula below.





Actual Contract Availability is measured with reference to availability forecasts submitted for each ISF Asset for each trading interval ('Available' or 'Not available'). Further, an ISF Asset is deemed "Contractually Unavailable" where it has not submitted an availability forecast to AEMO or has done so and fails to respond to an AEMO enablement instruction.

The Shortfall Amount cannot exceed the Availability Payments. However, where this level of shortfall is reached for three consecutive Availability Periods, Transgrid may terminate the SSNS Contract.

Refer to Appendix B for a worked example calculating the shortfall amount.

3.2.8. Adjustment by CPI

Prices subjected to an Adjustment by CPI are calculated with effect from the contract execution date and each anniversary of said date, but with no downward adjustment for CPI de-escalation (zero floor), in accordance with the following formula:

$$A_{CPI\ adjustment} = A \times (CPI-Q / CPI-Base)$$

where:

<i>A_{CPI Adjustment}</i>	is the monetary amount after the CPI adjustment
A	is the monetary amount originally specified
CPI-Q	is the CPI for the quarter most recently ended prior to the Execution date or relevant anniversary thereof
CPI-Base	is the CPI for the quarter most recently ended prior to the Execution date (December 2025)

3.2.9. Material Change Event

The SSNS Contract contains a provision that allows a party to give written notice if a Material Change Event occurs. A Material Change Event means:

- a) an event or series of events that results in the AER revoking or withholding payment of any amounts forming part of the System Security payments, or
- b) a Change in Law (including a change to the Security Enablement Procedure) that renders provision of the Services infeasible or materially increases the cost of providing the Services
- c) a Change in Law, or a change to the Security Enablement Procedure which, in the reasonable opinion of Transgrid, materially reduces or removes the requirement for Transgrid to procure system strength services pursuant to this Agreement.

Change in Law means:

- a) the repeal or amendment or change of any Laws after the Execution Date;
- b) the enactment of new Laws after the Execution Date;
- c) the imposition of a new Authorisation not required as at the Execution Date;
- d) a change in terms of any Authorisation required as at the Execution Date; or
- e) a change in the application or interpretation of any Laws or Authorisations resulting from a judicial or administrative decision or interpretation of any Laws or Authorisations which is effected after the Execution Date.

Following such notice, the parties will meet in good faith to discuss and agree any amendments required to address the impact of the event on the affected party or parties, while preserving their relative commercial positions as at the Execution Date. If an agreement cannot be reached, then either party may terminate the SSNS Contract.

3.2.10. Force Majeure

The SSNS Contract provides for Force Majeure relief where a party is affected by a Force Majeure Event and Transgrid is not obliged to make any service payments to Snowy Hydro to the extent of such Force Majeure relief. The SSNS Contract may also be terminated by either party if Snowy Hydro is unable to provide any services as a result of a Force Majeure Event for more than 12 consecutive months.

3.2.11. Option years

The SSNS Contract includes options to extend to cover further years. The extensions are at Transgrid's absolute discretion to:

The total contract term, including extensions, [REDACTED]
 Transgrid will exercise the options to extend if it is considered prudent and efficient to do so closer to the time with a better understanding of market conditions. This includes revised assumptions for the forecast level of system strength need (e.g. updated announcements for coal retirement dates) and [REDACTED]
 [REDACTED]

4. Regulatory Requirements

This section summarises how Transgrid's application meets the regulatory requirements for the AER to determine that the proposed SSNS payment methodology is prudent and efficient.

The *Improving Security Frameworks for the Energy Transition* rule change (the ISF Rule), allows (but does not require) TNSPs to seek an ex-ante determination from the AER that an expenditure for a proposed SSNS payment, or a methodology for such a payment as set out in a draft contract between the TNSP and SSNS provider (e.g. a generator or battery) will likely be prudent and efficient (i.e. consistent with the operating expenditure objectives, criteria and factors, and relevant NSP pass through factors).

4.1. Compliance with relevant guidelines

The AER's Guideline outlines how the AER will determine whether proposed expenditure for a SSNS service, as set out in a draft contract between a transmission network service provider and SSNS service provider, is prudent and efficient.

Transgrid submits this application in accordance with 6A.6.6A(b) of the Rules and complies with all relevant requirements in the Guideline.

4.2. Eligibility Criteria

The Guideline notes that an application should be made after completion of all relevant regulatory processes, and before a contract is executed. We confirm this application is made after completion of all relevant regulatory processes (including RIT-T disputes and material changes in circumstances).

The PACR for the RIT-T published on 14 July 2025 identified the preferred option including a portfolio of network synchronous condensers and non-network solutions. The non-network solution for this application is SSNS service for the re-dispatch of existing hydro units, which are capable of syncon mode. Transgrid notes a dispute has been raised on the PACR, however this is not a relevant regulatory process given the services in the SSNS Contract are not included in the topics under dispute.

4.3. Materiality threshold

The Guideline sets a materiality threshold for submission of an application. The threshold is that the expected average annual payment under a draft contract must exceed 1% of AER approved unsmoothed revenues in a regulatory year of the current regulatory control period. As the expected average annual payment of the draft SSNS Contract for the first full year of operation with Snowy Hydro [REDACTED]

[REDACTED] The associated calculation is detailed in the Attachment A spreadsheet.

4.4. Demonstrating prudence and efficiency

The Guideline, which is consistent with clauses 6A.6.6A (a)(1)-(4) of the Rules, outlines the AER's approach to assessing the efficiency and prudence of a proposed SSNS payment, or payment methodology. Transgrid considers the methodology set out in the draft SSNS Contract between Snowy Hydro and Transgrid to be prudent and efficient in the context of the Rules, operating objectives, criteria and factors.

4.5. Demonstrating Prudence

The assessment of prudence is based on providing sufficient evidence and information to establish that there is a reasonable need to contract for the SSNS service that is subject to the proposed methodology. The Guideline establishes the reasonable need as being the 'preferred option' in the RIT-T.

Transgrid's RIT-T analysis indicates that, from FY26 onwards, system strength requirements cannot be reliably met through the expected market operation of existing synchronous units alone; contracted services are therefore required. The PACR identified re-dispatch of existing and committed hydro synchronous units as the preferred option to meet the re-dispatch need given it is the lowest resource cost option available (i.e. lower cost than coal or gas options). Further detail on Transgrid's analysis of the prudence of the contracting approach is set out in Appendix C.

Under this assessment, the AER also considers the prudence of the contract structure and components of a proposed payment or payment methodology, including the mix or structure of the components, and conditions for triggering a payment or component of a payment.²

4.5.1. Evidence of immediate system strength need

In addition to being identified in the RIT-T, there is a need to contract for system strength as demonstrated by recent events. AEMO issued directions on 28 August 2025¹ instructing Snowy Hydro’s Tumut 3 unit to synchronise and operate in synchronous condenser mode to provide system strength, with effect from 11:10AM to 12:00PM.

During this period, seven coal units were online — two at Bayswater, two at Eraring, two at Mt Piper, and one at Vales Point — alongside two small hydro units at Hume and Kangaroo Valley. This was an insufficient amount to meet required system strength levels, as per Transgrid’s system strength limits advice to AEMO.

Dedicated contracting for system security is preferred to reliance on ad-hoc directions. This is consistent with the AEMC’s Improving Security Frameworks for the Energy Transition final rule (28 March 2024) which seeks to reduce the regular and inefficient use of AEMO directions by strengthening procurement of security service. Contracting system-security provides greater assurance that services will be available when needed, supports timely, least-cost enablement by AEMO and achieves cost transparency through the agreed payment structure.

4.5.2. Why the contract structure is prudent given the nature of the service

The pricing structure of the non-network system strength agreement combines fixed and variable components. System strength is a readiness-based, security service with uncertain and volatile enablement.

[REDACTED]
[REDACTED]
[REDACTED] This structure:

- **Allocates risk efficiently** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- **Prevents overpayment** [REDACTED]
[REDACTED]
[REDACTED]
- **Aligns incentives** [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- **Improves price certainty** [REDACTED]
[REDACTED]

1. AEMO Market Notice #128742

- **Matches service characteristics** [REDACTED]
- **Supports contestability and benchmarking** [REDACTED]

This structure makes the service more likely to be available to AEMO when needed, reducing reliance on directions and supporting timely, least-cost enablement. This sets up an appropriate sharing of risk between Transgrid and the Service Provider for the financial fulfilment of the contract – if the service is not fulfilled as specified, the Service provider bears a financial risk and Transgrid can exit the agreement. Transgrid will not be required to pay out the present value of the remaining contract, with the service provider forfeiting any future cashflows for the remainder of the contract term.

4.5.3. Engagement with AEMO

Transgrid has been engaging with AEMO on system strength on a regular basis over recent years through the entire process of the System Strength RIT-T. Following the AEMC's ISF Rule, Transgrid has been regularly engaging with AEMO on the implementation approach for ISF frameworks in AEMO's market systems, including monthly one on one sessions and group workshops with other TNSPs.

Transgrid has been transparently updating AEMO on the progress of its procurement process to secure hydro services in our monthly meetings. No position has been raised to date to indicate that AEMO does not support Transgrid contracting with Snowy to secure the Tumut 3 units. The services help to ensure the minimum fault level requirements, set by AEMO under the NER is met.

Given AEMO's use of the Tumut 3 units to provide system strength in recent directions events, it is expected they would support these services being secured for enablement under AEMO's ISF scheduler instead of continuing to rely on directions.

Further, Transgrid considers that AEMO's public views support a timely assessment by the AER given it included in its submission to the AER's consultation on the system strength framework in November 2024³ that:

We want to ensure that any necessary contracts for system strength are procured efficiently and in time to meet the National Electricity Rule's (NER's) system strength and inertia requirements. Networks should be supported in this endeavour. With this lens, we submit the following:

- *The guideline should further support networks in procuring system security contracts whilst not delaying contract procurement.*

4.6. Demonstrating Efficiency

Transgrid considers that the AER's assessment of efficiency is based on whether payments are reasonably likely to reflect efficient costs, or the least cost that the TNSP could reasonably achieve in the circumstances.⁴

³ See p.2 of AEMO's submission available on AER's [website here](#).

⁴ Ibid, p 16.

4.6.1. Process for selecting the service provider

Transgrid conducted as competitive a process as possible in the circumstances, consistent with the RIT-T outcome and probity requirements, seeking to maintain competitive tension to ensure the contract reflects the least cost reasonably achievable in the circumstances.

[REDACTED]

Transgrid expressly retained the right to cease negotiations and pursue alternative RIT-T options if a suitable commercial agreement could not be finalised on efficient terms; or the proposed facility could not demonstrate compliance with the technical requirements set by network reliability and operational standards.

The procurement approach followed was direct negotiation [REDACTED] Snowy Hydro [REDACTED] This was considered appropriate given:

[REDACTED]

In order to maintain competitive tension, both companies were requested to provide solutions and pricing to a range of system strength requirements, [REDACTED]

[REDACTED]

[REDACTED]

Transgrid established an Evaluation Committee to assess the proposal offered by Snowy Hydro. In accordance with an internally approved Evaluation Plan, the Evaluation Committee considered the following criteria in their assessment of the value for money and prudence and efficiency of Snowy Hydro's proposal,

[REDACTED]

- (a) System security capability and acceptability;
- (b) Risk-adjusted and normalised price; and
- (c) Contractual departures.

In their consideration of the Snowy Hydro proposal, the Evaluation Committee noted that, compared to benchmarks [REDACTED]

- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]
- [REDACTED]

4.6.2. Transgrid steps to achieve the lowest possible cost outcome in the circumstances

Transgrid took a number of steps through the negotiation process to achieve the lowest possible cost outcome in the circumstances this includes:

- **Ensuring ISF Asset registration occurred at the unit level** – Initial engagement with AEMO identified that the ISF scheduler implementation may require a power station to register as a single asset with fixed parameters on number of units to be enabled for any AEMO instruction. This would have resulted in a significant increase in unit hours of enablement and associated costs to consumers as every system strength gap would require enablement of 5 Tumut 3 units rather than the actual number required (which in many circumstances will be only 1 unit). Further engagement with AEMO on its implementation approach and the security enablement procedures allowed for registration at the unit level, improving efficiency outcomes and reducing expected cost impacts to consumers.
- **Availability Payment** – Snowy’s proposal included a fixed Availability Payment. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- **Limiting usage fee to as reasonable an amount as possible** - [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

- **Cap on usage hours** – As part of negotiating a more reasonable tiered pricing structure for usage fees, Transgrid introduced an optional cap on usage once aggregate unit hours hit [REDACTED]. Once usage hours hit this cap amount, Transgrid has the option to determine that services under the contract should no longer be provided if it is deemed prudent and efficient in the circumstances. [REDACTED]

[REDACTED]

- **Passthrough energy revenue payments** [REDACTED]

- **Excluding market operation from variable costs** – The SSNS contract stipulates that variable payments will not be made for periods when units are operating in the energy market. Variable payments will only be paid by Transgrid when units are directed by AEMO to provide system strength and operate in syncon mode, ensuring no double recover where energy market revenue already applies.

4.6.3. Transgrid undertook a benchmarking of economic costs relative to alternatives

Transgrid evaluated whether the proposed payments are reasonable by comparing the cost of the contracted service with realistic alternatives that deliver similar system strength outcomes. The assessment considered:

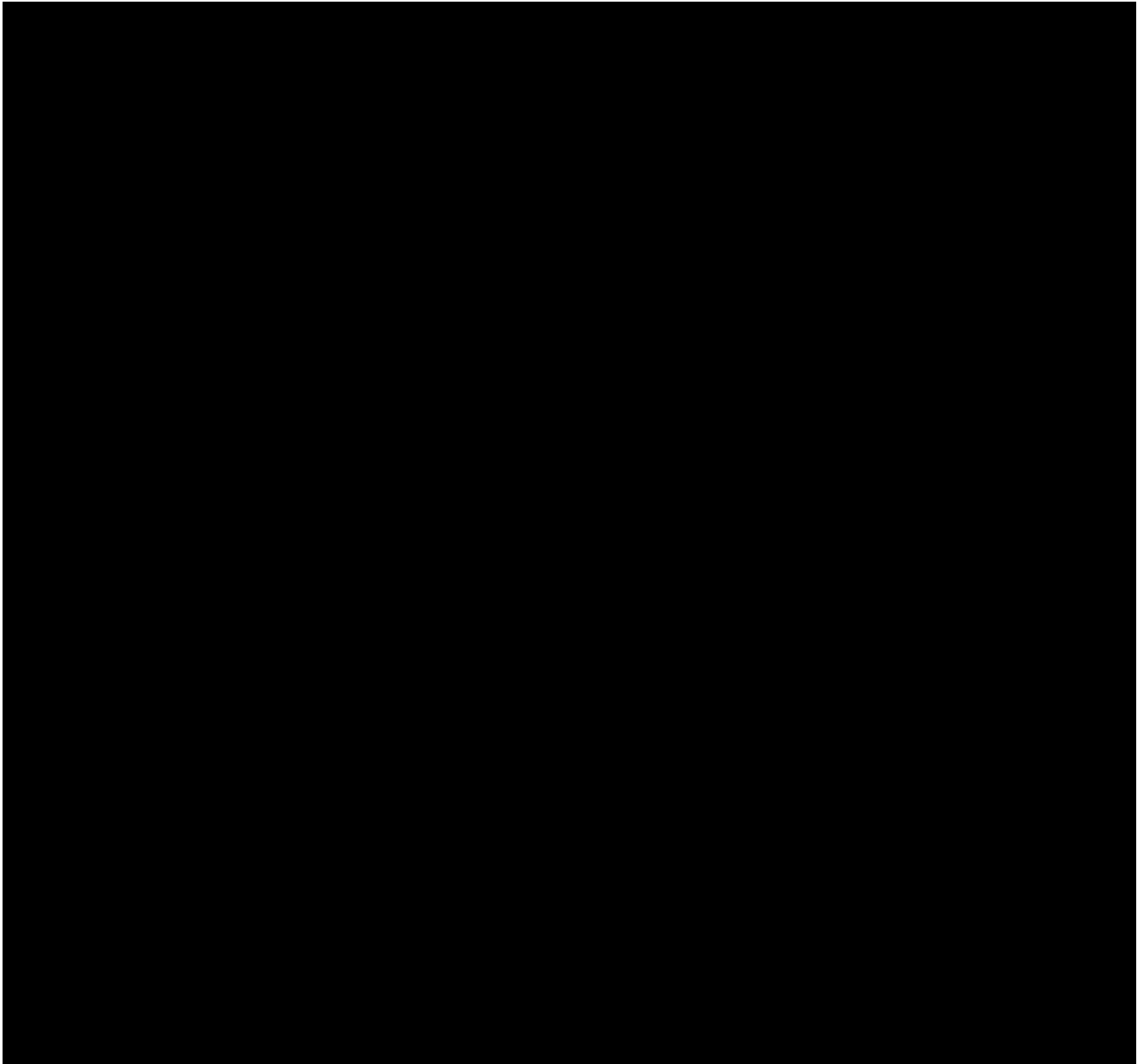
- a) **Snowy Hydro's reasonable costs to supply the service;** The assessment focused on the efficient cost of availability and enablement for the contracted hydro units: fixed availability costs and variable costs incurred only when enabled. [REDACTED]

[REDACTED]

[REDACTED]

- b) **The cost of feasible alternatives;** Transgrid compared like-for-like outcomes against realistic substitutes: [REDACTED]

[REDACTED]



On timing, flexibility, cost and greenhouse gas emissions the contracted hydro service was the optimal near-term option for the FY26–FY27 need. On this basis, the proposed payments are reasonable having regard to viable alternatives. Please refer to Appendix C for a summary of costs for alternative system strength providers.

4.6.4. Interface with AEMO Security Enablement Procedures

From 2nd December 2025, AEMO is responsible for scheduling and enablement of system security services (including services contracted by TNSPs under the system strength framework). Therefore, our contract

⁵ These directions compensation per unit hour rates have been calculated by Transgrid using publicly available information in the Independent Expert Reports available on AEMO's website [here](#) and [here](#) for Directions to Victorian generators during billing week 43 and 46 of 2024 respectively.

framework aligns with AEMO's Security Enablement Procedures (SEP) for when a service is enabled for cost calculation purposes:

- a) **Enablement principle:** the contract only allows for usage and energy revenue payments for periods covered by AEMO enablement instruction. Hydro units enabled for system security in synchronous-condenser mode are expected to remain at minimum dispatch (≈ 0 MW, allowing for auxiliary load). If a unit operates above the stated minimum dispatch level during an enablement period, AEMO treats this as spot-market operation and enablement payments do not apply for those intervals; payments resume if / when the unit returns to minimum dispatch within the enablement window.
- b) **Cost structure alignment:** Contract structure reflects the financial structure set out in the SEP: usage (\$ / hour), and energy revenue pass through when enabled however there is no activation fee (\$ / activation).
- c) **Final procedure and period updates:** Where AEMO publishes updates to the SEP that affect definitions or procedures, Transgrid and Snowy Hydro will meet to discuss and agree in good faith any changes that would need to be made to the SSNS to take into account the impact on future cost claims.

Appendix A Compliance Evidence Summaries

A.1 Snowy Hydro Compliance Evidence Summary

The table below details the evidence that the contract is compliant with the requirements listed in 6A.6.6A(a) of the National Electricity Rules.

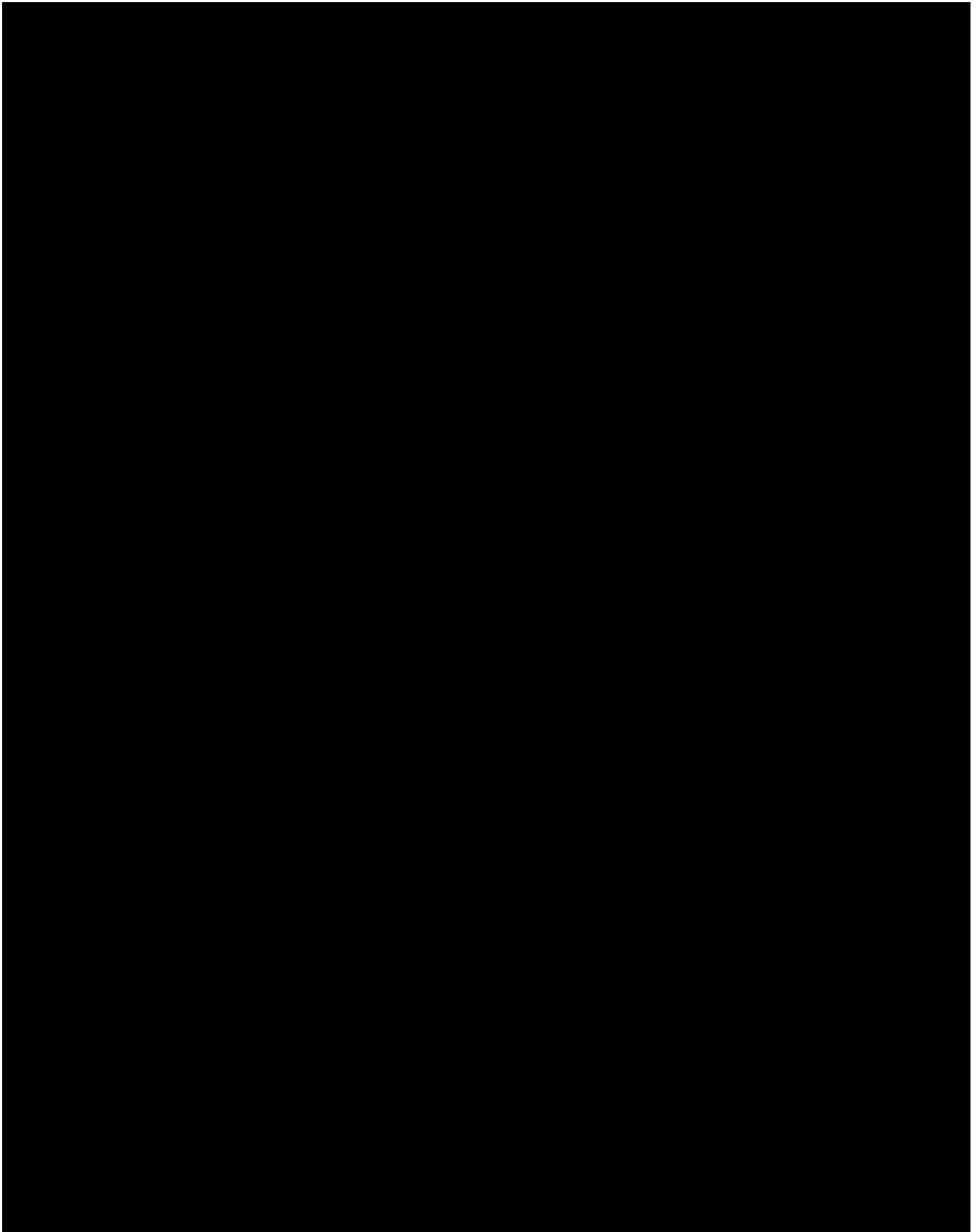
Table 1: Compliance Assessment for the Snowy Hydro Contract

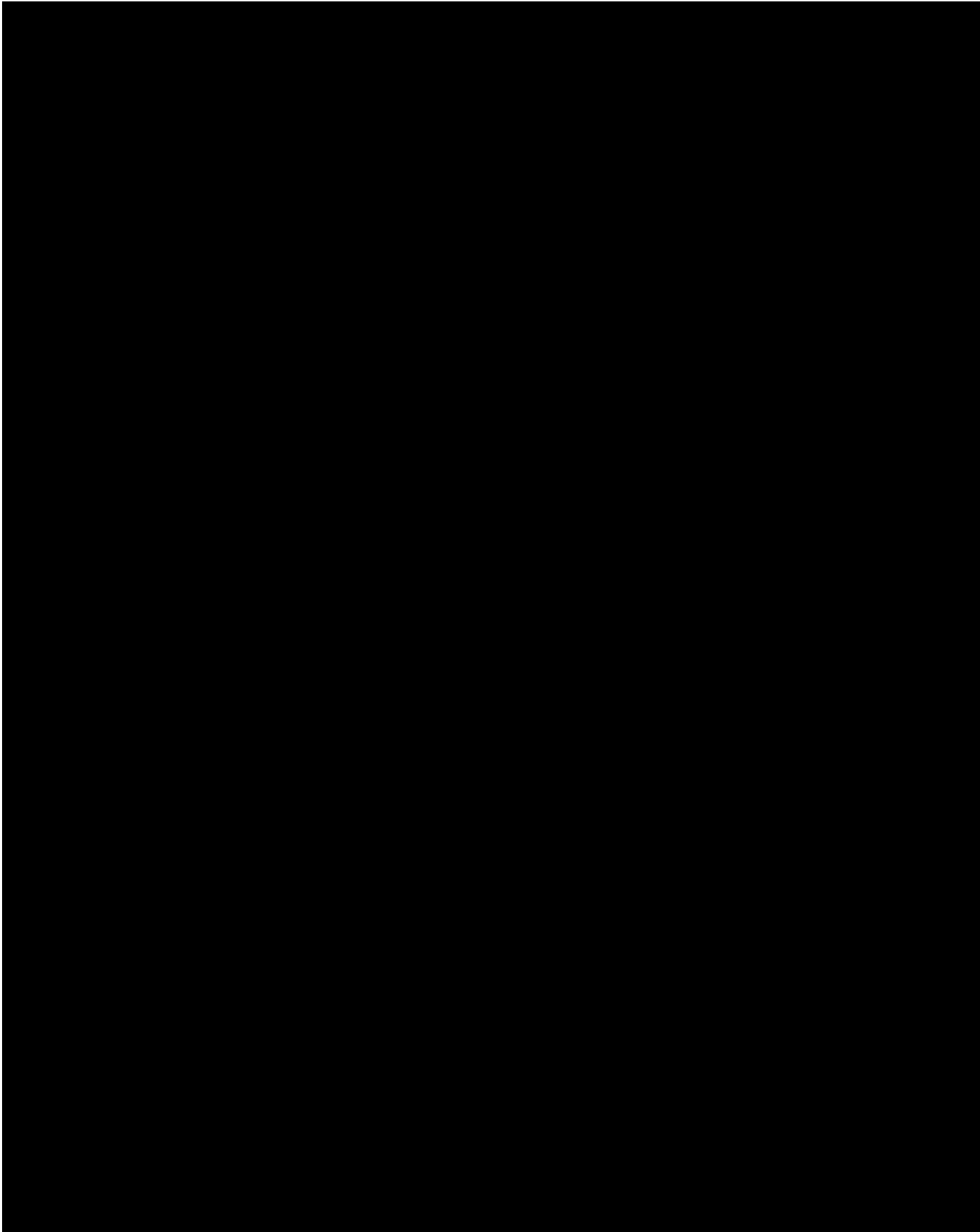
Compliance Area	Requirement	Evidence
Operating Expenditure objectives	1.1 Meet or manage the expected demand for regulated services over the regulatory control period	System strength contracts need to be executed and operational by 2 December 2025. This refers specifically to clause S5.1.14 to deliver system strength services to the NSW power system to meet standards set by AEMO from 2 December 2025. The standards are designed to ensure the safe and secure operation of the power system ('minimum' level) and to facilitate the stable voltage waveform ('efficient' level) of new IBRs.
	1.2 Comply with all applicable regulatory obligations or requirements associated with the provision of the regulated services	As above
	1.3 Maintain the quality, reliability and security of supply of regulated services	As above
	1.4 Maintain the reliability, safety and security of the transmission system thorough the supply of regulated services	As above
Operating expenditure criteria (The total of the forecast operating expenditure for the regulatory control period reasonably reflects:)	2.1 The efficient costs of achieving the operating expenditure objectives	The methodology excludes unreasonable costs, components, or triggers. The costs are efficient for the nature of the service provided.
	2.2 The costs that a prudent operator would require to achieve the operating expenditure objectives	The commercial structure appropriately shares performance and volume risk between the Service Provider and Transgrid (on behalf of NSW consumers) and incentivises delivery to specification.
	2.3 Realistic expectations of demand and cost inputs required to achieve the operating expenditure objectives.	The costs are prudent and efficient to meet the minimum level of system strength before synchronous condensers are available. S5.1.14 of the NER – system strength standard specification. This standard is outlined in the AEMO system strength report which uses forecasts from the ISP (including demand).

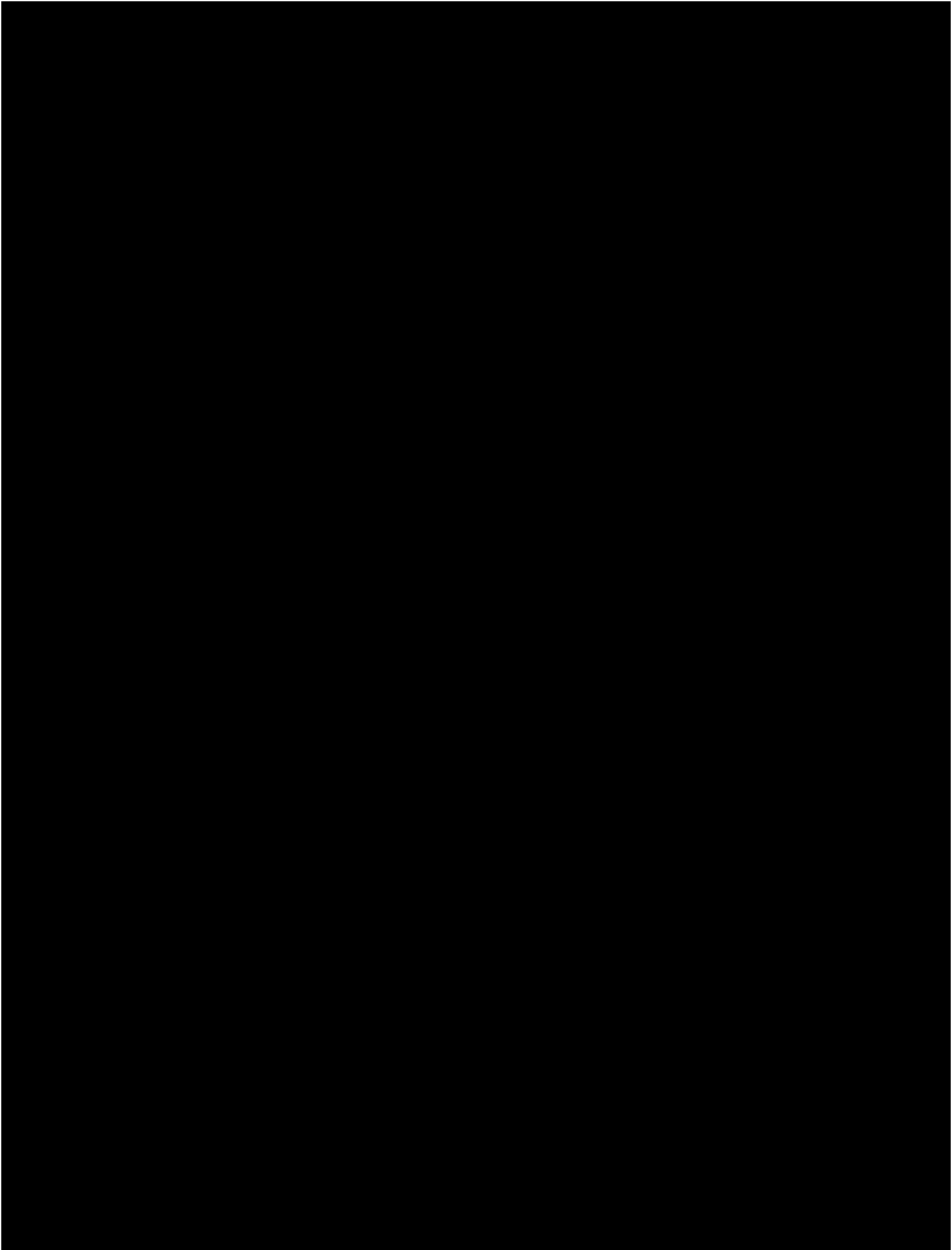
Compliance Area	Requirement	Evidence
Operating expenditure factors	3.1 The most recent annual benchmarking report that has been published under rule 6A.31 and the benchmark operating expenditure that would be incurred by an efficient Transmission Network Service Provider over the relevant regulatory control period	N/A
	3.2 The actual and expected operating expenditure of the Transmission Network Service Provider during any preceding regulatory control period	N/A
	3.3 The extent to which the operating expenditure forecasts includes expenditure to address the concerns of electricity consumers as identified by the Transmission Network Service Provider during its engagement with electricity consumers	N/A – this is for approval of a methodology and not a forecast
	3.4 The relative prices of operating and capital inputs	This service was selected as the preferred option in a RIT-T that considered operating and capital cost options
	3.5 The substitution possibilities between operating and capital expenditure	This service was selected as the preferred option in a RIT-T that considered operating and capital cost options
	3.6 Whether the capital expenditure forecast is consistent with any incentive scheme or schemes that apply to the Transmission Network Service Provider under clauses 6A.6.5, 6A.7.4, 6A.7.5 or 6A.7.6	N/A
	3.7 To the extent the operating forecast is referable to arrangements with a person other than the Transmission Network Service Provider that, in the opinion of the AER, do not reflect arm's length terms.	Snowy Hydro Limited is an independent company and has no commercial relationship with Transgrid
	3.8 Whether the operating expenditure forecast includes an amount relating to a project that should more appropriately be included as a contingent project under clause 6A.8.1(b)	Contingent projects are used for capital expenditure and ex ante approval under the guideline accommodates non-network solutions which are operating expenditure.

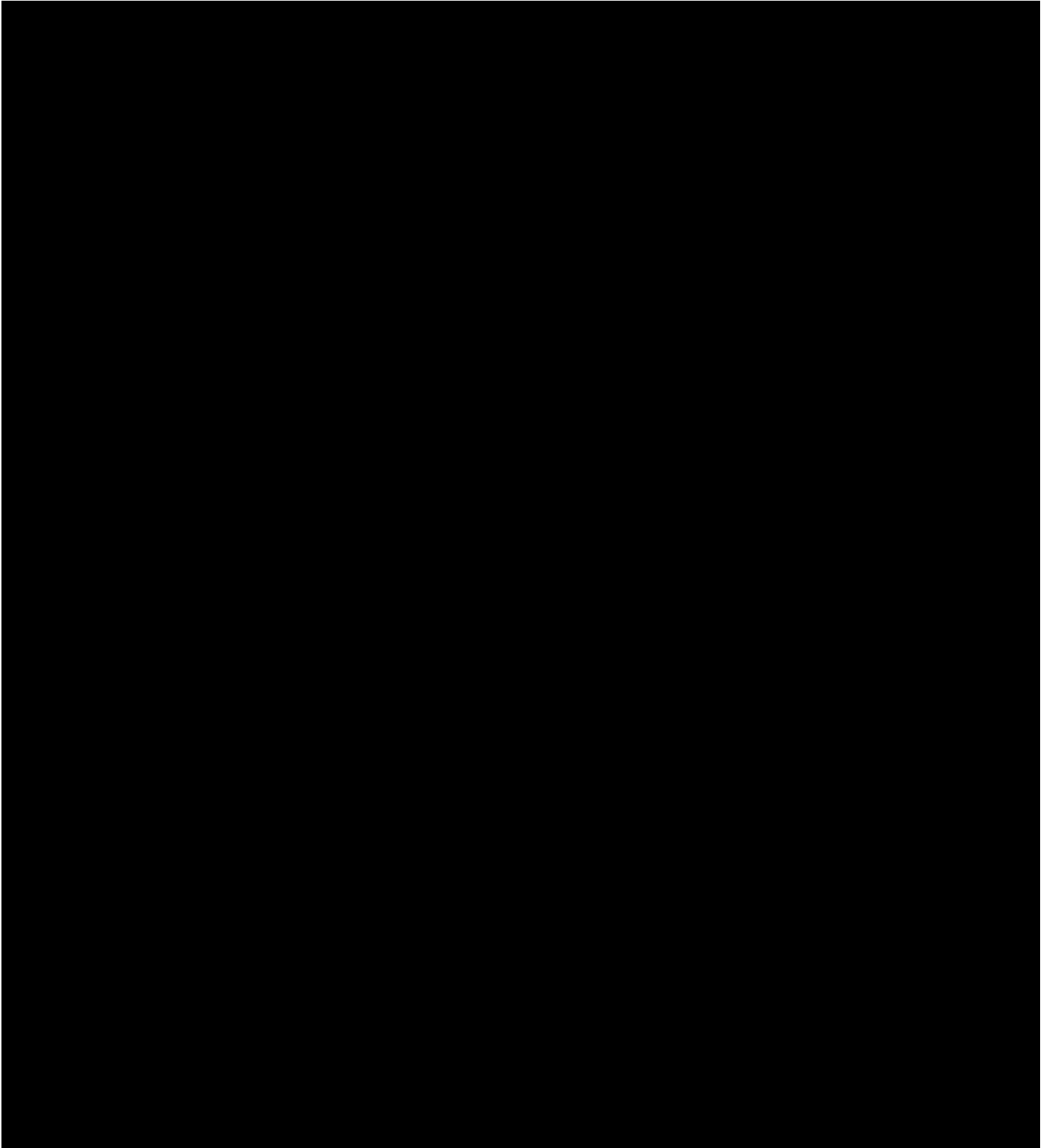
Compliance Area	Requirement	Evidence
	3.9 The most recent Integrated System Plan and any submission made by AEMO, in accordance with the Rules, on the forecast of the Transmission Network service Provider's required operating expenditure.	Transgrid applied the RIT-T to address clause S5.1.14 to deliver system strength services to the NSW power system to meet standards set by AEMO from 2 December 2025. This standard is outlined in the AEMO system strength report.
	3.10 The extent to which the Transmission Network Service Provider has considered and made provision for efficient and prudent non-network options.	N/A – This service is a non-network option
	3.11 Any relevant project assessment conclusion report required under clauses 5.16.4 or 5.16A.4	This service relates to a preferred option from a PACR.
	3.12 The extent to which the operating expenditure forecast includes expenditure that was subject to a determination by the AER under clause 6A.6.6A	No allowance for this service was included in Transgrid's most recent determination.
	3.13 Any other factors that AER considers relevant and which the AER has notified the Transmission Network Service Provider in writing, prior to the submission of its revised Revenue Proposal under clause 6A.12.3, is an operating expenditure factor.	N/A
	4.1 All relevant regulatory processes are complete	The service relates to a PACR that was published on 14 July 2025. See section 4.2 for further evidence on eligibility.
	4.2 All services in the draft contract must be 'preferred options' under a completed RIT-T or a 'secondary option' approved by the AER following a 'material change in circumstances'	The service relates to the preferred option from a RIT-T.
	4.3 The expected average annual payment under the draft contract, or a portfolio of draft contracts with the same payments or payment methodologies, must exceed 1% of AER approved unsmoothed revenues in a regulatory year for the current regulatory control period	This is above the materiality threshold of 1%.

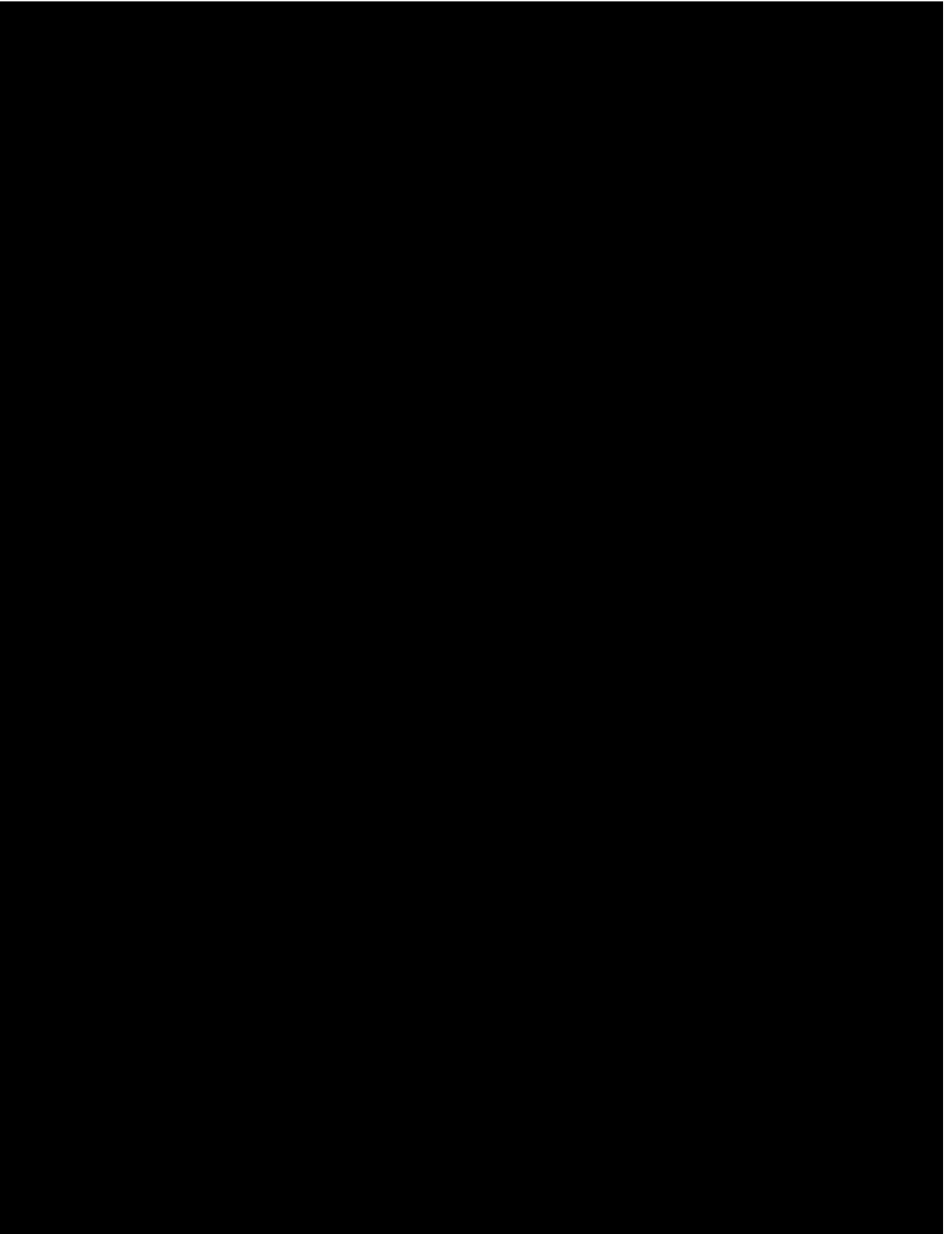
Compliance Area	Requirement	Evidence
The factors in clause 6A.7.2(i) relevant to a system security network support payment	Network support pass through requirements • Details of the network support required • The network support allowance • Actual network support expenditures • Non-network option costs • Network support pass through amount, including time cost of money • Reasons for the network support payment • Verification of actual network support expenditure • Detailers on the provider of the network support service (including the efficiency of the contractual arrangements detailed in this application) • Details on the TNSP's decisions and actions in managing the network support pass through event. • Any other factors the AER considers relevant	When Transgrid submits a positive. network support event associated with this methodology, we will provide evidence on how we addressed the factors in clause 6A.7.2(i).

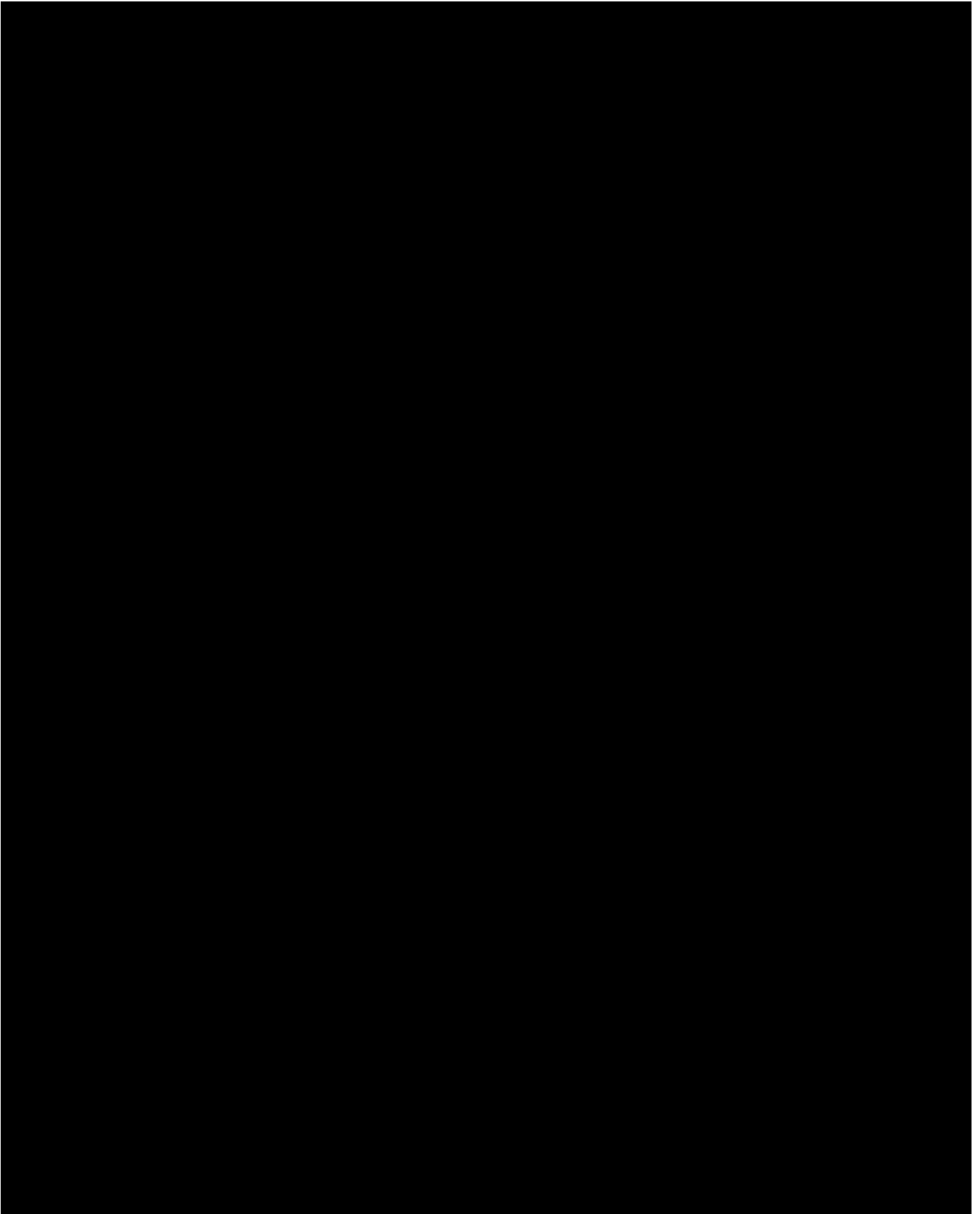


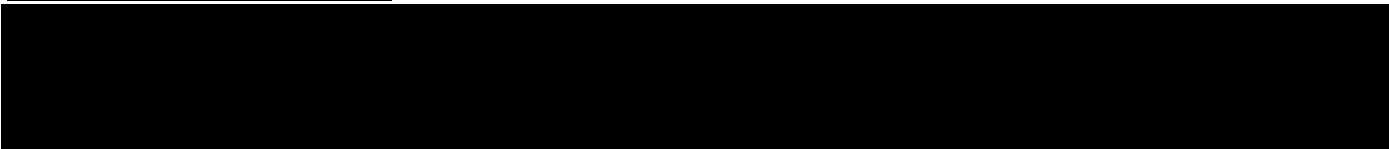
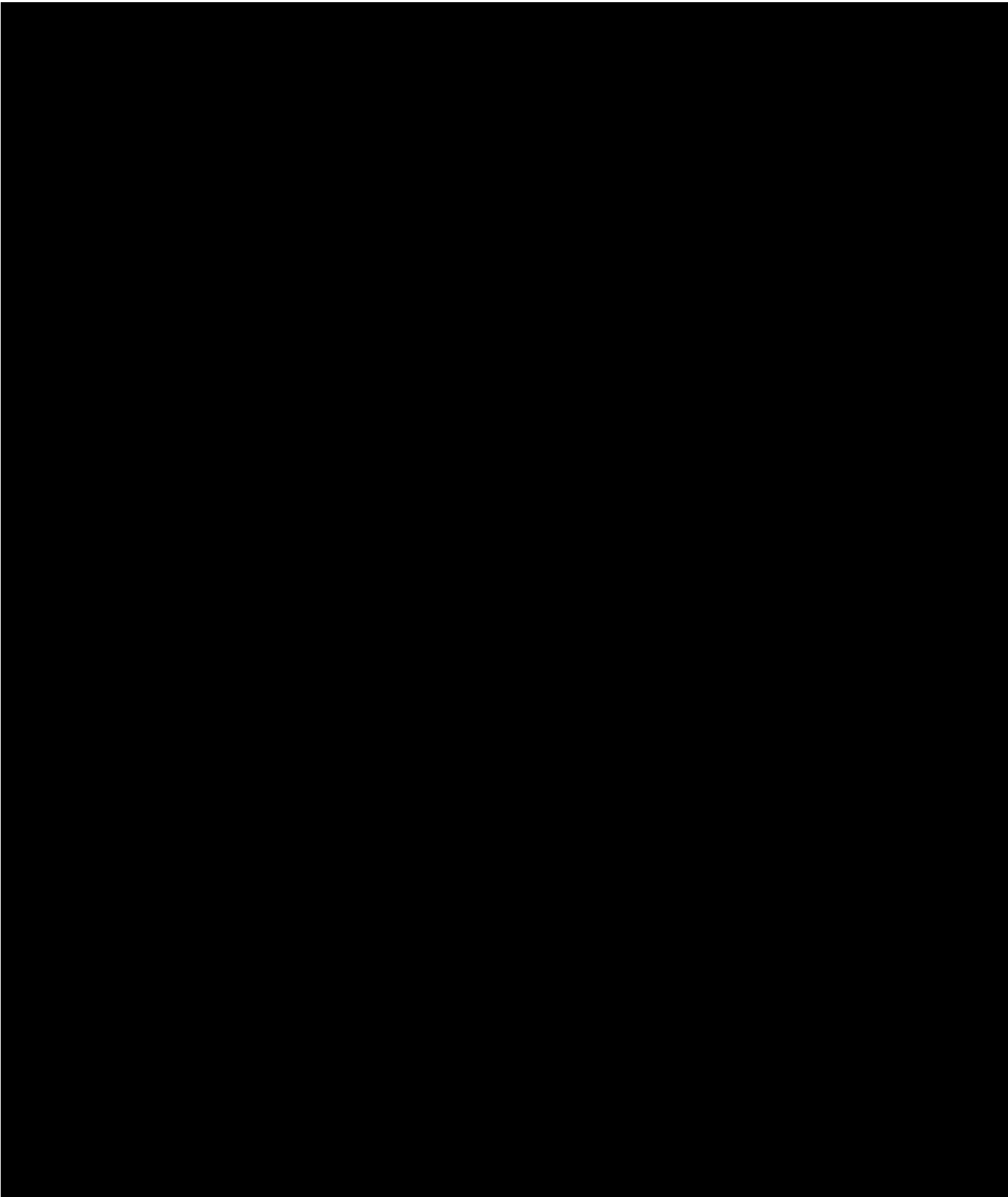


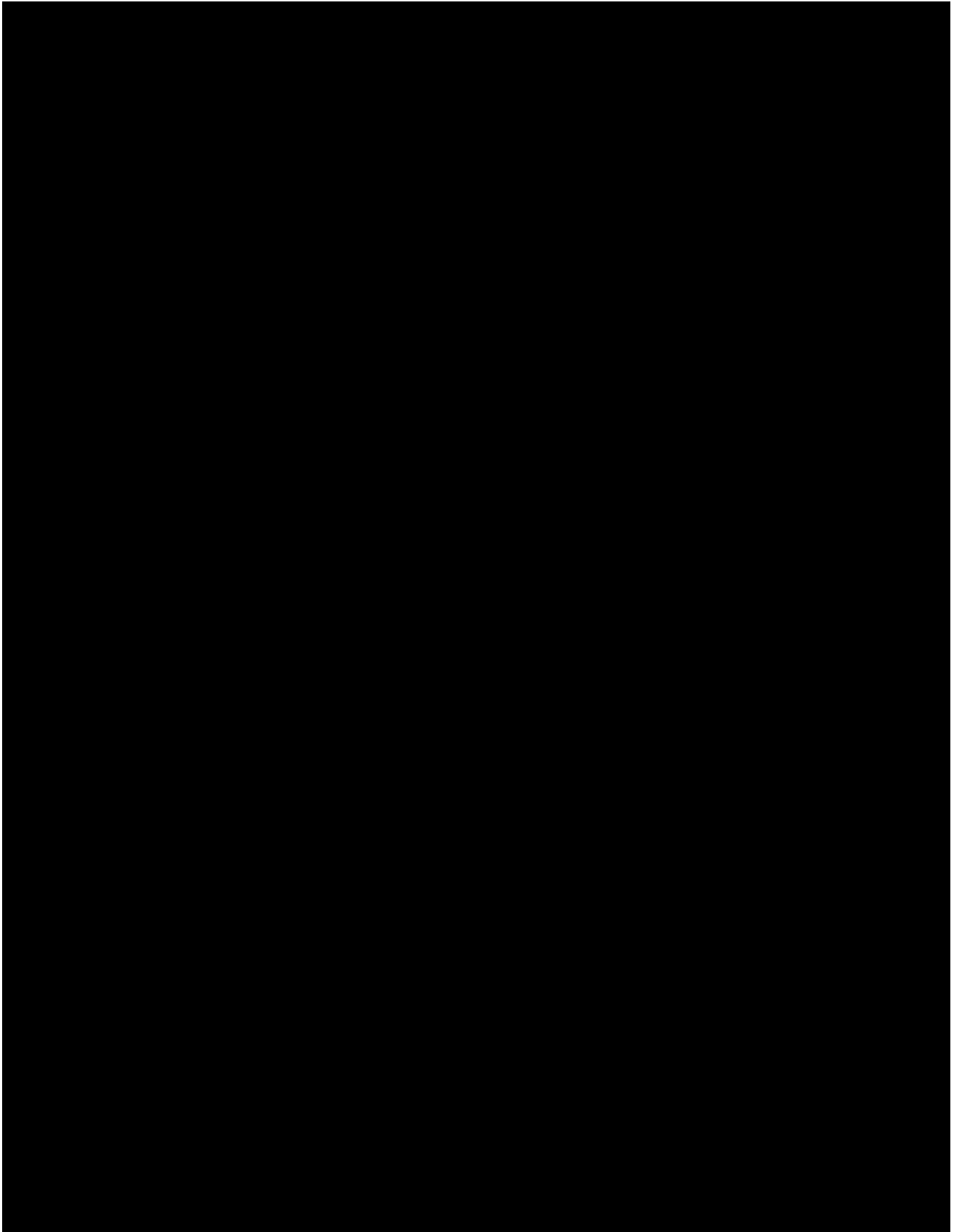












Appendix D Key Attachments

The following key documents are included along with this submission:

- Attachment A – Calculation Spreadsheet – This excel sets out the calculations required to demonstrate that the expected average annual contractual payments exceed 1% of AER approved unsmoothed revenues in a regulatory year of the current regulatory control period.
- Attachment B – Key Contractual Terms – This document sets out the relevant contractual clauses to understand the payment methodology as set out in this application.
- Attachment C – Confidentiality Claim Form – This document sets out Transgrid's claim of confidentiality on this application.