

Determination

**Transgrid and Snowy Hydro
System security network support
payments and payment
methodologies**

November 2025

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Summary of our assessment

The *Improving Security Frameworks for the Energy Transition rule change* (the ISF Rule), published on 28 May 2024, changed the way TNSPs recover the costs of system security network support (SSNS) payments made for the system security services they are required to provide to meet network planning standards specified in Schedule 5.1 of the National Electricity Rules (NER). System security services include system strength, inertia, and network support and control ancillary services (NSCAS) typically provided by a synchronous generator or battery to ensure the power system is secure as we transition to more renewable generation.

The ISF Rule introduced a revised method for TNSPs to forecast and recover expenditures for SSNS services through a new annual transmission pricing process,¹ and revisions to the existing ex-post network support pass through process.² Further, it allows (but does not require) TNSPs to seek a determination from the AER that 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 (typically a generator) will likely be prudent and efficient. That is, the expenditure for a proposed SSNS payment, or a methodology for such a payment, will likely be consistent with the operating expenditure (opex) objectives, criteria and factors, and the factors in clause 6A.7.2(i) relevant to a SSNS payment.³

On 3 October 2025, Transgrid submitted an application to the AER seeking a determination that the SSNS payments and payment methodology set out in the draft SSNS payment contract with Snowy Hydro Limited (Snowy Hydro) is likely to be prudent and efficient. Transgrid's application sets out the payment terms under which Snowy Hydro will provide a prescribed level of system strength services to Transgrid's transmission network from December 2025 to June 2027 subject to Australian Energy Market Operator (AEMO) enablement. The application outlines evidence supporting Transgrid's submission that its application is eligible for an AER determination, meets the materiality threshold and that the SSNS payment terms in the draft contract are likely 'prudent and efficient' under the relevant NER criteria.

Having assessed Transgrid's application as eligible for review, we published it on our website on 23 October 2025 for consultation. We invited stakeholders to provide feedback on the application by 10 November 2025.

¹ NER, cl 6A.23.3(h)(2). This rule change does not require a change to the AER's existing [Transmission Pricing Methodology guidelines](#).

² NER, cl 6A.7.2(i)(3a). The AER Guideline [Procedural guideline for preparing a transmission network support pass through application June 2011](#) outlines the existing (pre-ISF Rule) process for undertaking annual NSP pass throughs.

³ NER, cl 6A.6.6A.

We received 1 submission on Transgrid's application from AEMO, in which AEMO emphasised its support for the NER requirement that TNSPs take proactive steps to provide system strength and inertia as prescribed transmission services, including by procuring non-network options such as those in Transgrid's draft contract. AEMO submitted that relying on directions to ensure system strength is undesirable as it can distort market signals, reduce transparency, create uncertainty for both providers and consumers, and complicate real-time power system operations. AEMO further noted that the new framework requiring TNSPs to manage system security needs should create financial incentives for investment in assets that provide system strength, broaden the pool of suppliers to meet future system strength needs, and allow AEMO to schedule system strength resources bolstering its ability to manage system security in real time.

We also undertook targeted consultation, including with AEMO, to understand its technical requirements and the approval and testing processes it follows to ensure the system strength services in Transgrid's draft contract can be enabled as required.

We considered the information provided in Transgrid's application, along with the views provided through public consultation and direct engagement, to consider whether the payment terms in the draft contract are consistent with the NER requirements. In doing this we had regard to the factors and information outlined in Section 3 below, and in more detail in the AER's [System security network support payment Guideline](#).⁴

Our determination is that payments and payment methodologies set out in the draft contract between Transgrid and Snowy Hydro are likely to result in expenditure that is prudent and efficient, i.e. that is consistent with the opex objectives, criteria and factors, and relevant network support payment (NSP) pass through factors set out in the NER.⁵

Transgrid's application and this determination include confidential information that has been redacted in accordance with the AER's obligations regarding confidentiality, and the disclosure of information provided to it, under the *Competition and Consumer Act* (2010), National Electricity Law (NEL) and the NER. The redacted information relates to specific commercial terms in Transgrid's draft contract and the ongoing contract negotiations between Transgrid and Snowy Hydro. Transgrid submitted to the AER that publishing this information would negatively influence its ability to obtain competitive prices in future system strength tender processes it may undertake to meet future system security needs. Following

⁴ The *SSNSP Guideline* sets out our processes, eligibility criteria and thresholds, timing, and consultation processes for assessing an application, as well as the information we may have regard to when assessing the prudence and efficiency of proposed payments or payment methodologies in draft SSNS payment contracts.

⁵ NER, cl 6A.6.6A (a)(3)-(6). Consistent with the AER's *SSNSP Guideline*, we interpret the factors under clause 6A.6.6A(a)(3)-(6) of the NER together as meaning that the AER makes a determination on whether a SSNS payment, or a methodology for such a payment, as described in a draft contract provided by the TNSP, is likely to result in future expenditure which can be reasonably considered to be prudent and efficient.

engagement with Transgrid, which resulted in a narrowing of the scope of its confidentiality claims, we accepted Transgrid's proposed redactions on the basis that the information relates to market sensitive cost inputs. We have redacted the same information from the public version of this decision document. Section 3.2 below provides more detail on how we considered and assessed Transgrid's confidentiality claims.

1 Introduction

We received an application from Transgrid seeking an AER determination that the payments and payment methodology (payment terms) set out in a draft SSNS payment contract between Transgrid and Snowy Hydro Ltd. is likely to be prudent and efficient under clause 6A.6.6A of the NER. The draft contract sets out the payment terms under which Snowy Hydro will provide a prescribed level of system strength services to Transgrid's transmission network for the period December 2025 to June 2027, subject to AEMO's enablement.

This section sets out the AER's role in assessing applications from electricity Transmission Network Service Providers (TNSPs) under clause 6A.6.6A of the NER and provides an overview of Transgrid's application.

This determination details our assessment of Transgrid's application against the relevant NER criteria⁶, and the factors and information we may have regard to, as set out in our [*System security network support payment \(SSNSP\) guideline*](#).⁷

1.1 The AER's role

We, the AER, exist to ensure all Australian energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable and affordable energy future for Australia. We are the economic regulator for electricity distribution and transmission services in the National Electricity Market (NEM). Our electricity-related powers and functions are set out in the National Electricity Law (NEL) and NER. As the independent regulator, the national energy objectives guide the AER's work in the long-term interests of consumers.

Under the NER, the AER regulates Transgrid's revenues through five-year transmission revenue determinations. Transgrid's current revenue determination for the 2023–28 regulatory control period runs from 1 July 2023 to 30 June 2028. However, the ISF Rule introduced an annual process for forecasting and recovery of system security related network support costs such that TNSP allowances for recovery of non-network system security costs are no longer forecast and included in five-year revenue determinations. Instead, TNSPs will adopt an annual process for forecasting and recovery of system security costs for non-network solutions.

The ISF Rule also introduced a new function for the AER to make an ex-ante determination on whether expenditure for a proposed SSNS payment, or methodology for such payment, under selected, more significant contracts meets criteria indicating efficient and prudent

⁶ NER, cl 6A.6.6A(a)(3)-(6).

⁷ AER, *System Security Network Support Payment Guideline*, pages 11-14.

expenditure. The AER will continue to review actual expenditure once incurred to ensure that only efficient costs are passed through to customers.

1.2 Role of this determination in helping TNSPs meet their system security requirements

A TNSP who is a System Strength Service Provider is required to 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 for the system strength node in the system strength standard specification for the relevant year; and
- achieve stable voltage waveforms for the level and type of inverter-based resources and schedule 5.3a plant projected by AEMO in the system strength standard specifications for the system strength node for the relevant year in steady state conditions and following any credible contingent event or any protected event.⁸

To meet this requirement, Transgrid undertook the *Meeting system strength requirements in NSW* Regulatory Investment Test for Transmission (RIT-T), which examined network and non-network solutions to comply with these obligations, and identified the solutions that provided the greatest net market benefit to the energy market and to consumers. The *Project Assessment Conclusions Report (PACR)* for this RIT-T, published on 14 July 2025, identified the use of hydro 're-dispatch' (an increase in operating hours compared to typical market operations) as part of a 'preferred portfolio option' to meet Transgrid's minimum level system strength requirements over the next two years.⁹

Transgrid then initiated a Request for Proposal (RFP) process with [REDACTED] potential suppliers of the required services who were identified through an expression of interest (EOI) process run as part of the RIT-T process. Following the RFP, Transgrid initiated direct negotiations with one of the potential suppliers, Snowy Hydro Limited (Snowy Hydro) to establish the terms for contracting supply of the required system strength services from Snowy Hydro's Tumut 3 Power Station.¹⁰

On 3 October 2025, Transgrid submitted an application to the AER seeking a determination on the likely prudence and efficiency of the payment terms in a draft contract it had negotiated with Snowy Hydro. Transgrid's application sets out:

⁸ NER, cl S5.1.14.

⁹ [Meeting System Strength Requirements in NSW | Transgrid](#)

¹⁰ Snowy Hydro's Tumut 3 Power Station has 6 individual units with pre-existing synchronous condenser (syncon) mode capability.

- the payment terms under which Snowy Hydro will provide a prescribed level of system strength services to Transgrid's transmission network when enabled by the AEMO from December 2025 to June 2027
- information and material to demonstrate that Transgrid's application meets the eligibility criteria and threshold for an AER determination
- information and material to demonstrate Transgrid's submission that the payment methodologies in its draft contract can be considered 'prudent and efficient' under the relevant NER criteria (i.e. consistent with the opex objectives, criteria, and factors).

Enabling TNSPs to seek the AER's view on the prudence and efficiency of financially significant draft SSNS payment contracts provides additional comfort to TNSPs, before signing a contract, about the AER's expectations and approaches to making our ex-post assessment of the expenditures incurred under the executed contract (i.e. as part of the AER's subsequent network support payment (NSP) pass-through determinations). This should improve TNSPs' confidence when entering into a contract that they will be able to recover efficient operational costs. It should also improve the efficiency and ability of TNSPs to contract SSNS services, and help level the playing field between network and non-network expenditures needed to meet the NEM's system security needs.¹¹

Where the AER has made a determination with respect to a draft SSNS contract, any future related NSP pass-through determination will not re-examine whether the payment terms are consistent with the relevant opex and network support payment criteria. It will examine whether the costs being assessed in the pass-through determination were incurred by the TNSP in a manner that is consistent with the payment terms that were the subject of the ex-ante determination, alongside the other factors the AER is required to take into account in making a NSP pass-through determination under clause 6A.7.2(i). If a TNSP alters the payment terms contained in a contract that was the subject of an ex-ante determination, the AER may, in any subsequent NSP pass-through determination, reconsider whether the payment or payment methodology used was prudent and efficient.¹²

In the case the AER makes a determination that the payment terms in a draft contract are not likely to result in prudent and efficient expenditure, the TNSP may choose to:¹³

- reapproach the market seeking better payment terms
- seek AER approval of an alternative (lower cost) option to the preferred options identified through the initial network planning and regulatory processes, where one is available (i.e. under a 'material change in circumstances')

¹¹ AEMC, *Rule determination, National Electricity Amendment (Improving security frameworks for the energy transition) Rule 2024*, 28 March 2024, pp. 51-52.

¹² AER, *System Security Network Support Payments Guideline*, 29 November 2024, p. 5.

¹³ AER, *System Security Network Support Payments Guideline*, 29 November 2024, pages 2-3.

- not sign the contract on the basis that it considers it has made ‘reasonable endeavours’ to proactively plan for and procure the required level of system strength but concluded that the best available offer likely represents unreasonable costs. The AER’s [Efficient Management of System Strength Framework Guidance](#), November 2024, provides further guidance on the issues a TNSP should consider when assessing whether a package of steps taken to meet a system strength standard may constitute reasonable endeavours.

Appendix A provides a flowchart showing key decision points a TNSP may need to navigate in contracting SSNS services, and how the AER’s *SSNSP Guideline*, and the AER’s related *Efficient Management of System Strength Framework Guidance*, can help inform TNSP decision making.

1.3 Transgrid’s application

This section summarises the SSNS services being procured and the payment terms included in Transgrid’s application.

System strength services being procured

Transgrid’s draft contract requires registration of each of Snowy Hydro’s six Tumut 3 hydro units with AEMO as system strength production units, and for these units to be available to AEMO to enable operationally at Guaranteed Contract Availability (GCA) levels of:

■	[REDACTED]
■	[REDACTED]
■	[REDACTED]

The proposed contracted assets are existing hydro plants that already have the capability to operate in synchronous condenser (syncon) mode (i.e. providing system strength without generating electricity).

The contract terms require Snowy Hydro to comply with the requirements of AEMO’s Security Enablement Procedure, including the submission of forecasts of availability for each unit (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 Transgrid’s identified system strength requirements, before needs may increase with coal retirements in subsequent years. [REDACTED]

¹⁴ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, pages 8-9.

Payment terms

Transgrid's application includes an annual SSNS payment methodology shown below, which is based on 4 payment components.¹⁵

Total payment per annum (\$) = Aggregate Availability Payment + Usage Payments per annum in excess of the fixed [REDACTED] of unit hours + Energy Revenue Payment – Shortfall Amount

The fixed 'aggregate availability payment' [REDACTED]
[REDACTED] For this amount, Snowy Hydro must make its 6 Tumut 3 hydro units available to AEMO to enable operationally at the guaranteed level or Guaranteed Contract Availability. It also includes up to [REDACTED] of unit enablement during a contract year. This amount is payable by Transgrid to Snowy Hydro for each quarterly availability period (excluding GST, adjusted by CPI against the base CPI of September 2025 quarter).

A variable 'usage payment per annum in excess of the fixed number of unit hours', is based [REDACTED] hourly fee per unit hour operating in syncon mode, for enablement above the [REDACTED] included in the availability payment. 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.

Table 1 below shows how the hourly rate of the usage payment decreases as the level of enablement hours increases.

[REDACTED]	
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]

¹⁵ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 8.

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A variable ‘**energy revenue payment (ERP)**’ is included to compensate Snowy Hydro for auxiliary load (energy drawn from the grid to operate a unit) when the unit is operated in syncon mode in response to an AEMO enablement instruction.

Box 1 shows how the ERP is calculated. In summary, the ERP is the sum of all energy revenue payments, where energy revenue equals the auxiliary load consumed by each hydro unit operating in syncon mode in a 5 minute trading interval multiplied by the regional reference price for NSW for the trading interval.

Box 1: Energy revenue payment formula¹⁶

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:

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

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).

A ‘**shortfall amount**’ is included in the draft contract payment methodology to provide an incentive for Snowy Hydro to maintain the contracted level of availability required to provide the prescribed system strength services. 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 in **Box 2**

¹⁶ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 9.

The shortfall amount is a function of the actual contract availability, which is measured with reference to availability forecasts Snowy Hydro must submit to AEMO for each ISF Asset (hydro unit) for each trading interval (i.e. the submission must indicate if the unit is 'available' or 'not available'). A hydro unit 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.



¹⁷ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, pages 9-10.

Adjustment for inflation

Prices in the draft contract are subjected to CPI adjustment with effect from the contract execution date, and on each anniversary of the execution date. There can be no downward adjustment for CPI de-escalation (zero floor).

Box 3 shows how the CPI adjustment is calculated.

Box 3: CPI adjustment formula¹⁸

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

where:

$A_{CPI\ Adjustment}$	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)

Estimated annual costs of the proposed payment terms

Transgrid's application included total annual forecast costs of the draft contract under low and high enablement scenarios.

- The low use scenario, which assumes [REDACTED]
- The high use scenario, which assumes [REDACTED]

Table 2 shows the key assumptions for the low and high scenario calculations.

[REDACTED]			
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

¹⁸ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 10.

¹⁹ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, Appendix B.

2 Our determination

Based on our consideration of all the matters set out in this decision, we make a determination under rule 6A.6.6A(a) that the SSNS payments and payment methodologies (payment terms) set out in the draft contract between Transgrid and Snowy Hydro will likely result in expenditure that is prudent and efficient (i.e. consistent with the opex objectives, criteria and factors, and relevant network support pass through factors).²²

Our assessment against the eligibility and threshold requirements to accept an application under clause 6A.6.6A(a) is summarised in Section 3.3 (**Table 4**). We are satisfied that all relevant regulatory processes (including the RIT-T) have been completed before the contract is executed, and that the services in the draft contract are ‘preferred options’ under a completed RIT-T. Transgrid’s application includes all the relevant information required for us to make this determination.²³ In addition, the application meets the materiality threshold for AER review, meaning the expected average annual payment under the draft contract exceeds 1% of Transgrid’s approved unsmoothed revenues in a regulatory year for the current regulatory control period.

We note that a dispute has been raised on the conclusions of Transgrid’s RIT-T PACR.²⁴ Transgrid submitted in its application that the dispute is not a ‘relevant regulatory process’ for the purpose of determining eligibility of its application or this determination because the SSNS services it is proposing to procure are not included in the scope of the dispute.²⁵

The *SSNSP Guideline* states that as part of the eligibility criteria, an application should be made after completion of all *relevant regulatory processes*, including RIT-T disputes.²⁶ However, we may accept an application that is made before completion of a RIT-T dispute depending on the particular facts and circumstances. Our view is that the dispute raised is not directly relevant to the matters the AER is required to determine. The hydro ‘re-dispatch’ system strength services being contracted by Transgrid were identified in the RIT-T as a necessary part of all credible options to meet SSNS requirements between December 2025 and June 2027. The dispute questions the identification of grid-forming battery energy

²² NER cl 6A.6.6A(a)(3)-(6). Consistent with the AER’s *SSNSP Guideline*, we interpret the factors under clause 6A.6.6A(a)(3)-(6) of the NER together as meaning that the AER makes a determination on whether a SSNS payment, or a methodology for such a payment, as described in a draft contract provided by the TNSP, is likely to result in future expenditure which can be reasonably considered to be prudent and efficient.

²³ Chapter 4 of the *SSNSP Guideline* sets out the relevant information an application must include.

²⁴ <https://www.aer.gov.au/about/aer/dispute-resolution/rit-t-and-rit-d-disputes/meeting-system-strength-requirements-nsw-rit-t-dispute>

²⁵ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 12.

²⁶ AER, *System Security Network Support Payment Guideline*, pages 9-10.

storage systems (BESS) as part of the preferred option during a later time period (i.e. after June 2027). Therefore, we do not consider the outcome of the dispute will affect the RIT-T identification of hydro redispatch as part of the preferred option for managing system strength up to June 2027, or the need for Transgrid to procure these services as per the draft contract. Further details on the dispute can be found in **Table 4** below and on the AER's website [here](#).

Our assessment against the prudence and efficiency requirements²⁷ are summarised in Section 3.4 (**Table 5**) and explained in further detail in Section 4.

- In determining prudence, we consider that the payment terms relate to SSNS services that are required to meet AEMO's network standards as defined in the NER, and that these services were identified as part of a preferred option through a RIT-T process. Further, we consider that the draft contract does not include unnecessary cost components, unnecessarily large cost components, or triggers for cost components that could be considered unnecessary, or overly ambiguous and likely to result in unnecessary costs being incurred.
- In determining efficiency, we consider that the payment terms in the draft contract likely represent the least cost Transgrid could reasonably achieve in the circumstances through a negotiated process with Snowy Hydro. Further, we consider that the payment terms are not unreasonable having regard to the indicative quotes received during the RIT-T process, and the costs of realistic alternatives for obtaining the same service, and that the cost components, mix of cost components, and triggers are not unreasonable.

²⁷ Part 3.5 of the *SSNSP Guideline* describes the information the AER may have regard to when determining prudence and efficiency.

3 Our process and the regulatory framework

This section outlines the regulatory framework for the AER's ex-ante determinations on draft SSNS payment contracts, and the process we followed in making this determination.

3.1 Determination requirements

The purpose of clause 6A.6.6A of the NER is to enable TNSPs to seek a determination from the AER that an expenditure for a proposed payment or payment methodology in a draft SSNS payment contract are consistent with the relevant opex objectives, criteria and factors, and network support payment criteria, which we collectively refer to as 'prudence and efficiency'.

Box 4 lists the requirements under clause 6A.6.6A, including the criteria we must have regard to in determining prudence and efficiency, as well as requirements related to the process we follow, and under which we made and published our *SSNSP Guideline*.

A determination by the AER must be consistent with the [SSNSP Guideline](#), which sets out in further detail how we implement clause 6A.6.6A, including:

- the processes and timeframes for the AER to make a determination
- the eligibility criteria and threshold the AER will apply to determine that a draft contract is eligible for a review
- the NER criteria and information we may have regard to in making a determination on the prudence and efficiency of a proposed payment or payment methodology in a draft contract²⁸.

Box 4: NER clause 6A.6.6A AER power to make advance determination with regard to future operating expenditure

(a) The AER may, on application by a Transmission Network Service Provider, make a determination that expenditure for a proposed system security network support payment, or a methodology for such payment, specified in the determination, will be consistent with:

(1) the operating expenditure objectives²⁹;

(2) the operating expenditure criteria³⁰;

²⁹ The opex objectives are contained in cl 6A.6.6(a).

³⁰ The opex criteria are contained in cl 6A.6.6(c)(1)-(3).

(3) the operating expenditure factors³¹; and

(4) the factors in clause 6A.7.2(i) relevant to a system security network support payment³².

(b) An application submitted by a Transmission Network Service Provider under paragraph (a) must comply with any relevant requirements in the system security network support payment guidelines.

(c) The AER may (but is not required to) consult in a manner it considers appropriate on the application submitted under paragraph (a) before making a determination.

(d) A determination made by the AER under paragraph (a) must be consistent with the system security network support payment guidelines.

(e) The AER must make and publish, and may amend, guidelines (system security network support payment guidelines) that set out:

(1) the information to be included in an application submitted under paragraph (a);

(2) any eligibility criteria or thresholds that will apply for system security network support payments before the AER will accept an application for under paragraph (a);

(3) the process and timeframes for the AER to make its determination under paragraph (a); and

(4) the relevant factors the AER must consider in making its determination under paragraph (a)³³

(5) any other matters the AER considers relevant.

Clauses 6A.6.6(e)(13a) and 6A.7.2A(i)(3a)(iii) also require the AER to take into account an ex-ante determination made on a draft contract in any future related NSP pass through determination for costs incurred under the same contract.

³¹ The opex factors are contained in cl 6A.6.6(e)(1)-(14).

³² The factors relevant to a SSNS payment in cl 6A.7.2(i) refer to the network support pass through requirements.

³³ At the time the *SSNSP Guideline* were made and published, cl 6A.6.6A did not require the AER to set out the relevant factors the AER must consider in making its determination under cl 6A.6.6A(a). The *SSNSP Guideline* sets out the factors that the AER may consider in making its determination.

3.2 Process and timeframe matters

Early engagement

We encourage TNSPs to engage with us before lodging an application for review of a draft system security contract. The aim of this early engagement is to provide targeted assistance to TNSPs to enable them to make eligible and high-quality applications that provide all the relevant information needed to enable the AER to make a timely determination.

Transgrid sought early and ongoing engagement with the AER as it progressed through its RIT-T, approach to market and draft contract negotiation processes. Transgrid also provided the AER with a draft of its application, including its proposed confidentiality claims, enabling us to provide feedback on information gaps in the application and narrow the scope of the confidentiality claims before it submitted its final application for consideration.

Eligibility of an application and materiality threshold

For a SSNS payment contract application to be eligible for review by the AER, the AER will apply the eligibility criteria and materiality threshold set out in the *SSNSP Guideline*.

These criteria and threshold are described in Section 3.3 below, along with our rationale for finding Transgrid's application to be eligible for an AER determination.

Consideration of confidentiality claims

Once we have an eligible application, we assess any confidentiality claims made by the TNSP against the AER's obligations regarding confidentiality and the disclosure of information provided to it under the *Competition and Consumer Act* (2010), the NEL and the NER.³⁴ The [AER's Confidentiality Guideline](#) sets out how energy network businesses must make confidentiality claims over information they submit to us, and how we assess these claims.³⁵ In assessing confidentiality claims, the AER seeks to balance protecting genuinely confidential information with ensuring that stakeholders can access sufficient information on issues affecting their interests.

Transgrid's application identified the information it sought confidentiality over, and submitted its reasons for each claim in the [SSNS contract review application - confidentiality claims document](#) published on our website. These claims related to a range of information on cost-related terms in the draft contract and its ongoing contract negotiations with Snowy Hydro. Transgrid submitted that publication of this information could negatively influence its ability to obtain competitive prices in future system strength tender processes. We considered the

³⁴ AER, *System Security Network Support Payment Guideline*, November 2024, p. 3.

³⁵ Further guidance on how the AER collects, uses and discloses confidential information is available in the [ACCC/AER Information Policy](#).

confidentiality claims against the categories listed in our Confidentiality Guideline,³⁶ including whether the information was genuinely confidential in nature and not otherwise publicly available. We agreed with Transgrid's confidentiality claims on the basis that the claimed information related to market sensitive cost inputs, information such as supplier prices and information which would affect the NSP's ability to obtain competitive prices in future infrastructure transactions, such as tender processes.

This confidential information has been redacted from the published versions of Transgrid's application and this determination.

Publication of the application and consultation

Under clause 6A.6.6A of the NER, the AER may (but is not required to) consult in a manner it considers appropriate on the application before making a determination. On 22 October 2025, we published on the AER's website Transgrid's SSNS payment contract application with the redactions supported by its confidentiality claims document, as part of a public consultation process which closed on 10 November 2025.³⁷

As this is the first SSNS payment application the AER has received, and the first determination of this type that the AER has made, we considered it important that stakeholders had an opportunity to provide views on Transgrid's application and our process. In particular, we sought submissions on:

- the process Transgrid followed to achieve the lowest possible cost outcome in the circumstances
- the proposed contract payment structure.

We received 1 submission from AEMO, which emphasised its support for the NER requirement that TNSPs take proactive steps to provide system strength and inertia as prescribed transmission services, including by procuring non-network options such as those in Transgrid's draft contract with Snowy Hydro.

AEMO submitted that relying on directions to ensure system strength is undesirable as it can distort market signals, reduce transparency, create uncertainty for both providers and consumers, and complicate real-time power system operations. It noted that the new framework requiring TNSPs to manage system security needs should create financial incentives for investment in assets that provide system strength, broaden the pool of suppliers to meet future system strength needs, and allow AEMO to schedule system strength resources, bolstering its ability to manage system security in real time, and limiting the need for directions. AEMO encouraged the AER to make its decision as expeditiously as

³⁶ AER, *Better Regulation, Confidentiality Guideline*, August 2017, pages 11-12.

³⁷ AER, *System Security Network Support Payment Guideline*, November 2024, p. 3. Clause 6A.6.6A(c) states that the AER may, but is not required to, consult in a manner it considers appropriate on the application before making a determination.

possible, noting the limited time for AEMO to enact the contract should it be approved by the AER given the new system security framework commences on 2 December 2025.³⁸

We also undertook targeted stakeholder consultation, including with AEMO to understand its technical requirements and the approval and testing processes it follows to ensure the system strength services detailed in the draft contract can be enabled as required.

Assessment of prudence and efficiency

The AER is required to determine that a payment or payment methodology in a draft SSNS payment contract is consistent with the criteria under clause 6A.6.6A(a)(3) to (6) (i.e. that the payment terms would likely result in expenditure consistent with the opex objectives, criteria and factors, and relevant NSP pass through factors, which we collectively refer to as ‘prudence and efficiency’).

Broadly, our prudence assessment is based on a TNSP providing sufficient evidence and information to enable us to establish that there is a reasonable need to contract for the service that is subject to the proposed SSNS payment methodology in the draft contract.³⁹ Our efficiency assessment is based on a TNSP providing sufficient evidence and information to enable us to establish that the payment methodology in the draft contract is reasonably likely to reflect efficient costs, or the least cost that the TNSP could reasonably achieve in the circumstances.⁴⁰

The type of information we have had regard to in making this determination under clause 6A.6.6A(a) is described in Section 3.4 below, along with assessment of the prudence and efficiency of Transgrid’s proposed payment methodology for this draft contract.

Timeframe for our decision

The *SSNSP Guideline* provides that we will make our determination within 40 business days of the date we receive an application that meets the eligibility criteria and materiality threshold set out in Section 3.3, or from the date we receive additional information sought in information requests.⁴¹

This timeframe aims to balance the need to execute draft contracts subject to our review in a timely manner, while allowing for a robust assessment and any consultation processes that we may carry out as part of our determination process, including seeking further information from the relevant TNSP, or other parties as necessary. The AER may also extend the time

³⁸ AEMO, *Submission to the AER on Transgrid’s system strength network service payment contract review application*, pages 1-2.

³⁹ AER, *System Security Network Support Payment Guideline*, November 2024, p. 12.

⁴⁰ AER, *System Security Network Support Payment Guideline*, November 2024, p. 12.

⁴¹ AER, *System Security Network Support Payment Guideline*, November 2024, pages 13-14. In exceptional circumstances, may extend that time limit by a further period of up to 60 business days.

limit by a further period of 60 business days if satisfied that the making of a determination involves issues of such complexity or difficulty.

Transgrid lodged an eligible application with us on 3 October 2025, which means that the AER is required to make a determination by 28 November 2025, unless it is satisfied that the time limit should be extended. This determination has been made within the 40-business day timeframe set out in the *SSNSP Guideline*.

3.3 Determining eligibility

Table 4 below sets out the eligibility criteria and materiality threshold we applied in assessing whether Transgrid's application was eligible for review. The eligibility criteria and materiality threshold aim to ensure that the AER has all relevant information needed to begin and undertake a timely assessment of an application, and that these reviews target only financially significant SSNS payment contracts as intended by the ISF Rule.

For the reasons set out in **Table 4** below, we are satisfied that Transgrid's application is eligible for assessment.

Table 4: Requirements for determining eligibility of a SSNS Payment application⁴²

Requirement of SSNSP Guideline	Assessment
Has the application been made after completion of all relevant regulatory processes (including completion of RIT-T disputes and AER determinations on 'material changes in circumstances'), and before a contract is executed?	<p>Yes, we consider that the application has been made after all completion of all relevant regulatory processes, and before a contract is executed.</p> <p>Transgrid's <i>Meeting system strength requirements in NSW' Regulatory Investment Test for Transmission (RIT-T) Project Assessment Conclusions Report (PACR)</i>, which assessed network and non-network options for meeting Transgrid's system strength requirements, was published on 14 July 2025.⁴³</p> <p>Transgrid noted that a dispute had been raised on the PACR but stated that the dispute was not a 'relevant regulatory process' for the purpose of determining eligibility and this determination as the services in the SSNS Contract are not included in the topics under dispute.⁴⁴</p>

⁴² AER, *System Security Network Support Payment Guideline*, November 2024, p. 10-11.

⁴³ <https://www.transgrid.com.au/projects-innovation/meeting-system-strength-requirements-in-nsw>

⁴⁴ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 12.

Requirement of SSNSP Guideline	Assessment
	<p>The RIT-T dispute relates to whether the process complied with NER requirements in identifying a preferred option that met the identified need for the period modelled by the RIT-T, to 2032-33.⁴⁵ In our view, the outcome of the dispute will not impact the RIT-T identification of hydro redispatch as part of the preferred option between December 2025 and June 2027, or the need for Transgrid to procure these services as prescribed in its draft contract. Further details on the dispute can be found in Section 2 above and on the AER's website here. Transgrid stated that the contract has not been executed.⁴⁶</p>
<p>Are all services in the draft contract being reviewed 'preferred options' under a completed RIT-T, or a 'secondary option' approved by the AER following a 'material change in circumstances'?</p>	<p>Yes</p> <p>The preferred option in the PACR, published on 14 July 2025, found a portfolio of network synchronous condensers and non-network solutions were required to meet Transgrid's system strength requirements at greatest net benefit.⁴⁷ The PACR identified the use of hydro 're-dispatch' as the preferred non-network option to meet minimum system strength level requirements between December 2025 and June 2027.⁴⁸ The draft contract is for Snowy Hydro to meet these minimum level requirements by providing re-dispatch from its Tumut 6 hydro units.</p>
<p>Does the application include the relevant information outlined in Chapter 4 of the AER's <i>SSNSP Guideline</i>?</p>	<p>Yes.</p> <p>Transgrid's application includes all relevant information listed in Chapter 4 of the AER's <i>SSNSP Guideline</i> that is required to determine eligibility of the application, and the prudence and efficiency of the payment terms in the draft contract.</p>
<p>Does the expected average annual payment under the draft contract exceed 1% of</p>	<p>Yes.</p> <p>The expected average annual payment under the draft contract exceeds the materiality threshold of 1% of AER approved</p>

⁴⁵ Dispute Notice on Transgrid's RIT-T: <https://www.aer.gov.au/news/articles/communications/aer-receives-dispute-notice-transgrids-meeting-system-strength-requirement-nsw-rit-t>

⁴⁶ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 3.

⁴⁷ [Meeting System Strength Requirements in NSW | Transgrid](#)

⁴⁸ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 3.

Requirement of SSNSP Guideline	Assessment
Transgrid's AER approved unsmoothed revenues in a regulatory year for the current regulatory control period?	annual unsmoothed revenues. Average annual contract cost of [REDACTED] [REDACTED]

3.4 Determining prudence and efficiency

Consistent with our *SSNSP Guideline*, we interpret the factors set out under clause 6A.6.6A (a)(3)-(6)⁴⁹ together as meaning that the AER makes a determination on whether a SSNS payment or payment methodology described in a draft contract provided by the TNSP, is likely to result in future expenditure which can be reasonably considered to be prudent and efficient (i.e. consistent with the opex objectives, criteria and factors, and relevant NSP pass through factors).⁵⁰

We note that we do not approve a specific forecast amount of expenditure as part of this determination, rather we assess if the proposed payment terms in the draft contract are likely to result in a prudent and efficient 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. However, the AER may, at its discretion, comment on any component of the draft contract that it considers is relevant to its overall assessment of prudence and efficiency.⁵¹

Table 5 below sets out the type of information we may have regard to determine prudence and efficiency under clause 6A.6.6A(a)(3)-(6),⁵² along with the rationale for why we find Transgrid's payment terms be prudent and efficient. The specific information the AER considers in any assessment will vary on a case-by-case basis depending on the nature and circumstances of the draft contract being reviewed, and the available information and evidence.

⁴⁹ A rule change was made on 13 March 2025 after the making and publication of the *SSNSP Guideline*. As a result of the rule change, the relevant opex objectives, criteria and factors formerly contained in subclauses 6A.6.6A(a)(1)-(4) and referred to in the *SSNSP Guideline* are now contained in subclauses 6A.6.6A(a)(3)-(6) of the NER.

⁵⁰ AER, *System Security Network Support Payment Guideline*, November 2024, p. 7.

⁵¹ AER, *System Security Network Support Payment Guideline*, November 2024, p. 8.

⁵² AER, *System Security Network Support Payment Guideline*, November 2024, pages 11-13. The specific information the AER considers in any assessment will vary on a case-by-case basis depending on the nature and circumstances of the draft contract being reviewed and the available information and evidence.

Section 4 outlines our prudence and efficiency assessment in full, including the information and evidence we have had regard to.

Table 5: Information we may have regard to determine prudence and efficiency under clause 6A.6.6A(a)(3)-(6)⁵³

Information we may have regard to	Assessment
Prudence is based on providing sufficient evidence and information to enable the AER to establish that there is a reasonable need to contract for the services that are subject to the proposed SSNS payment or payment methodology in the draft contract.	
Are the payments / payment methodologies for SSNS services that have been identified by the TNSP as being required to meet a network standard as defined in the NER, or other binding AEMO declaration?	Yes. The preferred option in the PACR to the RIT-T, published on 14 July 2025, found a portfolio of network synchronous condensers, and non-network solutions were required to meet Transgrid's system strength NER requirements at greatest net benefit. ⁵⁴ The PACR identified the use of hydro 're-dispatch' as the preferred non-network option to meet minimum system strength level requirements from December 2025 to June 2027. ⁵⁵ The draft contract is for Snowy Hydro to meet these minimum level requirements by providing re-dispatch from its Tumut 3 hydro units over the same time period.
Are the payments / payment methodologies for SSNS services that have been identified by the TNSP as a 'preferred option' through the RIT-T process, or an amendment to the process, or is a 'secondary option' approved by the AER following a material change in circumstances?	We note that a dispute has been raised on the conclusions of Transgrid's RIT-T PACR. ⁵⁶ We do not consider that the outcome of the dispute will impact the identification of hydro redispatch as part of the RIT-T preferred option up to June 2027, or the need for Transgrid to procure these services as prescribed in its application. Further details on the dispute can be found in Section 2 above and on the AER's website here .

⁵³ AER, *System Security Network Support Payment Guideline*, November 2024, pages 11-13.

⁵⁴ [Meeting System Strength Requirements in NSW | Transgrid](#)

⁵⁵ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 3.

⁵⁶ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 12.

Information we may have regard to	Assessment
<p>Does the draft contract include unnecessary cost components, unnecessarily large cost components, or triggers for cost components that could be considered unnecessary, or overly ambiguous and likely to result in unnecessary costs being incurred?</p>	<p>No.</p> <p>The payments and payment methodologies in the draft contract include 3 cost components triggered by AEMO enablement, and a compliance component which penalises Snowy Hydro for non-compliance with prescribed availability requirements. We consider these components, triggers, and the balance of the components within the price methodology to be prudent.</p>
<p>Efficiency is based on providing sufficient evidence and information to enable the AER to establish that the payment or payment methodology in a draft contract is reasonably likely to reflect efficient costs, or the least cost that the TNSP could reasonably achieve in the circumstances.</p>	
<p>To what extent is the payment or payment methodology for the service:</p>	
<p>...is the outcome of a competitive approach to market, or where a competitive process is not available, reflect the least cost the TNSP could reasonably achieve in the circumstances through a direct / negotiated approach to a SSNS service provider</p>	<p>We consider the payment terms reflect the least cost Transgrid could reasonably achieve in the circumstances.</p> <p>The payment terms are the result of an approach to market with a limited number of potential suppliers, and direct negotiations with potential suppliers, including:</p> <ul style="list-style-type: none"> - EOI's submitted during the RIT-T by potential suppliers. - The RIT-T finding the use of hydro re-dispatch as the preferred non-network option to meet minimum system strength requirements from December 2025 to June 2027. - Transgrid issuing an RFP to the potential suppliers that met the RIT-T preferred option criteria. - Transgrid entering into direct negotiations with the potential suppliers, then direct negotiation with Snowy Hydro once it became the only remaining potential supplier. - Transgrid undertaking reasonable steps in direct negotiations with Snowy Hydro to achieve the lowest cost in the circumstances.

Information we may have regard to	Assessment
<p>...is not unreasonable, having regard to the economic cost and / or other relevant cost information used in the RIT-T process, including any early or indicative quotes from SSNS service suppliers</p>	<p>Not unreasonable.</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p> <p>[REDACTED]</p>
<p>...is not unreasonable, having regard to the costs of realistic alternatives for obtaining the same service, including the direction compensation that the SSNS service supplier (e.g. generator or battery) would otherwise receive in similar circumstances if directed on by AEMO, having regard to AEMO's direction compensation recovery approach¹⁶ with reasonable additional compensation for a SSNS service supplier guaranteeing its availability by entering a contract factored in</p>	<p>Not unreasonable.</p> <p>The estimated costs based on the draft contract payment terms are comparable to, or less than the estimated costs of feasible alternative supply options.</p>
<p>...is not unreasonable, having regard to the level of compensation needed to recover all reasonable costs incurred, net of alternative revenue sources, in providing the SSNS service</p>	<p>Not applicable - we did not have this information available.</p>
<p>...is not unreasonable, having regard to payments or payment methodologies for similar services in similar circumstances, including in other draft SSNS payment contracts reviewed by the AER or other publicly available information</p>	<p>Not applicable - we did not have this information available.</p>
<p>...is not unreasonable, having regard to costs, cost components, mix of cost components, or triggers (i.e. there is no evidence of unnecessary costs or an unreasonable risk that triggers of cost components will lead to unnecessary costs)</p>	<p>Not unreasonable.</p> <p>The payment terms include 3 cost components triggered by AEMO enablement of the SSNS services, and a compliance component, which penalises Snowy Hydro if it fails to comply with prescribed availability requirements. We consider these components, the triggers, and the balance of the components within the overall payment methodology to be prudent.</p>

4 Reasons for our determination

This section set out the reasons for our determination on Transgrid's application.

4.1 Prudency

Our determination on prudency is based on there being sufficient evidence and information available to enable us to establish that there is a need to contract the SSNS services that are subject to the proposed payments or payment methodologies in the draft contract.

We approach this assessment by ensuring that the payments and payment methodologies in a draft contract are for SSNS services:

- that have been identified by the TNSP as being required to meet a network standard as defined in the NER, or other binding AEMO declaration
- that have been identified by the TNSP as a 'preferred option' through the RIT-T process, or an amendment to the process, or is a 'secondary option' approved by the AER following a material change in circumstances

In addition, we consider whether the draft contract includes any unnecessary cost components, unnecessarily large cost components, or triggers for cost components that could be considered unnecessary, or overly ambiguous and likely to result in unnecessary costs being incurred.

TransGrid submitted in its application that the payment terms in its draft contract are prudent because they are for hydro 're-dispatch' system strength services that were identified as part of the preferred portfolio option in its RIT-T required to meet its NER requirement to make system strength services available to AEMO from 2 December 2025.⁵⁷ Specifically, 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' as the preferred option to meet minimum level system strength requirements between 2025-26 and 2026-27.

Transgrid noted that its RIT-T analysis indicated that, from 2025-26 onwards, its network system strength requirements cannot be reliably met through the expected market operation of existing synchronous units alone and that contracted services are required. The PACR identified re-dispatch of existing 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).⁵⁸ Transgrid further noted that AEMO recently directed Snowy Hydro's

⁵⁷ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 3.

⁵⁸ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 12 and Appendix C.

Tumut 3 units on to provide system strength services, further supporting the prudence of the services in the draft contract.⁵⁹

Transgrid further submitted that the proposed mixed pricing structure, which includes a fixed availability payment, variable usage and energy revenue payments, and a shortfall penalty is also prudent. Transgrid stated that as ‘system strength is a readiness-based, security service with uncertain and volatile enablement’ ... [REDACTED]

[REDACTED]⁶⁰

Transgrid noted that the proposed mix of fixed and variable pricing components in the draft contract is prudent (and efficient) because the pricing structure:⁶¹

- allocates risk efficiently: [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- prevents overpayment: [REDACTED]
[REDACTED]
- aligns incentives: [REDACTED]
[REDACTED]
[REDACTED]
- improves price certainty: [REDACTED]
[REDACTED]
[REDACTED]
- matches service characteristics: [REDACTED]
[REDACTED]
[REDACTED]

Transgrid noted that it has engaged with AEMO throughout the RIT-T process undertaken to identify the preferred portfolio option for meeting its system strength requirements, and on the implementation of the services being contracted within AEMO’s market systems.⁶²

⁵⁹ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 13.

⁶⁰ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 12.

⁶¹ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, pages 13-14.

⁶² Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 14.

Transgrid submitted that its contracting approach aligns with AEMO's Security Enablement Procedures (SEP) for when a service is enabled.⁶³

We considered the information provided in Transgrid's application as well as the RIT-T PACR. We confirm that the SSNS services prescribed in the draft contract have been identified by Transgrid as being required to meet its system strength standards as required under the NER, and were identified as part of the preferred portfolio option in Transgrid's RIT-T. We also consulted with AEMO on whether the SSNS services being contracted met AEMO's enablement requirements to ensure the SSNS services can be dispatched as required.

Considering the above, we agree that the payment terms in Transgrid's draft contract are for SSNS services that are required to meet AEMO's network standards as defined in the NER, and that these services have been identified as a 'preferred option' through Transgrid's RIT-T. We further consider that, having regard to the specific circumstances of this draft contract and the characteristics of Snowy Hydro's Tumut 3 units, the pricing structure in the draft contract, including the proposed fixed availability payment, is reasonable and does not include unnecessary cost components, unnecessarily large cost components, or triggers for cost components that could be considered unnecessary, or overly ambiguous and likely to result in unnecessary costs being incurred.⁶⁴

Therefore, we consider there is sufficient evidence and information available to establish that there is a need to contract the SSNS services in the draft contract, and that the payment terms are prudent.

4.2 Efficiency

Our determination on efficiency is based on there being sufficient evidence and information available to us to establish that the payments or payment methodologies in the draft contract are reasonably likely to result in efficient costs, or the least cost that the TNSP could reasonably achieve in the circumstances. The specific information the AER considers in any assessment will vary on a case-by-case basis depending on the nature and circumstances of the draft contract being reviewed and the available information and evidence.

The type of information we have had regard to in assessing efficiency under clause 6A.6.6A(a)(3)-(6) is listed in **Table 5** in section 3.4 of this determination.⁶⁵

⁶³ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, pages 18-19.

⁶⁴ The prudent and efficient balance of fixed and variable components of payment terms for SSNS services will depend on a range of factors, including the operational characteristics of the supply units, and the nature and timing of the services being supplied. Payment terms that include significant fixed cost components should be justified against the service provider's cost of supplying availability, and should result in an overall cost to consumers that is reasonable compared to the benchmarked costs of alternative supply options.

⁶⁵ AER, *System Security Network Support Payment Guideline*, November 2024, pages 11-13.

RIT-T process and steps taken to achieve 'lowest price possible'

Transgrid submitted that it 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'.⁶⁶ To support this, Transgrid submitted that its procurement process included:⁶⁷

- [REDACTED] potential suppliers, [REDACTED] Snowy Hydro, being identified from the RIT-T process based on the suitability of their hydro units for synchronous condenser operation, the technical, pricing and commercial information these potential suppliers provided during the RIT-T through an 'expression of interests (EOI)', and their ability to meet the system strength need identified in the RIT-T, as part of the preferred portfolio..
- A post RIT-T procurement approach involving 'request for proposals' (RFPs) and direct negotiation with the [REDACTED] potential suppliers, which Transgrid considered appropriate as:
 - These were the only [REDACTED] potential suppliers in NSW with the technical capability to supply the required system strength services. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
 - Direct negotiation would allow a range of supply options to be discussed with each potential supplier, for example, the option for capital upgrades of plant to run in syncon mode.
- An RFP process, which requested [REDACTED] potential suppliers provide solutions and pricing to a range of system strength requirements. [REDACTED]
[REDACTED]
[REDACTED]
- Transgrid engaging with [REDACTED] potential suppliers to assist them in making RFPs, [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- Transgrid engaging further with Snowy Hydro after reviewing its proposal to negotiate and finalise key commercial terms and contractual terms.

⁶⁶ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 15.

⁶⁷ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, pages. 15-16.

- Transgrid establishing an Evaluation Committee to assess Snowy Hydro's proposal against an internally approved Evaluation Plan, including criteria for: system security capability and acceptability; risk-adjusted and normalised price; and contractual departures. As part of its assessment, the Evaluation Committee compared the costs of Snowy Hydro's proposal against cost benchmarks Transgrid compiled of alternative supply options with the Committee finding [REDACTED]

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

- [REDACTED]

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

Transgrid highlighted additional steps it took during direct negotiations with Snowy Hydro to achieve the lowest possible cost outcome in the circumstances, including:⁶⁸

- Engaging with AEMO to clarify that the Tumut power station registration could occur at the individual unit level rather than whole of power station level, reducing the expected cost of enablement.
- Engaging with Snowy Hydro to understand the basis of Snowy Hydro's proposal for a fixed availability payment [REDACTED]

[REDACTED]

- Negotiating lower variable usage fees. [REDACTED]

⁶⁸ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, pages. 16-17.

- Negotiating passthrough energy revenue payments [REDACTED]

Benchmarking the draft contract costs against feasible alternative supply options

Transgrid further submitted in its application that the payments terms in its draft contract are efficient because the costs are not unreasonable when benchmarked against the costs of realistic alternatives that would deliver similar system strength outcomes.⁶⁹ Transgrid also noted that the draft contract payment terms and costs are also consistent with [REDACTED]

In support of this, Transgrid benchmarked the cost of the SSNS service in its draft contract with Snowy Hydro against the costs of realistic alternatives for providing the same system strength outcomes. [REDACTED]

The benchmarked services and estimated costs are summarised in **Table 6**.

[REDACTED]	
[REDACTED]	
[REDACTED]	[REDACTED]
	[REDACTED]
	[REDACTED]
[REDACTED]	[REDACTED]
	[REDACTED]
	[REDACTED]
	[REDACTED]

⁶⁹ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 15.

⁷⁰ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, p. 28.

⁷¹ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, Section 4.6.3 and Appendix C.

⁷² Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, Appendix C.

[REDACTED]	[REDACTED] [REDACTED] [REDACTED]
	[REDACTED] [REDACTED] [REDACTED]
[REDACTED] [REDACTED] [REDACTED]	[REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]
[REDACTED] [REDACTED]	[REDACTED] [REDACTED]
[REDACTED]	[REDACTED] [REDACTED] [REDACTED] [REDACTED]
[REDACTED]	[REDACTED] [REDACTED] [REDACTED] [REDACTED]
[REDACTED]	[REDACTED] [REDACTED] [REDACTED] [REDACTED] [REDACTED]

[REDACTED]

Transgrid submitted that the benchmarks show:⁷³

[REDACTED]

We considered the information provided in Transgrid's application and consulted with AEMO on whether the payment terms likely met AEMO's enablement requirements needed to ensure the SSNS services can be dispatched as required by AEMO.

Having regard to the information and evidence provided in Transgrid's application, the RIT-T documentation and through stakeholder engagement, we are satisfied that the payment

⁷³ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, pages 17-18.

⁷⁴ Transgrid, *Application for the AER to make a determination on the methodology for a system security network support service*, pages 13-14.

methodologies in Transgrid's draft contract likely reflect the least cost that it could reasonably have achieved in the circumstances. We consider that the RIT-T process, and the steps Transgrid took after publication of the RIT-T to negotiate the draft contract terms, including the RFP process and direct negotiations with [REDACTED] and Snowy Hydro described above, constitute reasonable steps to achieve the lowest costs in the circumstances.

We also consider that the payment methodologies are not unreasonable, having regard to relevant cost information used in the RIT-T process, [REDACTED]

We further consider that the payment methodologies are not unreasonable having regard to the costs of realistic alternatives for obtaining a similar service, including the benchmark costs [REDACTED]

Finally, consistent with our finding on prudence, having regard to the specific circumstances of this draft contract and the characteristics of Snowy Hydro's Tumut 3 units, we do not consider the payment terms in the draft contract, including the fixed availability payment, are unreasonable, having regard to costs, cost components, mix of cost components, or triggers. We find no evidence of unnecessary costs or an unreasonable risk that triggers of cost components will lead to unnecessary costs.⁷⁵

Therefore, we consider there is sufficient evidence and information available to us to establish that the payment methodologies in the draft contract are reasonably likely to result in efficient costs, or the least cost that Transgrid could reasonably achieve in the circumstances.

⁷⁵ The prudent and efficient balance of fixed and variable components of payment terms for SSNS services will depend on a range of factors, including the operational characteristics of the supply units, and the nature and timing of the services being supplied. Payment terms that include significant fixed cost components should be justified against the service provider's cost of supplying availability, and should result in an overall cost to consumers that is reasonable compared to the benchmarked costs of alternative supply options.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
GCA	Guaranteed contract availability
NEO	National Electricity Objective
NER	National Electricity Rules
NSP	Network support payment
PACR	Project assessment conclusions report
RFP	Request for proposal
RIT-T	Regulatory investment test for Transmission
SEP	Security enablement procedure
SSSP	System strength service provider
SSNS	System security network support
TNSP	Transmission network service provider

Appendix A: TNSP decision tree on contracting system security network support services

