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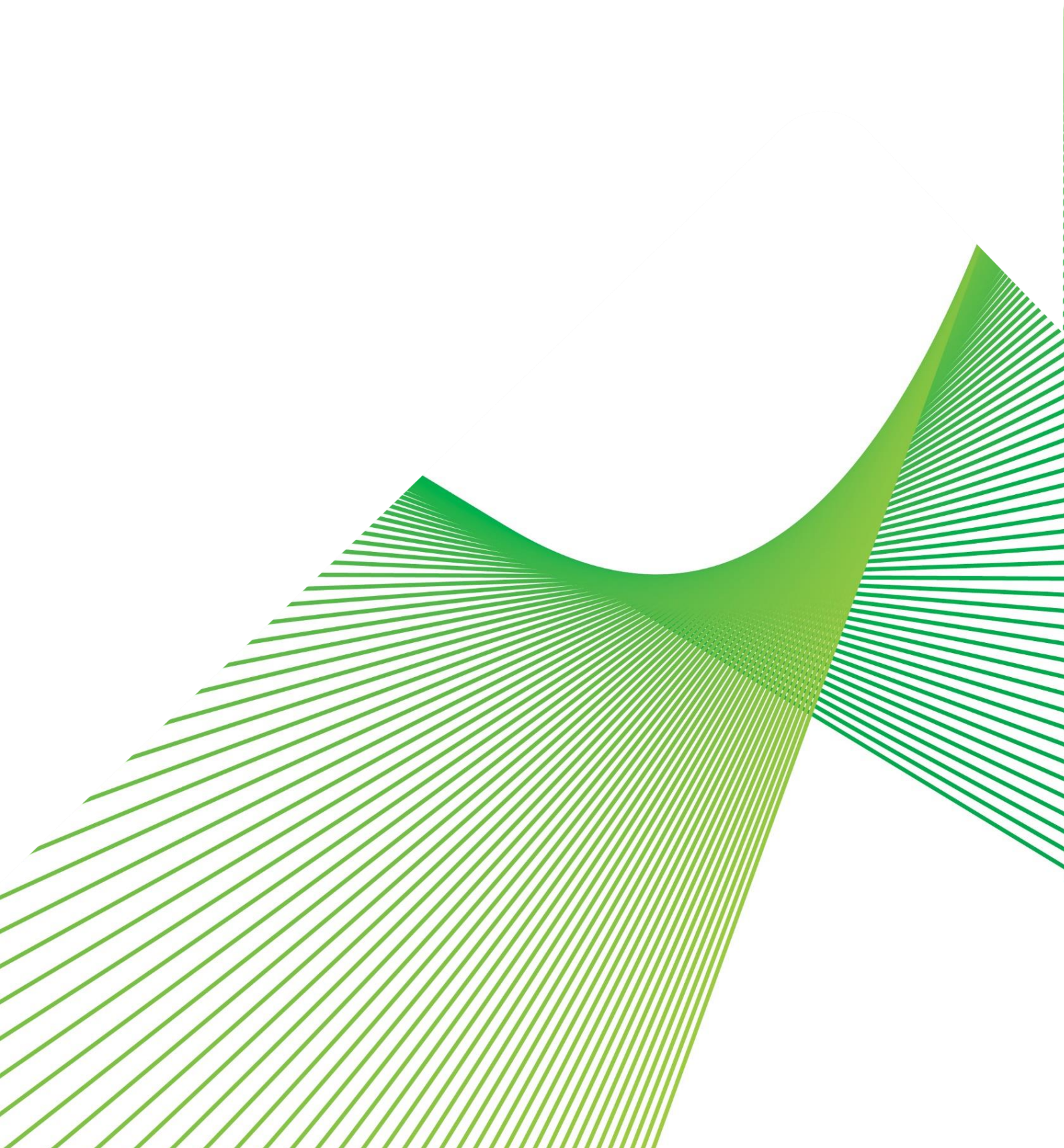
Riverina BESS - Network Support Pass Through Application 2024/25



Riverina BESS 2024/25 Network Support Pass Through Application

In FY2024/25, Transgrid experienced a positive network support event and made associated payments for stability services in South-Western NSW. This payment was made to enact the preferred option confirmed in the Improving stability in South-Western NSW RIT-T. In order for the network support pass through amount to be incorporated in our FY2026/27 transmission prices, we must seek the AER's approval to adjust our maximum allowable revenue (MAR) under clause 6A.7.2 of the NER.

We are submitting this positive network support pass through to the value of $4.78 million ($ June 2025). This amount includes actual network support payments made under the contract, and the preparation and administration costs for this non-network option associated with the RIT-T and contract negotiation.

The information required under clause 6A.7.2 of the NER and the AER's "Procedural guideline for preparing a transmission network support pass through application" (Network Support Pass Through Guideline) is set out below.[1] The basis of the financial values in this application are noted in brackets. The relevant calculations are available in a spreadsheet attached to this Application (Attachment 1).

1. Details of the network support required

The network support relates to stability services in South-Western NSW and occurred in FY2024/25. A positive network support event (i.e. an under-recovery) occurred in the 2024/2025 regulatory year.

The main power system in South-Western NSW consists primarily of one 330 kV transmission line from Darlington Point to Wagga Wagga (Line 63) and 220 kV transmission lines west of Darlington Point (including Line X5). This area has seen significant growth in renewable connections to the transmission network as part of the wider energy market transition. This is having an impact on how this part of the power system operates. Specifically, our system studies have highlighted that the 132 kV system in South-Western NSW can experience significant stability issues following an outage of Line 63, including thermal overloads and under-voltage.

The PACR found that a new Darlington Point to Dinawan 330 kV transmission line supported by an interim 3-year network support contract with a battery energy storage system (BESS) solution ('Option 4') was the preferred option to address the issues.

After the publication of the PACR, two new additional project options were also considered. The first option was a 6-year network support contract with a BESS rather than the proposed 3-year term. The second option considered using the network support services provided by a local BESS indefinitely. Detailed modelling found that the latter option was expected to deliver the largest benefits to consumers and producers from all options considered. It became the new preferred option in the RIT-T.

[1] The guideline is available here.

Given that this new preferred option involved no modifications to the transmission network, Transgrid sought and received permission from the AER to progress with this option without the need to create and publish a second PACR.[2]

This network support pass through application relates to three separate but related Network Support Agreements (NSA) between Transgrid and entities controlled by Edify Energy (henceforth referred to as 'the contract'). The three NSAs are related because the aggregated inverter capacity of all three BESS facilities is required to provide the network support service that was selected as the preferred option to meet the identified need considered in the RIT-T.

The contract allows the BESS to maintain voltage stability in the region by helping avoid fast voltage collapse, thermal overloads and under-voltage conditions following the occurrence of credible contingency events on the system. This allows more power to be generated by renewable generation in the region, minimising constraints and avoiding associated market congestion, which delivers overall market benefits as concluded in the RIT-T. The BESS utilise already-existing assets and are located in the "Riverina Energy Storage System" site.

2. Network support payment allowance

At the time of the 2023-28 Revenue Proposal (and Revised Proposal), Transgrid did not have any network support contracts in place. In our Revised Proposal, we advised the AER that we were progressing commercial negotiations with non-network service providers but that the negotiations would not conclude until after the AER makes its Final Decision in April 2023. Accordingly, Transgrid's network support allowance in the 2023-28 regulatory period were included as a value of zero. We explained that we would use network support cost pass through provisions under the Rules to recover these costs should they arise.[3] The AER approved of this approach in its Final Decision, stating 'we note the costs associated with the network support payments are recovered from customers'.[4]

3. Actual network support expenditures

Our actual Improving Stability in South-Western NSW RIT-T network support costs related to network support payments made in FY2024/25 were $2.79 million ($ midyear nominal). This represents the direct costs incurred in the provision of network support services under the contract during the 2024-5 regulatory year.

In addition to the actual network support payments, other expenditures were incurred to the value of $1.31m ($ midyear nominal). These consist of the:

- Costs of preparing the non-network option including the RIT-T process, and independent market modelling.
- Associated legal and commercial arrangements for negotiating, enacting and administering the contract.

[2] The Notice is available on Transgrid's website here.
[3] Please see the 2023-28 Revised Revenue Proposal, p 42.
[4] Please see the 2023-28 Revenue Proposal Final Decision - Attachment 5 Capital Expenditure, p51.

4. The non-network option costs

As noted in Table 1 and Attachment 1, the costs of preparing the network support services and the contract are included in this Application. Contracts were executed in July 2024 and the service started in September 2024.

These preparation and administration costs incurred were $1.31m ($ midyear nominal).[5] Specifically:

- Conducting a RIT-T to assess the relative market benefits of credible network and non-network options to meet the identified network need. This included technical, economic and regulatory consultant involvement in options development, market modelling and drafting.
- Technical and modelling studies to establish performance standards.
- Preparing the agreement with AEMO on the implementation of the service including integration with market systems.
- External legal advice for the contract drafting and negotiation.
- Incremental internal labour (admin and staffing) costs for Transgrid employees for the network support services in South-Western NSW. Transgrid established separate cost codes from business as usual (BAU) activities and we confirm that they were not included in our regulatory allowance. Use of internal labour creates an incremental economic cost for Transgrid which can be reflected in the value of the labour hours (proxied by internal labour rates) that have been expended on the administrative activities. We also note that if we did not use internal labour for non-network options, we may be incentivised to utilise less efficient contract labour, which would not be in the long-term interests of consumers.

A further breakdown to the preparation and administration costs is presented further in Table 1 below.

Transgrid proposes to pass through these costs, including our incremental labour costs. Inclusion of incremental labour costs is consistent with the AEMC's Draft Determination on the 'Improving the cost recovery arrangements for Transmission non-network options' Rule change, which states "The AER's current network support pass through guideline allows for the recovery of "other costs" a TNSP may incur including administrative, staffing and consultant costs".[6] Transgrid notes the policy intent of the rule determination is to support the use of non-network options through changes to the cost recovery framework. Inclusions of these costs is consistent with other AER network support pass through Determinations such as Powerlink's 2023/4 Application.[7]

5. Network support pass through amount, including time cost of money calculations

It is a positive pass through event because our network support payments in FY2024/25 were more than the network support allowance (included as a value of zero) in the FY2023–28 Revenue Determination, for that year, by $2.79 million ($ midyear nominal). Adding the preparation and administration costs to this, and adjusting for the time value of money, this amounts to a pass-through amount for the 2024/25 financial year of $4.78 million ($ June 2025). This has been calculated using the model published by the AER together with its Network Support Pass Through Guideline.

[5] As the preparation costs stretch back over several years prior to the contract costs they have been presented in nominal terms in this document, and adjusted for inflation and the time value of money in Table 1 and Attachment 1.
[6] For further information please see Table C.1 of the Draft Determination.
[7] Powerlink Application and determination, available here.

Table 1 Network Support Pass Through Amount

Item	Cost incurred
Network support payments	$2.79m ($ midyear nominal)
Preparation costs	$1.31m ($ midyear nominal)
Consultant 1 – RIT-T market modelling	*$0.55m*
Consultant 2 – Preparation of RIT-T	*$0.23m*
Consultant 3 – Network solution design studies	*$0.18m*
Consultant 4 – Legal support for network support agreement preparations	*$0.06m*
Incremental labour costs	*$0.27m*
Other consultant costs	*$0.03m*
Adjustment for the time cost of money (clause 6A.7.2 (i)(4))	$0.62m ($ June 2025)[8]
Total Positive Pass Through Amount for Riverina BESS FY2024/25	**$4.78m ($ June 2025)**

Please note that totals may not sum due to adjusting for inflation and rounding. For further information on our calculations please see the calculation worksheet available in Attachment 1.

The contract runs for three years in order to meet the need identified in the RIT-T and is anticipated to incur ongoing costs of around $3.7m per annum ($ nominal) in network support payments. Transgrid has the option to extend the contract if needed. This provides us the flexibility to assess future needs for development in this area of the network as part of the Transmission Annual Planning Report and Revenue Proposal reviews, meeting consumer needs at least cost. The annual cost includes the contract costs and incremental labour costs for its preparation and administration.

6. Reasons for the network support payment

The network support pass through application for FY2024/25 reflects the impact of the charges payable under the contract for the contracted services. The network support event relates to the actual network support payments being higher than the network support allowance. We also confirm that the amount of network support payment does not include any amount that is a substitute for a network augmentation where an allowance for capital expenditure has been provided for in our revenue determination.

7. Verification of actual network support expenditure

The contract and preparation costs are linked directly to the network support event. These costs were not included in the general operational expenditure allowances in our current and previous regulatory control periods.

Network support payments are audited as part of our annual regulatory accounts audit process. We will submit our audited regulatory accounts, for the financial year ending 30 June 2025, to the AER by 31 October 2025.

[8] The numbers in this table have intentionally been presented in various dollar bases in order to highlight the time value of money. The time value of money calculation reflects inflation and the Weighted Average Cost of Capital (WACC). For further information please see Attachment 1.

8. Details on the provider of the network support service

Transgrid executed the contract with the entities controlled by Edify Energy on 9 July 2024. The agreements procure network support services to be provided Edify Energy's Riverina and Darlington Point BESS facilities near Darlington Point. The services commenced on 26 September 2024, following an AEMO-published notice of new constraint equation for Line 63. Transgrid pays service fees on a quarterly basis and the dollar amount of the service fees will be escalated annually based on changes in CPI. The contracts will expire on 26 September 2027, unless extended, as allowed for in the contract terms. Transgrid reviews system reliability in South-Western NSW on an annual basis as part of the Transmission Annual Planning Report.

The RIT-T criteria have been met

The identified need for this RIT-T was to increase overall net market benefits in the NEM through relieving existing and forecast constraints on generation connecting to the transmission network in South-Western NSW. As per the requirements of the RIT-T, the preferred option selected is expected to deliver the largest benefits to consumers and producers from all options considered and has the effect of deferring a more costly network investment that would otherwise be required (with an estimated capital cost of $167m).[9]

Efficiency of contractual arrangements

The contract and preparation costs are efficient, noting the following aspects of their arrangements:

- Given the local nature of the constraint at Darlington Point Substation, no other provider of voltage control services was available in the region. Although a competitive process was not possible, this is considered a least cost outcome for the consumer as it is more economically efficient than a network augmentation ($167m).
- The fees in the contracts are consistent with the costs considered in the RIT-T (adjusted only for inflation).
- The contract is effective for three years with two opportunities to renew it in the future. This allows us to reassess based on costs, the availability of alternative options, and the need for the service based on the completion of Transgrid's major projects. This was part of the RIT-T process and is reviewed on an annual basis as part of the Transmission Annual Planning Report.
- The contracts have a high standard for availability and abatements to return value to consumers if the service provided is not up to standard.
- The service is being provided within the facility's current Generator Performance Standards. This means that Transgrid is paying for availability without imposing higher standards on the asset.
- The voltage control service is provided by the reactive power control capabilities of the BESS inverters and does not require active power reservation. This means that no active power capacity is taken out of the market, and consumers get to benefit both from the voltage control services provided by the assets, and the ability for the facility to efficiently participate in the regular energy and ancillary services markets.

[9] This is the cost quoted in the PACR published June 2022. For further information please see the PACR here.

- The services used for contract preparation and administration were procured based on tendered panel rates.

Details on the TNSP's decisions and actions in managing the network support event

Transgrid's actions and decisions in relation to the risk of the event are efficient, noting the network support costs included in this application are consistent with the contract terms, and reflect the outcomes of Transgrid's negotiation process to procure and contract for network support from a BESS solution.

Appended Documents

- Attachment 1 – Cost Calculations