Sean Mullins
Australian Energy Regulator

Submission made online through FERM@aer.gov.au

19 May 2026

Dear Mr Mullins,

Subject: Draft AER FERM Scheme Regulator Guideline

SA Power Networks welcomes the opportunity to provide a submission to the Australian Energy Regulator (AER) on the Draft Firm Energy Reliability Mechanism (FERM) Scheme Regulator Guideline.

SA Power Networks is the primary electricity distributor in South Australia, supplying more than 950,000 consumers. SA Power Networks supports the creation of the FERM scheme and considers the draft guideline to provide sufficient information for stakeholders. SA Power Networks has identified three key areas for the AER's further consideration for the final guideline.

1. **Variation to the contribution determination within the regulatory year**

The draft guideline highlights the risk borne by Distribution Network Service Providers (DNSPs) in the event of a variation to the contribution determination during the regulatory year. In the event of such a variation, Transmission Network Service Providers (TNSPs) may adjust prescribed transmission service charges to DNSPs within that regulatory year. However, DNSPs cannot amend network charges outside the regular Annual Pricing Proposal (APP) process which is due on 31 March, to recover this variation. As a result, DNSPs face a cash flow risk and may carry liabilities until the next APP process, at which point those liabilities are recovered over the following 12 months through the under/over-recovery mechanism.

The AER should clarify whether it is reasonable for DNSPs to bear the cash flow risk arising from a variation to the contribution determination during the regulatory year. Given that TNSPs also operate under a similar under/over-recovery mechanism, we ask the AER to consider options to prevent DNSPs from bearing the entire risk. This risk could be mitigated by limiting the variation that may be incorporated into revised prescribed transmission charges to a specified percentage, with any remaining amount recovered in the following year.

2. **Timing of the contribution determination process**

As part of SA Power Networks' APP, we submit our draft prices for distribution, transmission and South Australian Government schemes to the AER in mid-February. These inputs inform the development of the AER's draft Default Market Offer (DMO). In preparing these draft prices, ElectraNet, as the sole TNSP in South Australia, has historically provided a high-level estimate of transmission charges to support SA Power Networks' pricing process.

SA Power Networks is concerned that the proposed 1 March publication timing for the contribution determination may not provide ElectraNet with sufficient time to incorporate FERM related costs into its forecast transmission charges during the draft pricing process. This in turn is likely to reduce the accuracy of prices published in the AER's draft DMO.

SA Power Networks therefore encourages the AER to bring forward the timing of the FERM determination by several weeks to enable publication by 1 February. If this is not feasible, we request that the AER provide ElectraNet with a high-level estimate of the likely FERM contribution determination amount by the end of January each year so that it can be reflected in ElectraNet's forecast estimate for SA Power Networks to incorporate in our draft network prices.

SA Power Networks considers it important that the DMO process is informed by accurate forecast information for both the benefit of customers and to support the credibility of the DMO mechanism.

3. Calculation of the contribution amount

We note that the current formula for average annual expenditure does not appear to include net expenditure for year t.

If you have any queries relating to this submission, please contact Pratib Parthiban at [redacted]

Yours sincerely,

[redacted]

Richard Sibly
<u>Head of Regulation</u>