

29 July 2022

Mr Warwick Anderson  
General Manager Network Pricing  
Australian Energy Regulator  
GPO Box 3131  
Canberra ACT 2601

Dear Mr Anderson,

**Re: Consultation – Draft amendments to the System Strength Pricing methodology guidelines**

Australian Energy Market Operator (AEMO) welcomes the opportunity to provide its submission in response to AER's consultation on its System Strength Pricing Methodology Guideline (Guideline).

AEMO supports the clarity provided by the Guideline and welcomes the principle-based approach in developing changes to the Guideline.

AEMO's submission addresses the following issues:

- **Indexation and associated financial parameters:** AEMO supports appropriate indexation for System Strength Unit Prices (SSUP) for each regulatory year within the system strength charging period. However, AEMO considers further clarification is required on the adoption of appropriate indexation and guidance on the use of financial parameters generally given that AEMO does not have a maximum allowed revenue determination.
- **In-period New Nodes:** AEMO wishes to understand how the SSUP will be applied to new nodes which are identified during a regulatory period.
- **TNSPs who are not SSSP:** AEMO considers the guideline should provide more clarity, specifically in the Victorian context, in relation to Transmission Network Service Providers (TNSPs) which are not System Strength Service Providers (SSSP).

**Indexation and other financial parameters:**

The AER's draft amendments to the Guideline propose that the basis for indexation of SSUPs be consistent with the approach used for the inflation indexation of a TNSP's maximum allowed revenue under its revenue determination. AEMO's current pricing methodology for the 2022-27 period as approved by the AER, does not contain provisions for indexation and AEMO does not have a maximum allowed revenue determination.

Accordingly, different provision will need to be made for the appropriate basis for indexation in AEMO's case.

Additionally, it is likely the development of SSUPs will require the use other financial parameters (for example, rate of return and/or discount factors) and AEMO considers these matters should be addressed in the Guideline.

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**In Period New Nodes:**

AEMO seeks clarity on the treatment of new nodes established during a system strength charging period; in particular, the period for which the SSUP will be established for newly identified or brought forward nodes. AEMO believes there may be benefit in providing detailed clarification and, where required, worked out examples could be useful.

**TNSPs which are not SSSP:**

As the AER is aware, the jurisdictional arrangements in Victoria differ from other States within the National Electricity Market (NEM). AEMO is responsible for jurisdictional planning in Victoria, management of the connection process, quoting/charging for the provision of system strength services and recovers prescribed transmission services costs through the Transmission Use of System (TUoS) mechanism.

In light of the above, AEMO believes that AER's proposed paragraph 2.1 (l) would not apply to AusNet and, as such, considers this ought be clarified in the Guideline.

AEMO would welcome the opportunity to work through these issues with AER and, if you would like to contact us to discuss this submission in detail, please contact Yogesh Nagarajan at [REDACTED]

Yours sincerely,

Yogesh Nagarajan

**Manager – Finance Strategy and Analysis**