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Our Ref: 64922 - D19/68509
Contact Officer: Lisa Beckmann
Contact Phone: 02 6243 1379

16 May 2019

Rainer Korte
Executive Manager, Asset Management
ElectraNet
52-55 East Terrace
ADELAIDE SA 5000

Dear Mr Korte

Re: Request for extension of time to submit cost pass through application

I refer to your letter dated 7 May 2019 requesting an extension of time to submit a cost pass through application in respect of an inertia shortfall event, pursuant to clause 6A.7.3(k) of the National Electricity Rules. The letter seeks this extension until 31 December 2019 to assess and quantify the full effect of the inertia shortfall in SA declared by AEMO on 21 December 2018.

In the AER's view, it is currently unclear whether an inertia shortfall event has occurred or will occur, but it is possible an inertia shortfall event occurred on 21 December 2018. The AER is providing this written notice just in case an inertia shortfall event did occur on 21 December 2018. If an event occurred on this date, a cost pass through application would have been due on 7 May 2019.

In particular, it is possible that an inertia shortfall event occurred on 21 December 2018 if ElectraNet:

- a) Is required by AEMO's declaration on 21 December 2018 to supply inertia network services in excess of 4,400 MWs up to a secure operating level of 6,000 MWs under islanded conditions; and
- b) Is likely to incur the relevant costs that would be the subject of a pass through application.

However, we understand that it is not yet clear whether ElectraNet is likely to incur any relevant costs associated with providing inertia network services in excess of 4,400 MWs, and that the likely amount of those costs (if any) is also unclear at this stage. The extension

of time sought by ElectraNet would enable these issues to be resolved before any pass through application is lodged.

The AER is therefore satisfied that ElectraNet's proposed extension is justified by the difficulties of assessing or quantifying the effect of the relevant pass through event.

Moreover, the AER is satisfied that the proposed length of the extension (to 31 December 2019) is appropriate given that the indicative time at which the shortfall will arise is 31 May 2020. ElectraNet has outlined its process for investigating economic options to supply inertia network services in excess of 4,400 MWs, which will be required for ElectraNet to assess and quantify the full effect of the inertia shortfall. This process includes: defining the technical requirements of a compliant solution, testing the market for options and costs, evaluating the technical and economic viability of potential solutions, and finalising a recommended solution and the associated cost impacts. ElectraNet anticipates completing this process by late 2019. The AER is satisfied with ElectraNet's anticipated completion date and its rationale for needing to complete these steps.

Given above, the AER has determined to extend the time that ElectraNet has to submit a cost pass through application for the inertia shortfall in SA declared by AEMO on 21 December 2018 until **31 December 2019**.

For completeness, the AER has not formed a view about whether, or when, a pass through event has occurred, or will occur. Regardless of whether the event is found to have occurred when AEMO made an inertia shortfall assessment on 21 December 2018, or at some later date, the AER will make a decision on ElectraNet's cost pass through application after it has been submitted.

If you have any queries in relation to this letter, please contact Lisa Beckmann on 02 6243 1379.

Yours sincerely

A handwritten signature in dark ink, appearing to be 'S. Roberts', with a stylized flourish at the end.

Sebastian Roberts
General Manager, Transmission and Gas Branch
Australian Energy Regulator

Sent by email on: 16.05.2019