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

Email: AERPricing@aer.gov.au

Consultation – Draft amendments to the Pricing methodology guidelines: System strength pricing

Dear Warwick,

Energy Networks Australia (ENA) appreciates the opportunity to make this submission in response to the AER's consultation on the Draft Amendments to the Australian Energy Regulator's (AER) Pricing Methodology Guidelines for system strength pricing.

ENA is the national industry body representing Australia's electricity transmission and distribution and gas distribution networks. Our members provide more than 16 million electricity and gas connections to almost every home and business across Australia.

ENA supports the AER's principle-based approach developing changes to the Pricing Methodology Guideline and the adoption of the long run average cost approach. This approach allows for appropriate implementation flexibility in individual pricing methodologies.

ENA's key messages in response to the AER's consultation are:

- » Any information requests for data relating to system strength services need to be commensurate with the value of the service within the overall prescribed transmission charges and cognisant of time and information availability limitations;
- » Seek clarity that new System Strength Unit Prices (SSUP) can be introduced within period if required for new system strength nodes;
- » Support the appropriate indexation of the SSUP for each regulatory year in the system strength charging period consistent with the annual revenue adjustment process outlined within transmission revenue determinations; and
- » Transmission Network Service Providers (TNSP) who are not the System Strength Service Providers (SSSP) may need differentiated treatments in the guideline. TNSPs obligations are becoming increasingly complex with the variation in TNSP roles. ENA would welcome the opportunity to work through these issues to ensure that there is a shared understanding and appropriate requirements.

Information requirements

The proposed information requirements included in clause 2.1 are reasonable. A key limiting factor for the provision of additional information will be the timing challenges of the AER finalising the guideline at the end of August and for this information to be included in submissions at the end of November. The first AEMO system strength report is only available on 1 December and coincides with revisions to system strength guidelines.

The Explanatory Statement outlines the AER's intent to request additional information that supports the proposed pricing methodology for system strength. This may include requests for sources for costs and demand forecasts for system strength services, models used to determine the SSUP for each node on its network for the system strength charging period and any reports, including consultant reports.

In view of AEMO updating a number of system strength guidelines and also generating the first system strength report in December 2022, timeframes to develop and publish the first system strength price are very limited. Consequently, ENA expects initial forecasts to be less informed. It is anticipated that, over time, forecasts of demand and costs will improve with scale, levels of self-remediation will be better understood, as will the treatment of government policy procured system strength. These factors, and others, will influence the SSUP signal of forward pricing trends of synchronous condensers vs other technologies and non-network options.

Any additional information requests for data relating to system strength services need to be commensurate with the value of the service within the overall prescribed transmission charges and cognisant of time and information availability limitations. ENA queries the need to provide detailed models as the AER is approving a methodology to calculate the SSUP and not the price itself. There may be benefit in considering the provision of worked examples to demonstrate compliance with the updated Pricing Methodology Guidelines.

Treatment of new nodes and SSUPs within period

ENA understands that the SSUP and System Strength Locational Factor (SSLF) are established for the system strength charging period for the relevant connection point. AEMO may introduce new nodes on 1 December each year that take effect in three years' time. There is therefore potential that new nodes could be required within an established system strength charging period or that previously forecast new nodes are brought forward into a current system strength charging period. ENA would welcome clarity in the final Explanatory Statement that allows for new SSUPs to be calculated for new nodes that were not known at the start of the system strength charging period.

Appropriate indexation of the SSUP is supported

ENA supports appropriate indexation of the SSUP for each regulatory year in the system strength charging period, consistent with the annual revenue adjustment process for inflation indexation of the maximum allowed revenue determined in a transmission network's revenue determination.

TNSPs who are not SSSP's need to have differentiated treatment

The AEMC Final Determination¹ proposed transitional arrangements required:

- » TNSPs who are SSSPs to update their respective pricing methodologies to incorporate system strength charges.
- » Certain TNSPs who are not SSSPs to include how the system strength charge will be incorporated into their pricing methodology.
- » Distribution Network Service Providers (DNSP) to set out how they will pass through the system strength charges to the relevant connections in their network.

The TNSPs who are SSSPs are AEMO, TasNetworks, Transgrid, ElectraNet and Powerlink. The TNSPs who are not SSSPs are Ausgrid, DirectLink, AusNet and MurrayLink. The transitional arrangements in cl. 11.143.5 of the NER require the applicable TNSPs by no later than 30 November 2022 to take into account the AER's revised pricing methodology guideline and submit revised pricing methodologies to the AER for approval by 31 January 2023.

The AER's Explanatory Statement clarifies² that TNSPs who are not SSSPs but who have system strength connection points on their networks are Ausgrid and AusNet. These TNSPs will need to submit updated pricing methodologies explaining how they will set charges and comply with the cl. 6A.23.6 of the NER.

In the case of AusNet, in Victoria, AEMO is the Coordinating Network Service Provider (CNSP) that charges all transmission connection points the prescribed transmission charges, AEMO also manage the connection process and provides the quote for these system strength charges. The AER's proposed 2.1 (l) drafting is not relevant for AusNet. The AER in the final decision should make it clear that AusNet does not need to provide an updated pricing methodology by 30 November 2022 for the Victorian declared network. It is not AusNet that passes these charges on to transmission users in 6A.23.6.

In contrast Ausgrid provides transmission services and manages transmission connections and hence would quote the system strength charges where relevant. Where the connection applicant does not elect to self-remediate, Ausgrid will charge the System Strength User the System Strength charges that will replicate the billing of these charges by Transgrid to Ausgrid. The AER's proposed 2.1 (l) is relevant for Ausgrid. The AER's final Explanatory Statement should reflect the different treatment of AusNet and Ausgrid.

ENA would welcome the opportunity to work through these issues to ensure that there is a shared understanding of the requirements. In addition both Ausgrid and TasNetworks are required to provide a revised pricing methodology to the AER by 30 November 2022. The AER approves the revised pricing methodologies by 31 January 2023. In the case of Ausgrid and TasNetworks, pricing methodologies for the next Regulatory Control Period will also set out the pricing methodology for system strength. These will be submitted as part of their revenue proposals by 31 January 2023 – the same time in which the AER is due to approve changes to the existing pricing methodology.

¹ AEMC Final Determination, Efficient Management of System Strength, 21 Oct 21, p 193

² AER Explanatory Statement, Draft decision, Pricing methodology guidelines: System strength pricing, p32

The AER's Explanatory Statement noted stakeholders did not consider AEMO should be treated differently to other SSSPs and draft guidelines do not contain any provisions that modify their application in Victoria. ENA supports this position and encourages the AER's final decision to make clear that the obligation lies with AEMO to update its pricing methodology in Victoria.

ENA notes that the AER has not mentioned DirectLink and MurrayLink in the Explanatory Statement, despite these two interconnectors being mentioned in the AEMC Final determination. ENA suggests that it be clarified in the AER's final decision that they do not need to submit a revised pricing methodology.

ENA also notes that the NSW Roadmap may introduce Renewable Energy Zone (REZ) Network Operators. These new entities may be licenced and National Electricity Market (NEM) registered TNSPs. It may be useful for the final decision to clarify the impacts on NEM registered TNSPs that may have obligations under Chapter 5 of the NER but are not economically regulated under Chapter 6A. In any event, the AER needs to make clear in the final decision in August the obligations for Transgrid in these new REZs given the varied planning arrangements.

ENA recognises the need to continue to work collaboratively with the AER to ensure that the updated pricing guidelines appropriately balance the need for consistency in the pricing approach while also facilitating flexibility. ENA will be working with the interested TNSPs to develop commonality to the extent practical to enable consistent application in the updated pricing methodologies due in November. This may be helpful for the AER's subsequent approval of the pricing methodologies in December/January.

If you would like to discuss any aspect of our submission in further detail, please contact Verity Watson at

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Yours sincerely

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General Manager - Networks