

18 December 2019

Mr Mark McLeish
Acting Branch Manager, Transmission and Gas
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mark,

RE: REQUEST FOR EXTENSION TO SUBMIT COST PASS THROUGH APPLICATION

Pursuant to clause 6A.7.3(k) of the National Electricity Rules (**NER**), TasNetworks requests an extension to the timeframe in which to submit an inertia and fault level (system strength) cost pass through application. TasNetworks notes that there is currently some ambiguity around when a pass through event can be considered to have occurred in relation to an inertia or system strength declaration. On the strictest interpretation of the NER, TasNetworks considers the 90 business day window to submit a pass through application would not be sufficient to fully assess and quantify the effect of the Australian Energy Market Operator's (**AEMO's**) recent Tasmanian shortfall declaration. The following provides background to this issue and reasons for the request along with a proposed extension for the Australian Energy Regulator's (**AER's**) consideration.

Tasmanian Shortfall Declaration

Consistent with its obligations under clauses 5.20B.3(c) and 5.20C.2(c) of the NER, AEMO published a notice of inertia and fault level shortfalls in Tasmania on 18 November 2019. The notice declares an inertia shortfall of 2,350 MW.s in Tasmania and fault level node shortfalls of:

- 530 MVA at George Town,
- 320 MVA at Risdon,
- 310 MVA at Waddamana, and
- 180 MVA at Burnie.

AEMO's rationale for the declaration is the potential for Tasmania to experience low levels of synchronous generator unit dispatch more often in future. This is a result of impending and future planned connections of large, asynchronous generation sources in the Tasmanian network. The notice obligates TasNetworks to make arrangements to remedy the shortfalls from 1 April 2020. However, a further declaration may be made once AEMO has completed additional investigations.

TasNetworks Response

TasNetworks proactively investigated options for meeting an inertia and/or system strength shortfall ahead of the publication of the AEMO notice. This included evaluating options such as installing synchronous condensers as has been undertaken in South Australia. It also involved seeking expressions of interest from proponents to provide inertia and system strength services in Tasmania. These investigations have concluded that the procurement of inertia and system strength services will be the least cost, technically feasible solution to meeting the shortfall as required by the NER. As a result, TasNetworks has entered negotiations for the provision of these services.

Cost Pass Through Requirements

Clause 6A.7.3(c) of the NER permits TasNetworks to apply to the AER for a positive pass through amount within 90 business days of a relevant positive change event occurring. As part of this, TasNetworks must provide evidence of the actual and likely increase in costs stemming from the pass through event. If there is sufficient difficulty in assessing or quantifying the effect of the relevant pass through event, the AER may extend the 90 business day timeframe for application lodgement under clause 6A.7.3(k).

TasNetworks notes that the granting of an extension to submit a pass through application in relation to a declared shortfall is not without precedent. In May 2019, ElectraNet sought an extension from the AER to better assess impacts from an AEMO declaration of an inertia shortfall in South Australia. In its extension application ElectraNet considered there was some ambiguity surrounding the date on which a positive pass through event could be said to occur. In relation to AEMO inertia and system strength declarations, it might be considered to occur on:

- the date of the declaration;
- the date at which the obligations of the declaration take effect; or
- the date at which sufficient information is available to confirm the actual cost impacts of the declaration.

In its reply, the AER did not make a formal determination on whether a positive pass through event had occurred. But noting that the costs to ElectraNet of meeting the shortfall were unclear, the AER decided to extend the timeframe in which ElectraNet had to submit the pass through application until 31 December 2019. This was more than a year on from the initial AEMO inertia shortfall declaration which was made 21 December 2018.

Extension Request

There are many similarities between the ElectraNet example and the current situation. With no formal precedent being made, it remains unclear when a positive pass through event may be said to have occurred. Under the strictest interpretation (the date of declaration), a pass through application for the Tasmanian declaration would have to be submitted around the time the obligations of the declaration take effect (1 April 2020). TasNetworks considers this would be too short a timeframe to fully assess and quantify the effect of the pass through event to inform a pass through application. This is on the basis that:

- negotiations to procure the requisite services have only just begun and will require some months to complete before being approved by respective parties Boards;
- the technical and operational procedures underpinning services procurement will need to be developed with any necessary capital expenditure unknown until this is completed;
- the 90 business day window will span the summer holiday period, including a forced business shutdown period, and this likely to see resourcing thinness with key personnel away.

Given these factors, TasNetworks requests that the AER grant an extension until 30 June 2020 for TasNetworks to submit a pass through application in relation to the inertia and fault level shortfall declaration in Tasmania. TasNetworks considers this will allow sufficient time for all relevant financial, contractual, operational and procedural developments to be concluded such that the effect of the declaration can more accurately assessed.

TasNetworks would welcome the opportunity to discuss this request further with you. Should you have any questions, please contact Chantal Hopwood, Leader Regulation, by phone on (03) 6271 6511 or via email (chantal.hopwood@tasnetworks.com.au) in the first instance.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'W. Tucker', with a long horizontal flourish extending to the right.

Wayne Tucker

General Manager, Regulation, Policy and Strategic Asset Management