

31 August 2021

Mr Sebastian Roberts
General Manager
Australian Energy Regulator
GPO Box 520
Melbourne VIC 3001

Dear Mr Roberts

RE Network Support Pass Through Application for 2020-21

The Australian Energy Market Operator (AEMO) declared a [Notice of Inertia and Fault Level Shortfalls](#) in Tasmania (AEMO Declaration) in November 2019. To address the shortfalls, and working closely with the AEMO and the Australian Energy Regulatory (AER), TasNetworks entered into an inertia and system strength services procurement contract [REDACTED]. This network support pass through application for 2020-21 is for payments made by TasNetworks under this contract, being a positive pass through amount of \$730,737. This represents the amount that TasNetworks proposes to recover from customers as a revenue under-recovery when setting transmission prices for 2022-23.

The pass through of network support costs to Transmission Network Users is required under clause 6A.7.2 of the National Electricity Rules. The AER established a Procedural Guideline for Preparing a Transmission Network Support Pass Through Application (Guideline) to provide further direction on this process. This network support pass through application for the regulatory year concluding 30 June 2021 has been prepared in accordance with these provisions and addresses the specific information requirements of the Guideline, as outlined in Appendix A. The relevant calculations are contained in a separate spreadsheet included as Appendix B of this application, in accordance with the reporting template accompanying the Guideline.

If you have any questions regarding this application please contact TasNetworks' Regulation Leader, Chantal Hopwood, at [REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

[REDACTED]

Appendix A: Response to National Electricity Rules and Procedural Guideline for Preparing a Transmission Network Support Pass Through Application

1. Actual network support expenditure

A total amount of \$678,102 was expended on network support during 2020-21 (\$Jun 2021). This total represents direct costs incurred in the provision of network support services under the procurement contract [REDACTED] during the 2020-21 regulatory year. No network support allowance was included in the AER's final 2019-2024 revenue determination for TasNetworks.

2. Network support pass through amount (\$m) including time cost of money calculations

A positive network support event (i.e. under-recovery) therefore occurred in respect of 2019-20, totalling \$678,102. After the required time value of money adjustments, as detailed in the Guideline in both section 3.10 and the worked example contained in Appendix C, this positive pass through amount totals \$730,737. This represents the amount that TasNetworks proposes to recover from customers as a revenue under-recovery when setting transmission prices for 2022-23.

3. Reasons for network support payment

The network support payment request for the 2020-21 financial year reflects the full year impact of the charges payable under the inertia and system strength services procurement contract [REDACTED]

The need for this contract was not foreseen at the time of development of TasNetworks' Revenue Proposal for the current regulatory control period. The AEMO Notice of Inertia and Fault Level Shortfalls in Tasmania was issued on 13 November 2019, well after arrangements for TasNetworks' current revenue determination had been finalised.

4. Network support event

The amount of network support payment in the 2020-21 financial year does not include any amount that is a substitute for a network augmentation where an allowance for capital expenditure had been provided for in TasNetworks' revenue determination. Nor does the amount of network support payment in the 2020-21 financial year include an approved pass through amount arising from an inertia shortfall event or a fault level shortfall event.

5. Verification of actual network support expenditure (audited statutory accounts)

The information presented in this application is provided on the basis of audited statutory financial statements. The expenses incurred are also subject to the annual audit of TasNetworks' regulatory accounts, which will be submitted to the AER by the end of October 2021.

6. Solely as a consequence of the positive network support event

The expense relating to this network support pass through application would not have been incurred were it not for the AEMO Declaration. To ensure compartmentalisation of the positive network support event, network operating procedures have been established to create data sets that specifically determine and capture costs. The key data set elements which now form part of SCADA¹ interfaces between TasNetworks, the AEMO and [REDACTED] are: unit availability (to provide services), enablement/withdrawal instructions (on an individual unit basis) and the actual real time provision of services (both inertia and system strength). This information, along with spot market price data, has been used to determine compensation payments on a quarterly basis in accordance with the agreed methodologies documented in the service agreement [REDACTED]

7. Date network support pass through application is submitted to AER

The date of lodgement of this application is 15 September 2021.

8. Details on efficiency of contractual arrangements

The network support services arrangement [REDACTED] was put in place following a competitive Expression of Interest (EOI) process.

TasNetworks initiated an EOI process with the intent of identifying willing and able service providers in the Tasmanian region in the event that one or more shortfalls were to be declared. This process was initiated in August 2019 [REDACTED]

The EOI process was run in advance of the formal shortfall declaration on 13 November 2019 as AEMO and TasNetworks, through joint planning activities, had identified the likely existence of shortfalls. TasNetworks, therefore, deemed it prudent to identify potential solutions ahead of the formal declaration process, as the timeframe for implementation was expected to be relatively short. This proved to be the case as services were required by AEMO to be made available by 1 April 2020.

Due to the limited options for the supply of inertia and system strength services in Tasmania, ACIL Allen Consulting (ACIL Allen) was engaged by TasNetworks to provide independent advice in relation to procurement. The ACIL Allen report dated 15 January 2020 presented a number of procurement strategies for services provided by both synchronous generators and synchronous condensers. In March 2020, ACIL Allen provided further independent assessment of several proposed costing elements.

The recommendation to use the regional spot price as a transparent and cost reflective reference for the energy consumed by synchronous condensers was adopted directly for the pricing of services coming from these sources. This has proven to be beneficial to Tasmanian customers over the first twelve months of the contract, with periods of relatively low regional spot prices during Basslink import leading to reduced costs. The

¹ SCADA - Supervisory Control And Data Acquisition

opportunity cost approach was proposed by ACIL Allen and recommended as the minimum cost mechanism to procure services from generation forced to operate out of merit order. This approach was adopted in principle, with modifications negotiated [REDACTED] [REDACTED] to reach a commercially acceptable outcome reflective of operational considerations.

The Inertia and System Strength Service Agreement [REDACTED] commenced on 15 April 2020. The contract [REDACTED] reflects standard industry terms and conditions and is available for AER review. The technical schedules to the agreement provide the costing methodologies that are used for the determination of compensation payments for each category of service provided.

9. Decisions affecting the magnitude of the network support event

In conjunction with AEMO, TasNetworks designed and operationalised control room procedures and monitoring tools which, in addition to satisfying ongoing system security requirements, have the objective of minimising the utilisation of contracted services. TasNetworks' document Standing Instruction 119 "*Managing low system strength and inertia operating conditions*" is the reference procedure and describes the decision-making processes involved with enabling and withdrawing contracted services from use. The decision-making processes are strongly guided by a number automated analysis tools which provide various alarms and prompts to operators, based on the real time operating conditions being experienced across the Tasmanian network.

The provision of a robust and formalised system to manage the ongoing utilisation of contracted services inherently reduces the likelihood that omissions or failures to act will contribute to cost inefficiencies. This means only efficient levels of contracted services are utilised as and when needed, with the need being a by-product of market outcomes that are beyond the immediate control of TasNetworks.

Appendix B: Relevant calculations according to the Procedural Guideline for Preparing a Transmission Network Support Pass Through Application



Appendix C: 2009–10 Network support pass through calculations

Nominal vanilla WACC	5.1%
2019–20 CPI (Dec to Dec)	1.80%
2020–21 CPI (Dec to Dec)	0.90%
	\$
Allowance	
Forecast opex allowance for network support payments (\$Jun 2019)	0.00
1 <i>Adjustment: Forecast opex allowance for network support payments (\$Jun 2021)</i>	<i>0.00</i>
Actual payments	
Actual network support payments (\$Aug 2020)	98,469
Actual network support payments (\$Sep 2020)	2,889
Actual network support payments (\$Jan 2021)	119,817
Actual network support payments (\$Feb 2021)	410,062
Actual network support payments (\$May 2021)	44,367
2 <i>Adjustment: Actual network support payments (\$Jun 2021)</i>	<i>678,102</i>
3 <i>Difference (under recovery)</i>	<i>678,102</i>
4 Interest on the difference (under recovery)	52,635
5 2020–21 positive pass through amount	730,737

Notes

The AER's approach to calculating the 2020–21 network support pass through amount is as follows:

- 1 The TNSP should escalate the forecast network support payment allowance (\$Jun 2019) by two years CPI to end of year terms (\$Jun 2021).
- 2 The TNSP should escalate the value of actual network support payments by the relevant escalation factor to end of year terms (\$Jun 2021).
- 3 Difference equals the adjusted actual payment less the adjusted allowance (2–1).
- 4 The interest payment - WACC - applies to the difference (3) for a time period of 1.5 years.
- 5 The pass through amount is based on the difference with an adjustment accounting for the time cost of money (interest).