Tasmanian Networks Pty Ltd
ABN 24 167 357 299
PO Box 606, Moonah, TAS, 7009
1300 137 008

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Nomiky Panayiotakis
Australian Energy Market Commission
Submitted online

Dear Nomiky,

RE Improving security frameworks for the energy transition (ERC0290)

TasNetworks welcomes the opportunity to contribute to the 'Improving security frameworks for the energy transition' rule change. TasNetworks is the Tasmanian Transmission Network Service Provider (**TNSP**), System Strength Service Provider (**SSSP**) and Inertia Service Provider. We acknowledge that this reform is critical as the energy transition evolves and appreciate the effort to arrive at a well-considered and practicable framework noting there is considerable complexity and uncertainty.

TasNetworks supports Energy Networks Australia's (**ENA**) submission and makes the following observations.

Operationalising System Security Services

TasNetworks agrees with the Australian Energy Market Commission's (**AEMC's**) position in the Second Directions Paper that the Australian Energy Market Operator (**AEMO**) is best placed to enable security contracts. There are generally efficiencies to be gained from a system wide perspective and the improved visibility AEMO will have of system-wide operations. We also support only 'shortfall' supply resulting in a contract enablement on the basis that this will limit distortion of energy dispatch. In terms of implementation, it is important that contract execution can occur in AEMO's operational environment (e.g. control room) based on procurement that was undertaken by TNSPs.

However, TasNetworks notes there is a disconnect between the proposed approach and the system strength procurement framework. SSSPs are required to use reasonable endeavours to procure the full supply of system strength and are not able to assume supply that is expected from energy dispatch – rather this will need to be paid for explicitly. Procurement is required to be progressed by individual SSSPs, which does not provide for a system-wide procurement in the same way that a system-wide, 'shortfall' enablement is being proposed.

While not strictly part of the scope of this rule change, it is important to recognise that with limited competition in the market – particularly in the short term before network solutions can be delivered – the costs of meeting obligations may be excessively high. This coincides with a period when there would be expected to be a lower uptake of a centralised supply of system strength (i.e. via system strength charges), placing the risk on customers.

We acknowledge that there is flexibility provided within the Second Directions Paper and proposed rule drafting with respect to contract structuring. TasNetworks welcomes this flexibility, but considers that there may be more appropriate cost recovery mechanisms to be pursued for variable/enablement payments, rather than these costs being incurred by SSSPs, TNSPs or Inertia Service Providers.

Importantly, to address concerns raised by the AEMC that are referenced in the Second Directions Paper, we do not consider that shifting cost recovery of variable payments to instead be recovered by AEMO (e.g. via market settlement) would result in double charging for system strength, or should impact system strength charges. This is because, should the variable component of non-network (contracts) costs be paid for by consumers to AEMO (e.g. via market settlement):

- SSSPs would not have variable costs incorporated in their maximum allowed revenue (e.g. via the contingent project application (**CPA**) mechanism or via the network support pass through mechanism)[1].
- The (long run average) costs used in determining the system strength unit price, for which system strength charge revenue is driven, could appropriately reflect the 'full' cost of providing system strength[2] (including network and non-network costs, the latter of which will likely consist of a combination of both fixed and variable components). TasNetworks considers that this approach retains the intent of the system strength framework where connecting parties pay for the impact of their connection on system strength (i.e. or 'consumption' of system strength).
- Under this model, SSSPs may need to incorporate cost information from AEMO in order to determine SSUPs in the future, taking into account actual utilisation of procured contracts. This could be effectively achieved by leveraging the proposed 'enablement outcomes' reporting by AEMO in terms of projecting long run average costs (or more granular information if the necessary details are not appropriate for publication, as raised in ENA's submission).

SSSPs would continue to capture system strength charge revenue from connecting parties (as above, reflective of the 'full' costs). The outcome of the above steps is that:

- Costs would shift from being recovered from consumers via network charges (specifically common services, with a relatively higher maximum allowed revenue increment) to instead being recovered (also from consumers) via market settlement

[1] Noting that the CPA framework could be amended for system strength to remove the cost threshold in order to cover operational expenditure, so that revenues can be adjusted for non-network contract costs either without network solutions being identified as the preferred option, or if network solutions are below the current cost threshold.

[2] This would be expected to require a minor amendment to the AER's transmission pricing methodology guidelines – specifically section 2.7(a)(1).

(with a relatively lower maximum allowed revenue increment and therefore lower network charges).

- Costs for connecting parties would theoretically remain unchanged.

Inertia

Consistent with our submission on the 'Efficient provision of inertia' rule change, transitional arrangements should be established to enable inertia needs to be co-optimised in the RIT-Ts that are underway for system strength, and perhaps more importantly, to enable the execution of non-network solutions that provide multiple service offerings. Many potential options to meet system security needs supply both system strength and inertia, so combining these services is sensible insofar as multiple contracts for the same source of supply could be inefficient (duplicative) and lead to higher costs for consumers.

While the preferred option may not necessarily be effected or different in being able to consider inertia needs in the RIT-T (e.g. based on the identified need being able to be changed to address the final rule and determination), it would be beneficial that, when executing non-network contracts, the full suite of relevant services can be captured and this may require the identified need to be captured in the RIT-T. We also note that, in our system strength RIT-T project specification consultation report, we have raised that we will consider the future requirements for system inertia.

However, it is important that the relevant guidance is available in sufficient time in order for integration into RIT-Ts that are underway. This need extends to AEMO's enablement guideline such that procured contracts can best align, where possible, with AEMOs enablement principles. TasNetworks would encourage AEMO to progress such guidance as a matter of priority.

TasNetworks is working towards publication of its system strength RIT-T project assessment draft report in May 2024 in order to allow sufficient time for completion of the RIT-T, execution of contracts, and the CPA process (if applicable) prior to the 2 December 2025 obligation commencing. While it would be beneficial to incorporate this rule change into the RIT-T as discussed previously, and ensure AEMO can effectively operationalise contracts, there is limited opportunity to do so based on TasNetworks' timeframes.

Please contact [redacted] to discuss this submission.

Yours sincerely

[redacted]

Chantal Hopwood

Head of Regulation