



7 December 2023

Ms Anna Collyer
Chair
Australian Energy Market Commission
Level 15, 60 Castlereagh Street
SYDNEY NSW 2000

Dear Ms Collyer,



**Rule Change Proposal
To Reset Powerlink's System Strength Unit Prices**

Powerlink Queensland (Powerlink) is a leading Australian provider of high voltage electricity transmission network services. Our purpose is to connect Queenslanders to a world-class energy future, providing electricity to more than five million Queenslanders and 253,000 businesses. We play a key role in supporting the Queensland Government's development of the Queensland Energy and Jobs Plan and facilitating Queensland's transition to a low carbon future. We also remain committed to continuing to provide safe, secure, reliable and cost-effective energy to the over five million Queenslanders we serve.

Proposal Summary

Powerlink requests the Australian Energy Market Commission (the Commission) consider our proposal to amend the National Electricity Rules (the Rules). Our proposal would allow Powerlink to reset and publish System Strength Units Prices (SSUPs) for Queensland on 15 March 2024 and have these prices take effect from 1 July 2024. As such, Powerlink is seeking a participant derogation from the Rules. For clarification, this would be a one-off reset of SSUPs and these prices would apply for the remaining four out of five years of the current system strength charging period, plus annual CPI adjustment. That is, until 30 June 2028. For consistency, our expectation and request is that the derogation would also apply for the duration of the system strength charging period.

We consider that the Rule change is aligned with the intent of the Commission's system strength framework to enable the rapid integration of inverter-based resources into the power system and support the transition towards a low carbon future at lower cost to energy consumers. We also consider it will promote the long-term interests of consumers, consistent with the National Electricity Objective.

We also strongly encourage the Commission to apply an expedited process to this matter on the basis that our proposal is both non-controversial and is unlikely to have a significant effect on the National Electricity Market (NEM).

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Background

In October 2021, the Commission made a Rule to develop its previous system strength framework with a clear view that it would lower costs to consumers. This placed new obligations on Powerlink as the System Strength Service Provider (SSSP) for Queensland. A key part of these obligations was to forecast the long-run costs associated with meeting system strength obligations and converting these to SSUPs for each Queensland node.

Powerlink, like other SSSPs, published its first SSUPs on 15 March 2023. These prices were prepared in accordance with the Rules and our Amended Pricing Methodology for the 2023-27 regulatory period, which the Australian Energy Regulator (AER) approved on 31 January 2023.

Current Arrangements

The Rules¹ currently require SSUPs to be the same in each regulatory year of a system strength charging period except for annual consumer price indexation under the AER's Pricing Methodology Guidelines. A system strength charging period is five years and runs from the start of the second year of the SSSP's regulatory period to the end of the first year of its next regulatory period.

In terms of transmission SSSPs in the NEM, the dates below show when each provider's new or recalculated SSUPs take effect:

- 1 July 2024 for Transgrid and ElectraNet;
- 1 July 2025 for TasNetworks; and
- 1 July 2028 for Powerlink and the Australian Energy Market Operator (AEMO) in its capacity as the SSSP for Victoria.

For Powerlink, this means that the SSUPs published for Queensland on 15 March 2023 are locked-in for five years (aside from CPI escalation each year) until 30 June 2028.

Issue to be Addressed

Powerlink's key concern with the current Rules is that they do not allow us to update SSUPs for costs to procure system strength services as new information becomes available.

At the time we prepared SSUPs in early 2023, we had not yet gone to market to seek information and proposals to meet both the forecast minimum and efficient levels of system strength required for Queensland over the next 10-years. Those levels were only published by the Australian Energy Market Operator (AEMO) in December 2022, in its first System Strength Report under the Commission's evolved system strength framework.

Given the timing around which the first set of SSUPs in the National Electricity Market were required to be published (15 March 2023) and the initial stage at which Powerlink was at in terms of our Regulatory Investment Test for Transmission (RIT-T) process, we established SSUPs on the basis of the most reasonable information available to us at the time. That information comprised largely benchmarked costs for synchronous condensers as the technology to meet requirements, as well as energy costs to run the machines. It was not until later in March 2023 that Powerlink was in a position to commence the first stage of its RIT-T public consultation process through publication of its Project Specification Consultation Report for *Addressing System Strength Requirements in Queensland from December 2025*.

¹ Clause 6A.23.5(f)

Having now had the opportunity to formally test the market for system strength services, early indications from potential service providers shows that the costs to procure system strength services could be materially lower than those used to calculate our published SSUPs. This is largely due to a change in the potential mix of technologies that could now be used to meet system strength requirements over the 10-year outlook period.

To ensure we continue to drive value for our customers, this Rule change proposal seeks to give Powerlink the ability to reset our SSUPs to incorporate this new information and make the forecast reduced costs to centrally procure system strength available to potential proponents as soon as possible.

Rule Change Proposal

Powerlink's proposal is to amend the Rules to enable it to undertake a one-off reset of SSUPs for Queensland, publish these revised prices on 15 March 2024 and have these take effect from 1 July 2024 for the remaining four years of the system strength charging period (ie. until 30 June 2028). SSUPs should also continue to be adjusted by CPI each year. This will ensure the publication and effective timeframes align with the broader annual prescribed transmission pricing process.

We request that the Rules be amended to the minimum extent necessary to give effect to our proposal.

Further, our intention is not to inadvertently capture other SSSPs through this Rule change.

Potential Impacts

We expect this Rule change to result in a number of beneficial outcomes. These include:

- lower published SSUPs for Queensland;
- lower costs to Inverter Based Resource (IBR) proponents seeking to connect to the Queensland electricity transmission network;
- a faster transition to a lower carbon emissions future; and
- in doing so, lower overall costs to electricity consumers.

SSUPs that reflect more recent costs in the system strength provision market are considered to be more efficient. At this time our market intelligence indicates non-traditional technologies have developed faster than we anticipated. This acceleration has led to lower forecast costs for system strength services. To the extent these lower service costs can be incorporated, published SSUPs could be lowered.

Proponents seek to minimise their risk and costs in connecting to the network. At present, the price signal created by our published SSUPs has resulted in feedback from IBR proponents that they intend to self-remediate their system strength impact. Powerlink considers that, if implemented, our Rule change proposal would provide IBR proponents with an option to lower costs via centrally procuring system strength in Queensland – and create a pathway for connecting proponents to utilise these arrangements accordingly. Such an approach is aligned with the Commission's arguments² to leverage economies of scale and scope in the supply of

² AEMC Rule Determination, Efficient Management of System Strength, 21 October 2021,pv.

system strength through greater coordination and consideration of system strength solutions at an aggregated level.

Our proposal promotes the long-term interests of electricity consumers as they will ultimately benefit through cleaner sources of energy produced from the likely increase in IBR, and the minimised risk of potentially elevated wholesale market prices as generators pass on their system strength supply costs. The ability to access lower cost generation should also lead to lower costs for consumers.

We recognise that the difference between system strength revenues and the costs to procure system strength resources will be recovered from consumers through prescribed transmission charges. However, our Rule change attempts to further incentivise use of the centralised approach and thereby reduce the residual costs to consumers.

Overall, we consider that our proposal is consistent with the fundamental reason for the Commission's evolution of the system strength charging framework established in the Rules in 2021. That is, to enable the rapid integration of inverter-based resources such as wind, solar and batteries into the power system and support the transition towards a low carbon future at lower cost to energy consumers.

Expedited Process

We strongly encourage the AEMC to apply an expedited process to this matter on the basis that we consider our proposal is both non-controversial and is unlikely to have a significant effect on the National Electricity Market (NEM). Our reasons for this are set out below:

- Our proposal is consistent with the intent of the Commission's evolved system strength framework, which is to enable the rapid integration of inverter-based resources into the power system and support the transition towards a low carbon future. The Commission's³ central procurement of system strength services by Transmission Network Service Providers (TNSPs) intends to leverage economies of scale and scope. This should facilitate greater coordination with new connections and ultimately result in more efficient outcomes and lower cost to consumers.
- We consider there could be a significant impact on the NEM if Powerlink is not permitted to reset its SSUPs. As noted earlier, inverter-based resource proponents seeking to invest in Queensland indicated they will self-remediate their system strength impact, rather than participate in the central system strength procurement framework. This approach would be contrary to facilitating outcomes in a coordinated and efficient manner at a time when we need to enable an energy market in transition to a lower carbon future.
- Powerlink's SSUPs are, on average, higher than those published for other States. While the precise reasons for these differences between states is not clear, we consider that providing us with the ability to reset these prices to incorporate new market information would bring Queensland SSUPs more closely in line with those in other jurisdictions. We refer the Commission to published SSUPs by other system strength service providers⁴.

³ AEMC, Efficient Management of System Strength on the Power System, Information Note, 21 October 2021.

⁴ See Transgrid: [System Strength Unit Prices – 2023/24](https://www.transgrid.com.au/system-strength-unit-prices-2023-24) (transgrid.com.au), ElectraNet: [South-Australian-System-Strength-Unit-Prices-for-1-July-2023-ro-30-June-2024.pdf](https://www.electranet.com.au/system-strength-unit-prices-2023-24) (electranet.com.au), Australian Energy Market Operator: [Microsoft Word - Electricity Transmission Use of System Prices 1 July 2023 - 30 June 2024 clean V2](https://www.aemo.com.au/micro-words/2023-06-30/2023-24-clean-v2) (aemo.com.au),

- Powerlink also sought in-principle support from other Transmission Network Service Providers (TNSPs) on our initial Rule change proposal. At that time, TNSPs were generally comfortable with our proposal and a number of them assumed that it may apply to other system strength service providers on an opt-in rather than mandatory basis. We understand the Commission has engaged directly with Energy Networks Australia on this point.

Engagement

Powerlink has engaged with its directly connected customers, connection proponents, Customer Panel and other key stakeholders on system strength in the normal course of business over a number of years.

Customers

With the release of SSUPs for the first time in March, we considered that engagement on the Commission's enhanced system strength framework more broadly as well as system strength charging arrangements specifically, was necessary and beneficial to customers. This was carried out through a number of different forums:

- In April and May 2023, we held online information sessions for parties who had lodged connection applications but not yet received offers to connect and had active connection enquiries with us. These sessions covered the system strength charging framework, including SSUPs, and changes to the connections process under the system strength framework.
- In May we also held two face-to-face workshops that provided an opportunity for customers to ask questions. Among other things, several customers provided feedback on our published SSUPs and raised concerns about the price signal it created.
- A separate session with the Clean Energy Council in May provided further opportunity for members to ask questions and provide input for consideration.
- More recently in September, we engaged with our Customer Panel on the new system strength arrangements, early indications from our RIT-T process and what we had heard from generators since our SSUPs were published in mid-March.

A clear message we have heard from connection proponents is that our published SSUPs has signalled to proponents that they should (and will) self-remediate their system strength impact. A natural extension of this behaviour is that IBR connections in Queensland will be delayed, as will our ability to facilitate achievement of the Queensland Government's renewable energy targets.

Prior to lodgement of our proposal with the Commission, we provided a summary to our Customer Panel and the Clean Energy Council for input and feedback. We will respond to questions of clarification raised by two panel members directly. Overall, one member considered there was a lot to like about proposing a Rule change that speeds up inverter

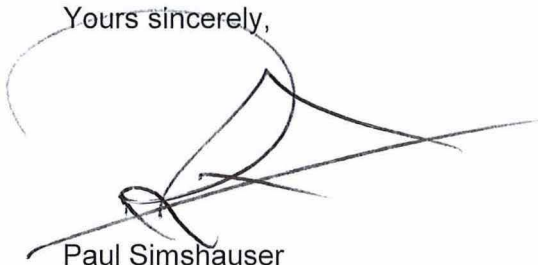
and TasNetworks: [tasmanian-system-strength-unit-prices-for-publicationv2.pdf](https://tasnetworks.com.au/tasmanian-system-strength-unit-prices-for-publicationv2.pdf) (tasnetworks.com.au); and Powerlink Schedule 3 - System Strength Unit Prices for Queensland - 2023/24 (powerlink.com.au) websites.

connections, lowers their cost and presumably risk. The other noted that the initiative is worthwhile in seeking to reduce costs.

Having had regard to all feedback, we consider that there would be significant benefit to all Queensland customers in seeking this Rule change.

If you have any questions or require any further clarification on this proposal, please contact Jennifer Harris on (07) 3860 2667 or jenny.harris@powerlink.com.au.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Paul Simshauser', with a large, sweeping flourish extending to the right.

Paul Simshauser
CHIEF EXECUTIVE