

Rule determination

National Electricity Amendment (Resetting Powerlink's system strength unit prices) Rule

Proponent

Powerlink

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To cite this document, please use the following:

AEMC, Resetting Powerlink's system strength unit prices, Rule determination, 14 March 2024

Summary

- 1 The Commission has made a final rule to give Powerlink a one-off opportunity to reset to its system strength unit prices (SSUPs) to incorporate new information. This final rule is made in response to the rule change request submitted by Powerlink. The final rule will help ensure that connection proponents in Queensland can make the most efficient choice between paying the system strength charge and self-remediating their system strength impact, based on updated information.
- 2 As the electricity sector decarbonises, significant investment in new generation is required. A substantial volume of this generation is forecast to be lower-cost, inverter based resources (IBR) such as batteries, wind, and solar. Connection of this generation will necessitate investments in system strength services to ensure the secure operation of the power system.
- 3 The system strength framework in the National Energy Rules (NER) was recently evolved to help the power system operate securely and efficiently during and after the transition to IBR. The framework is designed to promote the efficient investment in, and efficient operation and use of, system strength services. One way in which it does this is by encouraging connection proponents to make a decision about whether to:
 - self-remediate their plant's general system strength impact, or
 - pay the system strength charge for centrally provided system strength services.
- 4 In order to make efficient decisions about whether to self-remediate or pay the system strength charge, connection proponents rely on the system strength charge reflecting the costs of providing the required amount of system strength at system strength nodes. This final rule will ensure the system strength charge in Queensland reflects this cost.
- 5 The rule change request has been expedited on the basis that it is non-controversial and unlikely to have a significant impact on the NEM, because:
 - The final rule focuses on resetting a component of the system strength charge to reflect new information that was not available to Powerlink when its SSUPs were first set.
 - The system strength charging arrangements are part of a process that already exists in the NER.
 - It will remain open to project proponents connecting IBR to a part of the national grid in Queensland for which Powerlink is the system strength service provider (SSSP) to continue to self-remediate, should that be the more efficient outcome for them.
 - Greater take-up of the system strength charge in Queensland, where that is more efficient than self-remediation, will not give rise to adverse effect on participants or consumers.
- 6 The rule will commence on 14 March 2024.

The final rule will allow Powerlink to reset system strength unit prices for Queensland and deliver benefits for consumers

- 7 Our final rule gives Powerlink a participant derogation to allow it to undertake a one-off reset of the SSUPs for system strength nodes on its network in Queensland to reflect Powerlink's improved cost estimates for meeting system strength requirements.
- 8 When Powerlink prepared the SSUPs for the system strength nodes on its network in early 2023, it 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. Powerlink

established its SSUPs based on the most reasonable information available to it at the time. This largely came from benchmarked costs for synchronous condensers as the then most likely technology to meet requirements, as well as energy costs to run these machines.

- 9 Powerlink has now had the opportunity to formally test the market for system strength services. They have stated 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”.¹
- 10 Powerlink will have until 14 April to publish the revised SSUPs before that part of the participant derogation expires. The revised SSUPs will take effect from 1 July 2024 for the four remaining years of Powerlink’s current system strength charging period (until 30 June 2028).
- 11 By allowing Powerlink to lower its SSUPs, our final rule will contribute to lowering overall costs for electricity consumers.

There is broad stakeholder support for our rule with feedback helping us refine our final determination

- 12 Stakeholder input and feedback helped shape our final determination. We obtained and considered stakeholder views via written submissions to our consultation paper.²
- 13 In submissions stakeholders unanimously supported our proposal for Powerlink to have a one-off reset to its SSUPs within the current system strength charging period. Stakeholders agreed that in light of more complete cost information becoming available, resetting Powerlink’s SSUPs would help ensure connection proponents can make the most efficient choice between self-remediation or paying the system strength charge.³
- 14 Some submissions made suggestions to refine some of the obligations on connection proponents to give them adequate time to consider the revised SSUPs.⁴ We have extended the time frame for connection proponents to consider the revised SSUPs, **see Chapter 3**.
- 15 AEMO⁵ and Powerlink⁶ requested that the timing of this rule change would align with the final determination on the Calculation of the System Strength Quantity (SSQ) rule change to ensure consistency between determinations. We have aligned the final rule decision time frame with the SSQ time frame. **See Chapter 3**.

We assessed our final rule against three assessment criteria using regulatory impact analysis and stakeholder feedback

- 16 The Commission has considered the NEO⁷ and the issues raised in the rule change request and assessed the final rule against three assessment criteria outlined below.
- 17 The final rule will contribute to achieving the NEO as follows:

1 Powerlink rule change request, p.3.

2 AEMC, Resetting Powerlink’s system strength unit prices, Consultation paper, 18 January 2024.

3 ENA submission, p1; AEMO submission p1; AER submission, p1; Origin Energy submission, p1; Shell Energy submission, p1; Sungrow submission, p1.

4 Origin Energy submission, p1; ENA submission, p1-2; Powerlink submission, p1 and p3.

5 AEMO submission, p1.

6 Powerlink submission, p1.

7 Section 7 of the NEL.

- **Improving security outcomes and services** - security outcomes may be promoted. The system strength charge sends a clear signal encouraging connecting parties to locate efficiently and to minimise their demand for system strength services, promoting system security by having effective management of system strength. This change would facilitate the system security outcomes by incorporating updated information to reset and publish lower SSUPs.
- **Improving market efficiency** - by lowering the SSUPs in Queensland to provide more accurate price signals, connection proponents can choose the most efficient approach between self-remediation and paying the centralised system strength charge. Improved market efficiency ultimately contributes to lower costs for consumers.
- **Improving the implementation of the system strength framework** - resetting SSUPs during a system strength charging period will help address an issue with the implementation of the system strength framework in Queensland.

18 In addition, we consider that our final rule will not impose any material costs on consumers, network service providers (NSPs), or any other market participants.

The final rule will give Powerlink a one-off reset to its system strength unit prices

19 Our final rule:

- Will give Powerlink a participant derogation to allow it to reset its SSUPs within the current system strength charging period,
- Will apply the reset SSUPs until the end of the current charging period, commencing 1 July 2024 and ending 30 June 2028,
- Will require the reset SSUPs to be lower than Powerlink's current SSUPs,
- Will see Powerlink's opportunity to reset SSUPs expire at the end of the revision period on 14 April 2024, which is one month from the publication of the final rule,
- Will allow connection proponents who originally elected not to pay the system strength charge to change this decision.

Key differences between the draft rule and final rule

20 We have made the following changes from the indicative rule drafting that was published alongside the consultation paper to:

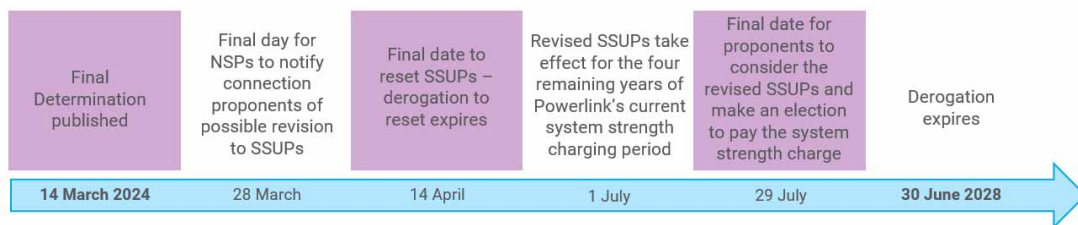
- Define the time frame that NSPs (Powerlink, Energex and Ergon Energy) have to notify proponents that Powerlink may revise its SSUPs to 10 business days after the effective date, instead of as soon as practicable
- Clarify that NSPs must notify connection proponents of the opportunity to change their election within 10 business days of Powerlink's publication of the revised SSUPs rather than 10 business days after the effective date
- Extend the time frame for connection proponents to consider whether to change their election based on the revised SSUPs. To minimise complexity of the framework, the final rule aligns the decision time frame with the SSQ time frame. This gives proponents until 29 July 2024 to consider the revised SSUPs and the impact of both the revised SSUPs and revised SSQ methodology on the system strength charges they would pay. This is a change to the proposal in the consultation paper, which would have required the decision to be made within 20 business days of the effective date.

- Make minor changes to various clauses to clarify intent.

Commencement and the expiry of this participant derogation

- 21 The final rule will take effect from the 14 March 2024.
- 22 The derogation will expire in two parts. Firstly the ability for Powerlink to reset its SSUPs will expire at the end of the revision period. The revision period ends on 14 April 2024. Secondly, the other provisions will expire at the end of Powerlink's current system strength charging period on 30 June 2028. The reason for the two part expiry is to ensure the ability to reset the SSUPs applies as a one-off reset, and that the reset SSUPs can apply for the remainder of the current system strength charging period.

Figure 1: Implementation timeline for the derogation



Source: AEMC

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Figure 1: Implementation timeline for the derogation

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1 The Commission has made a final determination

This final determination is to make a final rule in response to a rule change request submitted by Powerlink requesting a one-off reset to the system strength unit prices for each node in Queensland. **See Appendix A** for more detailed information about the process the Commission followed in making this final rule.

1.1 Our final rule will allow Powerlink to reset system strength unit prices for Queensland

Our final rule gives Powerlink a participant derogation to allow a one-off reset of the system strength unit prices (SSUPs) for the system strength nodes on Powerlink's transmission network in Queensland, to reflect Powerlink's improved cost estimates for meeting system strength requirements.

When Powerlink prepared the SSUPs for Queensland's nodes in early 2023, it 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 its network over the next 10-years. Powerlink established SSUPs based on the most reasonable information available to it at the time. This largely came from benchmarked costs for synchronous condensers as the then most likely technology to meet requirements, as well as energy costs to run these machines.

Powerlink has now had the opportunity to formally test the market for system strength services. They have stated 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".

Powerlink has stated that its SSUPs are, on average, higher than those published for other regions. Powerlink considered that allowing it to reset its SSUPs to incorporate new market information will bring Queensland's SSUPs more closely in line with those in other regions.⁸

Powerlink also advised that connection proponents stated that the current SSUPs have signalled that they should self-remediate their system strength impact in every case. Powerlink indicated that this could mean IBR connections in Queensland will be delayed. **See Appendix A** for more information on the context of this rule change.

Powerlink will have until 14 April to publish the reset SSUPs before that part of the participant derogation expires. The reset and published SSUPs will take effect from 1 July 2024 for the four remaining years of Powerlink's current system strength charging period (until 30 June 2028). The revised SSUPs will continue to be adjusted by consumer price indexation (CPI) each year. **See Chapter 3** for more detailed information about how the rule will operate.

1.2 Our final represents minor changes from the indicative rule drafting

We have made the following changes from the indicative rule drafting (**see Chapter 3** for more details) to:

8 Powerlink rule change request, p 4.

- Define the time frame NSPs (Powerlink, Energex and Ergon Energy) have to notify connection proponents that Powerlink may revise its SSUPs to 10 business days after the effective date, instead of as soon as practicable,⁹
- Clarify that NSPs (Powerlink, Energex and Ergon) must notify connection proponents of the opportunity to change their election within 10 business days of Powerlink's publication of the revised SSUPs rather than within 10 business days of the effective date,¹⁰
- Ensure connection proponents have adequate time to consider whether to change an election not to pay system strength charges based on the revised SSUPs and align the decision time frame to the time frame for changing an election due to the change in methodology for calculating SSQ. The final rule gives proponents until 29 July 2024 to consider the revised SSUPs rather than requiring the decision within 20 business days of the effective date,¹¹
- Make minor changes to various clauses to clarify intent.¹²

1.3 There is broad stakeholder support for our rule with feedback helping us refine our final determination

Stakeholder input and feedback helped shape our final determination. We obtained and considered stakeholder views via written submissions to our consultation paper.¹³

In submissions stakeholders unanimously supported our proposal for Powerlink to have a one-off reset to its SSUPs within the current system strength charging period. Stakeholders agreed that in light of more complete cost information becoming available, resetting Powerlink's SSUPs would help ensure connection proponents can make the most efficient choice between self-remediation or paying the system strength charge.¹⁴

Stakeholder submissions supporting the rule change also noted that the reset would lead to lower costs for all market participants, ultimately delivering benefits to consumers in accordance with the NEO.¹⁵ Those stakeholders that commented, agreed with the three proposed assessment criteria.¹⁶

Several submissions made suggestions to refine some of the obligations on connection proponents to give them adequate time to consider the revised SSUPs. These suggestions included:

- Defining the time frame NSPs have to notify proponents of the revised value of the relevant SSUPs (indicative cl. 11.165.2(b)),¹⁷
- Allowing connection proponents to have adequate time to consider their change in election to self-remediate, based on the revised SSUPs by either linking the 20 business day time frame to the date the SSUPs are published by Powerlink rather than the effective date, or, by increasing the time frame (indicative cl.11.165.3(b)).¹⁸

9 cl. 11.165.2(b) of the final rule.

10 cl.11.165.3(c) of the final rule.

11 cl. 11.165.3(b) of the final rule.

12 cl.8A.16.1, cl.8A.16.3(b), (c) and (d) and cl.8A.16.2 of the final rule.

13 AEMC, Resetting Powerlink's system strength unit prices, Consultation paper, 18 January 2024.

14 ENA submission, p1; AEMO submission p1; AER submission, p1; Origin Energy submission, p1; Shell Energy submission, p1; Sungrow submission, p1.

15 Shell Energy submission, p2; EUAA submission, p1.

16 EUAA submission, p1.

17 Origin Energy submission, p1.

18 ENA submission, p1-2; Powerlink submission, p1 and p3; Origin Energy submission, p1.

Further, both AEMO¹⁹ and Powerlink²⁰ requested that the timing of this rule change should align with the final determination on the Calculation of the System Strength Quantity (SSQ) rule change to ensure consistency between determinations. **See Chapter 3** for more details.

In making our final determination, we assess the regulatory impact of the proposed changes. **See Appendix B.** Our final rule will not impose any material costs on consumers, NSPs, SSSPs, or other market participants. We do not consider that there would be any significant costs in implementing our final rule. However, we do consider there are benefits to making our final rule, in that connection proponents will be able to make an informed decision on whether paying the system strength charge or self remediating is the efficient choice.

1.4 Our final determination supports the implementation of the system strength framework

In October 2021 the AEMC made a final rule²¹ evolving the system strength requirements for proponents connecting to the National Electricity Market (NEM). The rule introduced a new obligation for System Strength Service Providers (SSSPs) in each region to provide the right amount of system strength to support the connection of inverter based resources (IBR) as forecast by the Australian Energy Market Operator (AEMO).²²

As the transitional arrangements for the final rule take effect²³, to ensure the framework is working as intended, we are actively considering any issues that arise which may require further consideration and action. This rule change request is one example of an issue identified in implementation that needs to be considered. The one-off reset to Powerlink's SSUPs supports the implementation of the 2021 final rule.

1.4.1 Other recent work on system strength

On 29 February 2024 the Commission published a final determination and final more preferable rule that will change the way the system strength quantity (SSQ) component of the system strength charge is calculated.²⁴

The final SSQ rule addresses the issues raised by AEMO in its rule change request by changing the way SSQ is calculated for connection applicants electing to pay the system strength charge. Specifically, the final rule:

- removes the SSQ calculation from the NER and replaces it with a requirement for AEMO to determine a methodology for calculating SSQ, as part of the system strength impact assessment guidelines (SSIAG),
- includes new policy principles in the NER to guide AEMO's development of the SSQ methodology and provide a level of certainty for stakeholders about what the SSQ should represent,
- clarifies the process of moving from an indicative to a final SSQ, noting that the final SSQ remains in place unless the connected plant is altered,

19 AEMO submission, p1.

20 Powerlink submission, p1.

21 National Electricity Amendment (Efficient management of system strength on the power system) Rule 2021, 21 October 2021.

22 AEMO published the levels in December 2022, in its first System Strength Report, with SSSPs required to publish the SSUPs by 15 March 2023.

23 Efficient management of system strength on the power system, final determination, p iv.

24 AEMC, Calculation of system strength quantity, Rule determination, 29 February 2024, <https://www.aemc.gov.au/rule-changes/calculation-system-strength-quantity>.

- makes other minor amendments to improve clarity and understanding of how the system strength framework works.

Transitional arrangements have been included in the final SSQ rule for applicants that are part-way through a process or have already commenced paying the charge under the current arrangements. This means that the new arrangements will be available for connection applicants mid-way through a process and for those who have already elected to pay the charge, but not where a connection applicant has elected to self-remediate and the connection agreement has been concluded.

The final rule will trigger an update to AEMO's SSIAG in consultation with stakeholders. AEMO's intention is to propose for consultation the use of a minimum stability coefficient of 1.2 in the SSQ so it can be broadly comparable to the calculation of the system strength impact used for self-remediation.

2 The rule will contribute to the energy objectives

2.1 The Commission must act in the long-term interests of energy consumers

The Commission can only make a rule if it is satisfied that the rule will or is likely to contribute to the achievement of the relevant energy objectives.²⁵

For this rule change, the relevant energy objective is the NEO.

The NEO is:²⁶

to promote efficient investment in, and efficient operation and use of, electricity services for the long term interests of consumers of electricity with respect to—

- (a) price, quality, safety, reliability and security of supply of electricity; and
- (b) the reliability, safety and security of the national electricity system; and
- (c) the achievement of targets set by a participating jurisdiction—
 - (i) for reducing Australia's greenhouse gas emissions; or
 - (ii) that are likely to contribute to reducing Australia's greenhouse gas emissions.

The targets statement, available on the AEMC website, lists the emissions reduction targets to be considered, as a minimum, in having regard to the NEO.²⁷

2.2 We must also take these factors into account

2.2.1 We have considered the expiry date for this participant derogation rule change

The Commission can only make a rule that is a participant derogation if the derogation specifies a date on which it will expire.²⁸ The derogation will expire in two parts, as follows:

- **14 April 2024:** the ability for Powerlink to reset its SSUPs will expire at the end of the revision period. The revision period ends on 14 April 2024, which gives Powerlink one month from the publication of the final rule to revise its SSUPs. Powerlink has stated it intends to publish the revised SSUPs on 15 March 2024 and therefore the 14 April date should provide a sufficient amount of time for Powerlink to publish its SSUPs.
- **30 June 2028:** The rest of the participant derogation expires at the end of Powerlink's current system strength charging period on 30 June 2028, to ensure the reset SSUPs apply to the calculation of Powerlink's system strength changes during that period.

2.2.2 We have considered how the rule will apply in the Northern Territory

The final rule will have no effect in the Northern Territory, as it amends provisions that have no effect in the Northern Territory. The final rule, being a participant derogation, is not a differential rule.

See **Appendix D** for more detail on the legal requirements for our decision.

²⁵ Section [88(1) of the NEL.

²⁶ Section 7 of the NEL.

²⁷ Section 32A(5) of the NEL.

²⁸ Section 103(4) of the NEL.

2.3 How we have applied the legal framework to our decision

The Commission has considered how to address any uncertainty over resetting Powerlink's SSUPs against the legal framework.

We identified the following criteria to assess whether the proposed rule change, no change to the rules (business-as-usual), or other viable, rule-based options are likely to better contribute to achieving the NEO:

- Safety, security and reliability, outcomes and services
- Principles of market efficiency, concepts of efficiency
- Implementation considerations, timing and uncertainty

These assessment criteria reflect the key potential impacts – costs and benefits – of the rule change request, for impacts within the scope of the NEO. Our reasons for choosing these criteria are set out in section 4.2 of the consultation paper. Based on stakeholder feedback there are no changes from the assessment criteria proposed in the consultation paper.

The Commission has undertaken regulatory impact analysis to evaluate the impacts of the various policy options against the assessment criteria. **Appendix B** outlines the methodology of the regulatory impact analysis.

The rest of this section explains why the final rule best promotes the long-term interest of consumers when compared to other options and assessed against the criteria.

2.3.1 Improving security outcomes and services

Our final rule promotes security outcomes and services in Queensland. The system strength charge sends a clear signal encouraging connecting parties to locate efficiently and to minimise their demand for system strength services, promoting system security by having effective management of system strength. This change would facilitate the system security outcomes by incorporating updated information to reset and publish lower SSUPs.

Stakeholders have noted that it is important that the SSUPs in Queensland are updated to enable new system strength services to be provided as part of the centralised system strength charge, where this is the most efficient choice. This is not only in the interests of efficiency but also to support innovation especially as the concept of system strength continues to evolve and new technologies become available.²⁹

2.3.2 Driving improved market efficiency

Our final rule will enable Powerlink to lower the SSUPs in Queensland so that they provide more informed signals for proponents. Having updated SSUPs will help to ensure that proponents looking to invest in Queensland can choose the most efficient approach between self-remediation and paying the centralised system strength charge. It was envisaged that there would be circumstances where the centralised charge is the most efficient option as it can harness economies of scale and scope for system strength supply through central procurement which provides for greater coordination and consideration of system strength solutions in aggregate. Efficient choices in connections benefit consumers as these costs are eventually passed on to consumers.

Stakeholders have agreed that allowing connecting participants to make an economically rational decision, based on the reset SSUPs, on whether to opt in to the centralised system strength

29 Shell Energy submission, p2.

charge or self remediate promotes market efficiency³⁰ Further, stakeholders have also agreed that this is in the long-term interest of consumers.³¹

2.3.3 Improving the implementation of system strength

Our final rule will allow Powerlink to reset its SSUPs during a system strength charging period. This will assist connection proponents in making the most efficient choice between paying the system strength charge or self-remediating. Our final rule also addresses issues with the implementation of the system strength framework in Queensland.

The Commission acknowledges that allowing a reset to Powerlink's SSUPs could be argued to run counter to regulatory certainty, noting the framework provides for SSUPs, once set, to be the same for each five year system strength charging period (subject to escalation for CPI). However, the Commission considers that the efficiency benefits of addressing this one off implementation issue now and having a more accurate price signal for connection proponents outweighs concerns about any uncertainties that may arise from updating the Queensland SSUPs. The regulatory certainty will still be provided by having the updated SSUPs apply for the remainder of Powerlink's system strength charging period. Any concerns about timing and uncertainty have been further addressed by using the expedited process for this rule change.

Stakeholder feedback supports this view.³²

30 ENA submission, p1; AEMO submission, p1; AER submission p1; Origin Energy submission, p1; Shell Energy submission, p1; Sungrow submission, p1.

31 AER submission, p1; Shell Energy submission, p2; EUAA submission, p1.

32 ENAs submission, p1; AEMO submission, p1; AER submission, p1, Origin Energy submission, p1; Shell Energy submission, p1, Sungrow submission, p1.

3 How our rule will operate

3.1 How the participant derogation will work

Box 1: How the participant derogation work

Our final determination is to:

- derogate from the requirements under clause 6a.23.5(f) of the NER which states that SSUPs for a system strength node must be the same for each regulatory year in a system strength charging period,
- apply this derogation only to Powerlink.

Changes from consultation to final

- No changes have been made.

Our final rule implements the participant derogation outlined in the consultation paper. This reflects unanimous stakeholder support to give Powerlink a participant derogation for a one-off reset to its SSUPs³³.

The participant derogation will only apply to Powerlink. The final rule will derogate from the requirements under clause 6A.23.5(f) of the NER which states that SSUPs for a system strength node must be the same for each regulatory year in a system strength charging period. Each charging period runs from the start of the second year of the SSSP's regulatory control period until the end of the first year of the next regulatory control period.

Under the final rule, where Powerlink determines revised SSUPs, in line with their approved pricing methodology, the SSUPs:

- will apply for each regulatory year in Powerlink's current system strength charging period commencing on 1 July 2024 and ending 30 June 2028
- will be required to remain the same for each of those years except to the extent the pricing methodology guidelines permit indexation
- will be used for the purpose of calculating system strength charges³⁴ in respect of the period commencing 1 July 2024 to the end of the current system strength charging period including where the election to pay the system strength charge³⁵ was made before the start of that period.

3.2 The reset system strength unit prices will be one-off and lower than Powerlink's current system strength unit prices

Box 2: The reset SSUPs must be lower than the current SSUPs and can occur only once

Our final determination is to:

33 ENA submission, p1; AEMO submission, p1; Powerlink submission, p1; AER submission, p1; Origin Energy submission, p1; Shell Energy submission, p1; Sungrow submission, p1; EUAA submission, p1.

34 under clause 6A.27.1(a) of the NER.

35 under clause 5.3.4B(b1) of the NER.

- Ensure Powerlink's reset SSUPs applying from 1 July 2024 to the end of Powerlink's current system strength charging period, are lower than the SSUPs published by Powerlink in March 2023
- Ensure that the reset occurs only once.

Changes from consultation to final

- **No changes have been made other than to the drafting in the final rule to implement these outcomes.**

Our final rule, in line with the consultation paper, Powerlink will be able to reset the SSUPs for any of the system strength nodes on its transmission network only if they are lower than the SSUPs for the nodes that Powerlink published in March 2023.³⁶ This reflects stakeholder feedback on the consultation paper that supported lowering the SSUPs in order to facilitate the connection of IBR and ensure the most efficient decision is made.³⁷

This condition aims to safeguard consumers and connection proponents from adverse cost impacts, aligning with the intent of Powerlink's rule change request and stakeholder feedback. Powerlink have advised the Commission that, during the revision period, Powerlink will publish SSUPs that will be lower than the SSUPs published by Powerlink in March 2023.

Under the final rule, Powerlink will be able to reset the SSUPs for any of the system strength nodes on its transmission network only once.³⁸ This is consistent with the intent of the rule change request and the consultation paper. In the final rule, this principle has been stated more clearly to reflect a suggestion from Powerlink in response to the indicative drafting.³⁹

3.3 The opportunity to reset system strength unit prices will expire within one month

Box 3: SSUP reset must occur within one month

Our final determination will have:

- Powerlink's ability to reset its SSUPs expire on 14 April 2024,
- the rest of the derogation will expire on 30 June 2028.

Changes from consultation to final

- No changes have been made.

Our final rule, in line with the consultation paper, will see Powerlink's ability to reset their SSUPs expire within one month of the publication of the final rule. This reflects stakeholder feedback on the consultation paper which supported the intent of the rule operating as a one-off reset,⁴⁰ and that the one month timeframe was appropriate and would not cause any delays to the annual pricing process.⁴¹

36 cl.8A.16.3(d)(2) of the final rule.

37 ENA submission, p1; AER submission, p1; EUAA submission, p1.

38 cl. 8A.16.3(c) of the final rule.

39 Powerlink submission, Attachment, proposal for clause 8A.16.3(b).

40 ENA submission, p1.

Under the final rule, Powerlink's ability to reset its SSUPs will expire at the end of the revision period.⁴² The revision period ends on 14 April 2024, which gives Powerlink one month from the publication of the final rule to revise its SSUPs. If Powerlink revises the SSUPs within the revision period, the SSUPs will apply for the remainder of the system strength charging period.⁴³

The Commission is satisfied that this timeframe will provide a sufficient amount of time for Powerlink to reset and publish its SSUPs. Powerlink has stated that allowing the revised SSUPs to be published by no later than 14 April 2024 will facilitate the timely implementation of the derogation.⁴⁴

Our final rule states that the rest of the derogation will expire on 30 June 2028 which covers the four remaining years of the current system strength charging period.⁴⁵

3.4 There will be obligations for existing connection enquiries

Box 4: Obligations for existing connection enquiries

Our final determination is to:

- require NSPs (Powerlink, Energex and Ergon Energy) to notify connection proponents that Powerlink may revise SSUPs,
- allow connection proponents who originally elected not to pay the system strength charge to change their decision.

Changes from consultation to final

- Defining the time frame for NSPs (Powerlink, Energex and Ergon Energy) to notify proponents that Powerlink may revise its SSUPs to 10 business days, instead of as soon as practicable, **clause 11.165.2(b)**
- Clarify that NSPs (Powerlink, Energex and Ergon Energy) must notify connection proponents of the opportunity to change their election within 10 business days of publication of the revised SSUPs rather than 10 business days of the effective date, **clause 11.165.3(c)**
- Ensuring connection proponents have adequate time to consider their change in election based on the revised SSUPs and aligning the date for this decision to be made with the SSQ time frame. This gives proponents until 29 July 2024 to consider the revised SSUPs and system strength charges rather than requiring the decision within 20 business days of the effective date, **clause 11.165.3(b)**

3.4.1 Obligations on NSPs for existing connection enquiries

Under our final rule, if any party has made a connection enquiry relating to a part of a network where Powerlink is the SSSP, the relevant NSP (Powerlink, Ergon Energy, or Energex) will be required to notify the connection proponent, within 10 business days of the effective date⁴⁶ that Powerlink may revise its SSUPs in accordance with the participant derogation. This is in line with

41 AER submission, p1.

42 cl. 8A.16.2(a) of the final rule.

43 cl.8A.16.3(a) of the final rule.

44 Powerlink submission, p1.

45 cl.8A.16.2(b).

46 cl.11.165.2(b) of the final rule.

stakeholder feedback to ensure these changes support transparency and ensure information is communicated in a timely manner to connection proponents.⁴⁷

3.4.2 Connection proponents who originally elected not to pay the system strength charge can change this decision

Under our final rule, all proponents for connection to a network for which Powerlink is the SSSP and who were subject to the new system strength framework will have the opportunity to benefit from the revised SSUPs, even where the connection proponent has already elected not to pay the system strength charge or has already concluded its connection agreement setting out an agreed system strength remediation scheme.

The final rule provides that the relevant NSP (Powerlink, Ergon Energy, or Energex), within 10 business days of the publication of the revised SSUPs, will notify each project proponent that falls in this group of the opportunity to change its decision.⁴⁸ This is in line with stakeholder feedback to provide adequate time for connection proponents to consider their decisions.⁴⁹

A project proponent can change its decision by notice to the relevant NSP by 29 July 2024. The new decision cannot be revoked.⁵⁰

The date of 29 July 2024 has been chosen because it aligns with the last date under the transitional provisions in the final SSQ rule for connection proponents to change an election to self-remediate and instead choose to pay the system strength charge.⁵¹ The final SSQ rule allows 20 business days from 1 July 2024, the effective date for the new provisions governing calculation of the SSQ. In the case of the final SSQ rule, that period is considered to be sufficient because AEMO's proposed revised approach to calculation of the SSQ is already known.

In addition, to allow AEMO to update the SSIAG (including consultation) there is a delay of some months between the final SSQ rule being made and the effective date of that rule. In the case of this final rule, Powerlink's revised SSUPs will be new information for connection proponents and so they may need more time to assess the most efficient option. To reduce complexity that might arise if connection proponents for projects in Queensland have two different dates by which to change their election to self-remediate (one under this final rule and one under the final SSQ rule), the Commission has decided to align the two.

Under the final rule, if a project proponent has concluded a connection agreement with the relevant NSP, and gives notice that it elects to pay the system strength charge, the project proponent and the relevant NSP must negotiate in good faith to amend the connection agreement to give effect to the new decision.^{52 53} This could involve removing those parts of the agreement dealing with the system strength remediation scheme, since that would no longer be required where the project proponent will instead pay the system strength charge.

47 Origin submission, p1.

48 cl.11.165.3(c) of the final rule.

49 Origin recommended a defined time frame (such as 20 business days). The final rule clarifies that NSPs must notify connection proponents of the opportunity to change their election within 10 business days of the publication of the revised SSUPs, rather than the effective date. We believe this covers the intent of Origin's recommendation.

50 cl. 11.165.3(b) of the final rule.

51 cl. 11.163.5(b).

52 cl.11.165.3(e).

53 This is different to the treatment of the SSQ calculation in the final determination <https://www.aemc.gov.au/rule-changes/calculation-system-strength-quantity>. This is because under the interim arrangements the proposed new SSQ calculation was already being used, so connection proponents had that information when they elected to self-remediate.

3.5 Interaction between the Calculation of system strength quantity (SSQ) final rule and the calculation of Powerlink's system strength unit prices

Powerlink's submission to the consultation paper noted a connection between the calculation of SSUPs and the calculation of SSQs. With Powerlink proposing that '[this determination] should allow for the revised prices to be informed by and published after completion of [the SSQ] determination'.⁵⁴ AEMO's submission to the consultation paper also requested that the timing of this rule change would align with the SSQ final determination to ensure the system strength charge is more reflective.⁵⁵

The Commission's final determination does not extend the time for Powerlink to publish its revised SSUPs. This would be a departure from the timing sought in the rule change request. Further, the proposed reset period of 15 March to 14 April 2024 is supported by the AER who consider that the timeframe is appropriate and should not cause any delays to the annual pricing process.⁵⁶ In any event, as explained below we consider that there is sufficient information available to Powerlink for the calculation of the revised SSUPs.

AEMO identified, during its public consultation process to update the SSIAG in 2023, that the SSQ component of the system strength charge in place in the NER at the time overstated the system strength impact of a connecting plant for applicants electing to pay the system strength charge. This is because the SSQ calculation in the NER did not account for the minimum or steady-state stability short circuit ratio below which a connected plant cannot stably operate and export its rated capacity. For the NEM, as with many power systems, the minimum stability level is roughly 1.2 and is provided by the network service provider (NSP).

The final rule for the Calculation of the SSQ will trigger an update to AEMO's system strength impact assessment guidelines (SSIAG).⁵⁷ AEMO will consult on amendments to the SSIAG to take account of the final rule as soon as practicable after the rule is made, in accordance with the rules consultation procedures.

Under the final rule, a new version of the SSIAG must be published by **30 June 2024** with the new SSQ calculation applying from **1 July 2024**.

The Commission notes that the final rule may significantly affect the value of SSQ and impact the total amount paid by connection proponents that have elected to pay the system strength charge.

To support proponents in progressing their connection applications, and Powerlink in determining their SSUPs, between the date of this final determination and the final rule and updated SSIAG take effect, AEMO has indicated that it intends to propose, for consultation, a SSQ calculation methodology that includes a stability coefficient of 1.2 to account for the minimum stability level of system strength provided by NSPs. This reflects the approach:

- used by AEMO to assess the change in available fault level when assessing the general system strength impact for connection proponents electing to self-remediate,⁵⁸

54 Powerlink submission, p1.

55 AEMO submission, p1.

56 AER submission, p1.

57 AEMO, System Strength Impact Assessment Guidelines, <https://aemo.com.au/en/energy-systems/electricity/national-electricity-market-nem/participate-in-the-market/network-connections/system-strength-impact-assessment-guidelines>.

58 See section 3.4 of the SSIAG available here: https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2022/ssriag/amendment/system-strength-impact-assessment-guidelines-v21.pdf?la=en.

- set out in a [guidance paper](#) published by AEMO which outlines an approach to calculating the SSQ it considers best-meets the objectives to the system strength framework.⁵⁹

On 5 September 2023 the AER issued a letter to SSSPs noting that it would not take action for non-compliance if AEMO's proposed alternative SSQ methodology was followed. The AER noted it would re-evaluate its position on compliance once the AEMC issues the final rule change determination.⁶⁰

In its submission to the draft determination and draft rule for the SSQ rule change, the AER stated that it *"is supportive of the direction taken in the draft rules and determination. We consider that shifting determination of the SSQ methodology from the Rules to AEMO's SSIAG both meets the policy intent of the original rule and is also in the long-term interests of consumers."*⁶¹

59 AEMO, *Calculating system strength quantities in the NEM*, May 2023, available at: https://aemo.com.au/-/media/files/stakeholder_consultation/consultations/nem-consultations/2022/ssrmiag/amendment/guidance--calculating-system-strength-quantities-in-the-nem.pdf?la=en.

60 AER, *Letter of comfort to system strength service providers*, 5 September 2023, available at: <https://www.aer.gov.au/publications/reports/compliance/letter-comfort-system-strength-service-providers>.

61 AER, *Submission to ERC0375 draft determination*, 18 January 2024, p.2, available here: <https://www.aemc.gov.au/sites/default/files/2024-01/AER%20Submission%20to%20ERC0375%20draft%20determination.pdf>.

A Rule making process

An expedited rule change request includes the following stages:

- a proponent submits a rule change request
- the Commission initiates the rule change process by publishing a consultation paper and seeking stakeholder feedback
- stakeholders have an opportunity to object to the expedited process
- stakeholders lodge submissions on the consultation paper and engage through other channels to make their views known to the AEMC project team
- the Commission publishes a final determination and, if relevant, a final rule.

You can find more information on the rule change process on our website.⁶²

A.1 Powerlink proposed a rule to allow a one-off reset to the system strength unit prices in Queensland

On 7 December 2023 Powerlink submitted a rule change request to the AEMC proposing that it, as the SSSP for the Queensland region, be able to reset its SSUPs. This would reflect Powerlink's improved cost estimates for meeting system strength requirements.

Powerlink proposed a rule change to allow a one-off reset of SSUPs in Queensland within the current system strength charging period. Powerlink's rule change request asked the Commission to allow Powerlink to reset and publish SSUPs for Queensland on 15 March 2024 and to have these prices take effect from 1 July 2024.⁶³ This would have ensured the publication and effective timeframes align with the broader annual prescribed transmission pricing process. Powerlink proposed that the SSUPs would apply for the four remaining years of the current system strength charging period.

Powerlink requested that the Rules be amended to the minimum extent necessary to give effect to its proposal.⁶⁴ Powerlink also stated that its intention was not to inadvertently capture other SSSPs through this rule change.⁶⁵ As such Powerlink sought a participant derogation.

A.2 The proposal addressed Powerlink's high system strength unit prices

When Powerlink prepared the SSUPs for Queensland's system strength nodes in early 2023, it 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. Powerlink established SSUPs based on the most reasonable information available to it at the time. This largely came from benchmarked costs for synchronous condensers as the then most likely technology to meet requirements, as well as energy costs to run these machines.

Powerlink has now had the opportunity to formally test the market for system strength services. They have stated that "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".

62 See our website for more information on the rule change process: <https://www.aemc.gov.au/our-work/changing-energy-rules>.

63 Powerlink rule change request, p.3.

64 Powerlink rule change request, p.3.

65 Powerlink rule change request, p.3.

Powerlink has stated that its SSUPs are, on average, higher than those published for other regions. Powerlink considers that allowing it to reset its SSUPs to incorporate new market information will bring Queensland's SSUPs more closely in line with those in other regions.⁶⁶ Powerlink has advised that connection proponents have stated that the current SSUPs have signalled that they should (and will) self-remediate their system strength impact in every case. Powerlink have indicated, this could mean IBR connections in Queensland will be delayed.

A.3 The proposal is expected to have a number of benefits

Powerlink expects the proposed rule change to result in a number of beneficial outcomes. These include:

- lower published SSUPs for Queensland
- lower costs to 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.

A.4 The rule making process to date

On 18 January 2024, the Commission published a notice advising of the initiation of the rule making process and consultation in respect of the rule change request.⁶⁷ A consultation paper identifying specific issues for consultation was also published. Submissions closed on 15 February 2024.

The Commission considered that the rule change request was a request for a non-controversial rule as defined in s. 87 of the NEL. Accordingly, the Commission initiated an expedited rule change process, subject to any written requests not to do so. The closing date for receipt of written objections was 1 February 2024.

No written requests to not carry out an expedited rule change process were received. Accordingly, the rule change request was considered under an expedited process.⁶⁸

The Commission received eight submissions on the rule change request. The Commission considered all issues raised by stakeholders in submissions. Issues raised in submissions are discussed and responded to in this final rule determination. A summary of other issues raised in submissions and the Commission's response to each issue is contained in **Appendix F**.

⁶⁶ Powerlink rule change request, page 4.

⁶⁷ This notice was published under section 95 and 96 of the NEL.

⁶⁸ Section 96 of the NEL.

B Regulatory impact analysis

The Commission has undertaken a regulatory impact analysis to make its final determination.

B.1 Our regulatory impact analysis methodology

We identified who would/will be affected and assessed the benefits and costs of each policy option

The Commission's regulatory impact analysis for this rule change used qualitative methodologies. It involved identifying the stakeholders impacted and assessing the benefits and costs of policy options. The depth of analysis was commensurate with the potential impacts. Where commensurate and feasible, the Commission has quantified the impacts. The Commission focused on the types of impacts within the scope of the NEO.

Table B.1 summarises the regulatory impact analysis the Commission undertook for this rule change. Based on this regulatory impact analysis, the Commission evaluated the primary potential costs and benefits of policy options against the assessment criteria. The Commission's determination considered the benefits of the options minus the costs.

Table B.1: Regulatory impact analysis methodology

| Assessment criteria | Primary costs Low, medium or high – | Primary benefits Low, medium or high – | Stakeholders affected | Methodology QT = quantitative, QL = qualitative |
|--|--|---|---|---|
| Safety, security and reliability –outcomes and services | Nil | Implements the system strength framework (high). | <ul style="list-style-type: none"> • Connection proponents • Consumers | QL: stakeholder feedback to assess benefits and costs. Information provided by the rule change proponent. |
| Principles of market efficiency –concepts of efficiency | Concluded connection agreements may be reopened (low). | Provide better signals to connection proponents (high). | <ul style="list-style-type: none"> • Relevant NSPs • Connection proponents • Consumers | QL: stakeholder feedback to assess benefits and costs. Information provided by the rule change proponent. |
| Implementation considerations – timing and uncertainty | The relevant NSP will need to contact connection proponents (low costs). Connection proponents could change their decision (low costs). | Opportunity for connection proponents who have not opted for the system strength charge to reconsider, if it is more efficient. (high). | <ul style="list-style-type: none"> • NSPs • Connection proponents • Consumers | QL: stakeholder feedback to assess all benefits and costs. Information provided by the rule change proponent. |

C Additional background and context

C.1 The Commission implemented a new system strength framework

In October 2021 the AEMC evolved the existing system strength framework in the National Electricity Rules (NER) to ensure the provision of system strength is more forward looking and coordinated.

The Rule introduced a new obligation for SSSPs in each region to provide the right amount of system strength to support the connection of IBR as forecast by the Australian Energy Market.

C.1.1 Connection proponents have two options to remediate their system strength impact

The 2021 rule introduced a new system strength mitigation requirement, evolving the framework away from the 'do not harm' obligations. This means when a proponent seeks to connect to the networks, it now has two options:

1. Pay the SSSP the system strength charge for hosting capability, with the charge reflecting the system strength requirements of the connecting party.
2. Self-remediate its general system strength impact, by proposing an appropriate system strength remediation scheme or paying the Network Service Provider to undertake system strength connection works.

In order to make efficient decisions about whether to remediate or pay the charge, connection proponents rely on the signal provided by the system strength charge.

C.2 System strength unit prices are a component of the system strength charge

The SSUP is a component of the system strength charge which is designed to reflect the system strength costs that a connecting party would impose on the system. The system strength charge is based on three components:

1. the SSUP
2. the system strength locational factor (SSL) and
3. the system strength quantity (SSQ).

The SSUP (\$/MVA) reflects the forward-looking cost of the SSSP supplying system strength at each system strength node. Each SSSP determines the SSUP applicable to each of the system strength nodes in its network.

How the SSSPs calculate their SSUPs is set out in each SSSP's transmission pricing methodologies, which must comply with the AER's Transmission Pricing Methodology Guidelines.

The SSUPs must be fixed (subject to consumer price indexation (CPI)) for the system strength charging period. Each charging period runs from the start of the second year of the SSSP's regulatory control period until the end of the first year of the next regulatory control period. That is, the SSUPs are set and fixed for five years.

Each SSSP must publish its prices by 15 March each year so that distribution network service providers (DNSPs) can use them for setting their prices in April or May each year and retailers can have final network prices sufficiently in advance of the new prices commencing on 1 July each year.

D Legal requirements to make a rule

This appendix sets out the relevant legal requirements under the NEL for the Commission to make a final rule determination.

D.1 Final rule determination and final rule

In accordance with section 102 of the NEL, the Commission has made this final rule determination in relation to the rule proposed by Powerlink.

The Commission's reasons for making this final rule determination are set out in **Chapter 1**.

A copy of the final rule is attached to and published with this final determination. Its key features are described in **Chapter 3**.

D.2 Power to make the rule

The Commission is satisfied that the final rule falls within the subject matter about which the Commission may make rules.

The final rule falls within section 34 of the NEL as it relates to a rule regulating the operation of the NEM⁶⁹ and the activities of persons participating in the national electricity market or involved in the operation of the national electricity system.⁷⁰

D.3 Commission's considerations

In assessing the rule change request the Commission considered:

- its powers under the NEL to make the final rule,
- the rule change request,
- submissions received during consultation, and
- the Commission's analysis as to the ways in which the final rule will or is likely to contribute to the achievement of the NEO.

There is no relevant Ministerial Council on Energy (MCE) statement of policy principles for this rule change request.⁷¹

D.4 Making electricity rules in the Northern Territory

Parts of the NER, as amended from time to time, apply in the Northern Territory, subject to modifications set out in regulations made under the Northern Territory legislation adopting the NEL.⁷²

The final rule will have no effect in the Northern Territory, as it amends provisions that have no effect in the Northern Territory.⁷³ Nevertheless, the final rule, being a participant derogation, is not a differential rule within the meaning of clause 14(2) of Schedule 1 to the NT Act. Accordingly, the

⁶⁹ Section 34(1)(a)(i) of the NEL.

⁷⁰ Section 34(1)(a)(iii) of the NEL.

⁷¹ Under s. 33 of the NEL the AEMC must have regard to any relevant MCE statement of policy principles in making a rule. The MCE is referenced in the AEMC's governing legislation and is a legally enduring body comprising the Federal, State and Territory Ministers responsible for energy. It is now referred to as the Energy Ministers Sub-Group.

⁷² National Electricity (Northern Territory) (National Uniform Legislation) Act 2015 (**NT Act**). The regulations under the NT Act are the National Electricity (Northern Territory) (National Uniform Legislation) (Modification) Regulations 2016.

⁷³ Under the NT Act and its regulations, only certain parts of the NER have been adopted in the Northern Territory. The version of the NER that applies in the Northern Territory is available on the AEMC website at: <https://energy-rules.aemc.gov.au/ntner>.

Commission has not assessed the proposed rule against the additional elements contained in the Northern Territory legislation.⁷⁴

D.5 Civil penalty provisions and conduct provisions

The Commission cannot create new civil penalty provisions or conduct provisions. However, it may recommend to the Energy Ministers' Meeting that new or existing provisions of the NEL be classified as civil penalty provisions or conduct provisions.

The final rule does not amend any clauses that are currently classified as civil penalty provisions or conduct provisions under the National Electricity (South Australia) Regulations.

The Commission does not propose to recommend to the Energy Ministers that any of the proposed amendments made by the final rule be classified as civil penalty provisions or conduct provisions.

⁷⁴ Clauses 14A and 14B of Schedule 1 to the NT Act, inserting section 88(2a) into the NEL as it applies in the Northern Territory.

E Summary of other issues raised in submissions

Table E.1: Summary of other issues raised in submissions

| Stakeholder | Issue | Response |
|-------------------|--|---|
| Shell Energy | Agree with Powerlink's proposal that participants who have already chosen not to pay the system strength charge would be given the opportunity to reverse this decision if they so choose. Similarly, participants who have made the decision to pay the system strength charge should have the opportunity to opt out of this approach and adopt a self-remediation approach if they so choose. | By lowering the SSUPs it is unlikely any proponent, in the event they opted to pay the charge would choose to self-remediate since they would have already considered the centralised charge the more efficient option, which will be further decreasing. |
| Sungrow Australia | We call for heightened transparency in the methodology for calculating and adjusting SSUPs. Sungrow Australia recommends implementing stringent safeguards and oversight mechanisms to uphold fairness and prevent potential exploitation. | Out of scope. AER guidelines govern this. |
| Sungrow Australia | Sungrow Australia advocates for a detailed justification of Powerlink's reset SSUPs, emphasising the necessity for these to mirror the most accurate cost projections. We suggest establishing a structured mechanism for periodic reviews or updates to ensure ongoing alignment with evolving market conditions and technological advancements. | The SSUPs are reset and republished every five years. |

Abbreviations and defined terms

| | |
|------------|--|
| AEMC | Australian Energy Market Commission |
| AEMO | Australian Energy Market Operator |
| AER | Australian Energy Regulator |
| Commission | See AEMC |
| CPI | Consumer Price Indexation |
| DNSP | Distributed Network Service Provider |
| IBR | Inverter based resources |
| NEL | National Electricity Law |
| NEO | National Electricity Objective |
| NER | National Electricity Rules |
| NSP | Network Service Provider |
| RIT-T | Regulatory Investment Test for Transmission |
| SCR | Short Circuit Ratio |
| SSIAG | System Strength Impact Assessment Guidelines |
| SSL | System Strength Locational Factor |
| SSSP | System Strength Service Provider |
| SSUP | System Strength Unit Price |
| SSQ | System Strength Quantity |
| TNSP | Transmission Network Service Provider |