

8 September 2017

John Pierce
Chair
Australian Energy Market Commission
Level 6, 201 Elizabeth Street
SYDNEY NSW 2000

Dear John,

re: System Security Rule changes (ERC211 and ERC214) – Transitional Arrangements

Purpose

As discussed briefly with you on 6 September 2017, the purpose of this follow up submission is to provide an update on actions currently being taken to manage pressing power system security issues in South Australia, and to propose some drafting to address this issue in the finalisation of the Managing Power System Fault Levels Rule change (ERC211).

Background

In its submission on the above Rule changes of 8 August 2017 and subsequent engagement with AEMC staff, ElectraNet has reinforced the importance of providing a workable set of arrangements that deliver efficient outcomes for consumers and allow Transmission Network Service Providers (TNSPs) to adequately manage their risks and obligations under the new framework in an extremely challenging market environment.

To this end, ElectraNet highlighted the critical importance in particular of:

- Providing adequate competitive protections, checks and balances under the Rules when TNSPs procure system strength and inertia services;
- Addressing the material cost recovery and cash flow issues under the Rules to avoid exposing TNSPs to unmanageable risk; and
- Adopting adequate transition arrangements and timeframes given the required lead times involved, including the Regulatory Investment Test for Transmission (RIT-T) process (or preferably expedited economic assessment processes).

Based on discussions with AEMC staff on 6 September 2017 we understand that it is proposed to address these issues in the final Rules for system strength and inertia.

On the assumption that the final Rules will adequately address these issues, the remainder of this submission addresses the implications of current actions being taken to address system strength issues in South Australia, and puts forward some drafting suggestions to the system strength Rule to allow for an appropriate transition path to the new arrangements.

Discussion

ElectraNet understands that AEMO intends to issue an update to its NTNDP on 8 September 2017 or shortly thereafter, which will identify an NSCAS Gap under 3.11.3 of the National Electricity Rules. This gap relates to a shortfall of system strength in South Australia as measured by the level of stabilising fault current on the transmission network. ElectraNet understands that AEMO will state that this shortfall exists today and will continue to exist for the remainder of the current five year NSCAS planning horizon and beyond.

AEMO will also formally request advice from ElectraNet as the relevant TNSP on what arrangements it proposes to have in place to meet the identified NSCAS gap by 5 December 2017, or to provide reasons why the NSCAS gap will not be met. ElectraNet is required to provide a response to AEMO's request within 30 days.

Were ElectraNet to seek to address this NSCAS gap under the current Rules, it would not have the benefit of the provisions of the AEMC's final Rule change, and would remain exposed to the lack of competitive protections, checks and balances in relation to the procurement process and material cost recovery and cash flow risks referred to above and discussed in ElectraNet's submission to the AEMC on its draft Rule determinations.

In the event that ElectraNet does not commit to addressing this NSCAS gap, AEMO would proceed to secure the required level of system strength services under the last resort NSCAS procurement arrangements of the current Rules for the identified shortfall period of up to five years and beyond. However, it is not AEMO's preference to have to exercise this fall-back position.

Proposal

In keeping with the intent of the proposed framework for procurement of system strength and intended allocation of responsibilities under the new Rule, it would be preferable for the NSCAS gap process now being initiated under the current Rules to proceed under the framework in the new Rule, with the full benefit of the associated protections it will provide.

This would in no way disturb or undermine the existing process, but rather would realise the full benefits of the AEMC's new Rule.

In order to address the immediate system strength challenges now being acted upon and to provide for a sensible and timely transition path to the new framework, it is therefore proposed that a small number of minor drafting changes be adopted in finalising the system strength Rule for implementation. These minor changes would take the form of temporary savings and transitional measures under Chapter 11 of the Rules that would allow the NSCAS gap process being initiated under the current Rules to proceed under the new framework.

In brief, these transitional provisions would deem an identified NSCAS gap for system strength which exists at the time the new Rule comes into effect to be a declared system strength requirement or shortfall for the purposes of the framework in the new Rule, if acted upon by the relevant TNSP.

While it is difficult for ElectraNet to offer a precise transition provision without having seen the Rule being finalised for approval, for the purposes of illustration the Attachment provides further explanation of the intent of these provisions, and includes two alternative sets of indicative transitional clauses for consideration.

These are a general overarching transitional provision, and an alternative set of more specific transitional provisions, should this option be preferred by the AEMC. As ElectraNet has not seen the AEMC's final Rule change, these proposed transitional provisions have been drafted based on a number of assumptions regarding the content of the final Rule, as set out in the attached. It will be important for the AEMC to adapt these proposed amendments as required in order to operate correctly with the final Rule.

The proposed transitional arrangement will benefit consumers and meet the National Electricity Objective by:

- Delivering on the intent of the proposed Rule in allocating responsibility to the most appropriate parties for maintaining system strength;
- Assisting to meet the immediate system security needs of South Australia in a timely manner;
- Providing a targeted and proportionate response to the immediate issue through a once-only transition in the circumstance of an identified gap for system strength services which exists at the time the new Rule comes into effect (of which the NSCAS gap in South Australia will be the only current example in the NEM);
- Delivering the full benefit for consumers of the competitive protections built into the final system strength Rule and cost recovery arrangements to address cash flow risks; and
- Promoting the efficient use of electricity services for the long term interests of consumers with respect to the security of the national electricity system.

In putting forward its original Rule change request, the South Australian Government highlighted the priority of this issue, indicating that:

“The Commission should amend the Rules to ensure they can accommodate issues associated with low fault levels that are becoming relevant in the market and allocate responsibility for setting fault levels at different parts of the network that take account of cost, incentives and allocation of risk.”¹

The enclosed amendments are consistent with this aim, and would assist the final Rule to deliver on its original intent in a timely and efficient manner in addressing the immediate challenges faced in South Australia.

ElectraNet looks forward to any further engagement with the AEMC that would help in finalising these important Rule changes for implementation.

Please direct any queries in relation to this submission to Simon Appleby in the first instance on (08) 8404 7324.

Yours sincerely



Rainer Korte
Executive Manager, Asset Management

¹ Proposed Rule Change - System Security, Hon Tom Koutsantonis MP, Minister for Mineral Resources and Energy, 12 July 2016

Proposed Transitional Provisions - System Strength Rule Change

1 Assumptions

The proposed transitional provisions set out below have been drafted without knowledge of the terms of the AEMC's final Rule change for managing power system fault levels. Accordingly, the proposed transitional provisions are based on the AEMC's draft Rule, and certain assumptions made by ElectraNet regarding the differences between the AEMC's draft and final Rules.

In particular, ElectraNet has assumed that the AEMC's final Rule determination may differ from the draft Rule determination in the following ways:

- the final Rule may measure system strength by reference to absolute fault levels at particular nodal points in a transmission network, rather than by reference to short circuit ratios at connection points for generating systems and market network facilities;
- the final Rule may establish a term to describe the situation in which the level of system strength in a transmission network is below the minimum or required level, such that a TNSP is required to acquire services and / or invest in its network in order to increase the level of system strength. ElectraNet assumes that such a situation will be referred to as a *system strength shortfall*, and that the services which a TNSP may acquire to remedy a system strength shortfall will be referred to as *system strength services*;
- the final Rule may establish appropriate mechanisms to protect TNSPs and consumers in situations where a TNSP must acquire system strength services in an uncompetitive market, such as those proposed by ElectraNet in its submission to the AEMC in response to the AEMC's draft Rule determination;
- the final Rule may create an exemption to the RIT-T requirements for investments which a TNSP proposes to make in its network to remedy a system strength shortfall. That exemption may be effected by introducing a new subparagraph 5.16.3(a)(10), or by amending the provisions related to 'urgent and unforeseen network issues' in clauses 5.16.3(a)(1) and (b); and
- the final Rule may insert a new cost pass through event in clause 6A.7.3(a1) for instances where there is a system strength shortfall. ElectraNet assumes that such a pass through event will be referred to as a *system strength event*.

2 Proposed Drafting

ElectraNet proposes that the AEMC adopt additional transitional provisions in its final Rule determination, to ensure that any arrangements put in place by ElectraNet to meet the NSCAS gap identified by AEMO by increasing the level of system strength will:

- be subject to the new competition protections for acquiring system strength services (which ElectraNet assumes will be adopted by the AEMC in its final Rule);
- have the benefit of any amendment made by the AEMC to the RIT-T requirements in Chapter 5 of the NER in its final Rule; and
- be able to be treated as a cost pass through under the new 'system strength event' pass through provisions (which ElectraNet assumes will be adopted by the AEMC in its final Rule), and subject to the AER's usual oversight of cost pass throughs.

Set out below are two alternative sets of proposed transitional provisions. The first set (Option A) proposes a general overarching transitional provision to meet the objectives discussed above. The second set (Option B) proposes more specific transitional provisions, as an alternative to Option A.

ElectraNet emphasises that its suggested drafting is based on the assumptions set out above, and that the transitional provisions will need to be adapted to be consistent with the other provisions in AEMC's final Rule, which of course we have not yet seen.

Option A – overarching transitional provision

Insert in the Schedule of the final Rule containing Savings and Transitional Amendments to the National Electricity Rules:

- (1) In circumstances where:
- (a) an *NSCAS gap* is identified in the most recent *NTNDP* as at [date Rule is made] or in an *NTNDP* published by AEMO between [date Rule is made] and the commencement date; and
 - (b) the *NSCAS gap* may be met by the relevant *Transmission Network Service Provider* putting in place arrangements to increase the [fault level at particular nodal points in a transmission network]; and
 - (c) a *Transmission Network Service Provider* chooses to put in place arrangements to meet the *NSCAS gap* (including by acquiring *NSCAS* or investing in the *Transmission Network Service Provider's network*) after [date Rule is made], including after the commencement date,

those arrangements shall be treated as steps taken by the relevant *Transmission Network Service Provider* to [meet a system strength shortfall]² as if:

- (a) clauses [insert reference to operative clauses establishing the concept of a system strength shortfall and containing competition protections for acquisition of system strength services] had commenced on [date Rule is made], to the extent they are able to operate effectively on that date; and
- (b) clause 5.16.3 regarding the *regulatory investment test for transmission*, clause 6A.7.3(a1) regarding *pass through events*, and related definitional provisions, operated as if they were amended or inserted by the Amending Rule, and as if the provisions of the Amending Rule which made those amendments or insertions had commenced on [date Rule is made], to the extent that those provisions are able to operate effectively on that date.

² ElectraNet assumes that the AEMC's final Rule will establish the concepts of a *system strength shortfall* and *system strength services*.

Option B – alternative to an overarching transitional provision

Insert in the Schedule of the final Rule containing Savings and Transitional Amendments to the National Electricity Rules:

Transitional NSCAS gap

- (1) A *transitional NSCAS gap* is any *NSCAS gap* which may be met by a *Transmission Network Service Provider* putting in place arrangements to increase the [fault level at particular nodal points in a transmission network], identified in:
 - (a) the most recent *NTNDP* as at [date Rule is made]; or
 - (b) an *NTNDP* published by AEMO between [date Rule is made] and the commencement date.

Transitional NSCAS gap competition protections

- (1) Where a *Transmission Network Service Provider* proposes to acquire *NSCAS* to meet a *transitional NSCAS gap*, clauses [insert reference to clauses containing competition protections for acquisition of system strength services] apply:
 - (a) as if those clauses had commenced on [date Rule is made], to the extent they are able to operate effectively on that date; and
 - (b) as if the *Transmission Network Service Provider's* acquisition of *NSCAS* to meet the *transitional NSCAS gap* was an acquisition by the *Transmission Network Service Provider* of [system strength services] to [meet a system strength shortfall].

Investments subject to the regulatory investment test for transmission

- (1) Expenditure which a *Transmission Network Service Provider* proposes to invest in its network to meet a *transitional NSCAS gap* constitutes expenditure proposed by a *Transmission Network Service Provider* to [meet a system strength shortfall] for the purposes of clauses 5.16.3(a) [and 5.16.3(b)³], as amended by the Amending Rule and as if those clauses [and any new related definitions clauses] had commenced on [date Rule is made].

³ Clause 5.16.3(b) is referenced here in the event that the AEMC's final rule inserts an exemption to the RIT-T requirements investment to meet a system strength shortfall, and does so by amending the 'urgent and unforeseen' exemption in clause 5.16.3(a) and (b), rather than by inserting a new exemption in clause 5.16.3(a).

Transitional NSCAS gap as a pass through event

- (1) The identification of a *transitional NSCAS gap* in an *NTNDP* is a [*system strength event*⁴] for the purposes of clause 6A.7.3(a1)(X) as if that clause [*and any new related definitions clauses*] had commenced on [*date Rule is made*].
- (2) For a *Transmission Network Service Provider*:
 - (a) a *positive change event* includes a [*system strength event*] which entails the *Transmission Network Service Provider* incurring costs in:
 - (i) acquiring *NSCAS*; or
 - (ii) providing *prescribed transmission services*,to meet a *transitional NSCAS gap* that the *Transmission Network Service Provider* would not have incurred if it did not put in place arrangements to meet the *transitional NSCAS gap*;
 - (b) in respect of a *positive change event* which is also a [*system strength event*], an *eligible pass through amount* includes the increase in costs in acquiring *NSCAS* or in providing *prescribed transmission services* that, as result of the *positive change event*, the *Transmission Network Service Provider* has incurred and is likely to incur (as opposed to the revenue impact of that event) until:
 - (i) unless subparagraph (b)(ii) applies – the end of the *regulatory control period* in which the *positive change event* occurred; or
 - (ii) if the *transmission determination* for the *regulatory control period* following that in which the *positive change event* occurred does not make any allowance for the recovery of that increase in costs (whether or not in the forecast operating expenditure or forecast capital expenditure accepted or substituted by the AER for that *regulatory control period*) – the end of the *regulatory control period* following that in which the *positive change event* occurred.

⁴ As noted above, ElectraNet assumes that the AEMC's final rule will introduce a new pass through event in NER 6A.7.3(a1) for instances where there is insufficient system security, which will be referred to as a 'system strength event'.

Application of transitional NSCAS gap provisions

- (1) Clauses [insert reference to new transitional clauses set out above] above apply in relation to arrangements put in place by a *Transmission Network Service Provider* to meet to a *transitional NSCAS gap* (including the acquisition of *NSCAS* or investment in the *Transmission Network Service Provider's network*) after [date of this Rule], including after the commencement date.
-