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Our Ref: #16436024  
Contact Officer: David Monk  
Contact Phone: [REDACTED]

21 March 2024

Mr Jeremy Tustin  
Manager Regulation  
ElectraNet Pty Limited  
PO Box 7096, Hutt Street Post Office  
ADELAIDE SA 5000

By email: [REDACTED]

Dear Mr Tustin,

**Re: AER Determination – ElectraNet – 2024-25 Inertia Shortfall cost pass through**

I am writing to advise you of the Australian Energy Regulator's (AER) assessment of ElectraNet's negative cost pass through (CPT) application, submitted on 5 February 2024, to reduce its 2024-25 network support allowance due to a forecast reduction in 2024-25 inertia service charges.

In accordance with clause 6A.7.3 of the National Electricity Rules (NER), the AER has determined that a negative change event has occurred, and the required negative pass through amount is \$6.15 million (\$2022-23) to reflect the forecast reduction in 2024-25 inertia service charges from \$8.15 million (\$2022-23) to \$2 million (\$2022-23).

We are satisfied this amount reasonably reflects the likely reduction in 2024-25 inertia service charges as a result of the Australian Energy Market Operator (AEMO) revising the level of inertia network services that ElectraNet is required to provide in 2024-25.

In approving this negative pass through amount, we acknowledge the initiative shown by ElectraNet in promptly identifying the negative change event and seeking to move quickly to ensure the identified savings could be reflected in 2024-25 transmission charges.

Please direct any queries regarding this matter to David Monk at [REDACTED].

Yours sincerely

[REDACTED]

Arek Gulbenkoglul  
General Manager  
Network Expenditure

Sent by email on: 21.03.2024

# Attachment A: Reasons for determination

## 1. Occurrence of an inertia shortfall event and a negative change event

### *Inertia shortfall event*

An inertia shortfall event is a prescribed cost pass through event for transmission network service providers. The NER defines an inertia shortfall event as:<sup>1</sup>

*A Transmission Network Service Provider is required to make inertia network services available under clause 5.20B.4 as a consequence of an assessment by AEMO under clause 5.20B.3(c) that there is an inertia shortfall in an inertia subnetwork for which the Transmission Network Service Provider is the Inertia Service Provider or to cease making inertia network services available under clause 5.20B.4 as a consequence of an assessment by AEMO under clause 5.20B.3(d) that an inertia shortfall in the inertia sub-network has ceased and:*

*(a) the Transmission Network Service Provider is required to provide, or cease providing, inertia network services during the course of a regulatory control period; and*

*(b) making inertia network services available or ceasing to make inertia network services available materially increases or materially decreases the Transmission Network Service Provider's costs of providing prescribed transmission services.*

On 5 February 2024, ElectraNet submitted a written statement to the AER notifying likely savings in the cost of providing inertia network services in 2024–25. This followed notice provided by AEMO in December 2023 that it had revised the inertia shortfall for 2024-25 downwards by approximately 86% to 50 MW of Fast Frequency Response (FFR).<sup>2</sup> ElectraNet has estimated that the likely cost of providing inertia network services in 2024-25 will therefore reduce by approximately \$6.15 million (\$2022–23) compared to the forecast costs included in its 2023–28 revenue determination.

We are satisfied that the expected lower cost of providing inertia network services in 2024–25 notified by ElectraNet meets the definition of this prescribed pass through event, subject to the identified cost savings being material.

### *Negative change event*

In order to approve an amount of money to be passed back to energy consumers, the AER must also determine that a negative change event has occurred. The NER define a negative change event as:<sup>3</sup>

*... a pass through event which entails the Transmission Network Service Provider incurring materially lower costs in providing prescribed transmission services than it would have incurred but for that event.*

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<sup>1</sup> NER, Chapter 10 (definition of 'inertia shortfall event')

<sup>2</sup> [AEMO notice to ElectraNet \(Inertia\) - December 2023](#)

<sup>3</sup> NER, Chapter 10 (definition of 'negative change event').

The NER define 'materially' as follows:<sup>4</sup>

*... the change in costs (as opposed to the revenue impact) that the Transmission Network Service Provider has incurred and is likely to incur in any regulatory year of a regulatory control period, as a result of that event, exceeds 1% of the maximum allowed revenue for the Transmission Network Service Provider for that regulatory year.*

We are satisfied that a negative change event has occurred. The saving ElectraNet is likely to obtain as a result of the pass through event (\$6.15 million) exceeds 1% of ElectraNet's maximum allowed revenue for the 2023–24 regulatory year (\$4.1 million).<sup>5</sup>

## 2. Relevant factors

Clause 6A.7.3(j) of the rules sets out a number of matters that we are required to take into account when determining:

- whether a positive or negative change event has occurred
- the approved pass through amount
- the amount of the approved pass through amount that should be passed through to transmission network users.

We have had regard to the relevant factors listed in clause 6A.7.3(j) of the NER.<sup>6</sup> Specifically, we have:

- considered the matters and proposals set out in ElectraNet's written application.
- assessed the costs ElectraNet is likely to save as a result of the negative change event in the 2022–23 regulatory year
- concluded that the costs incurred relating to the pass through event under consideration are not the subject of any previous determination by us under clause 6A.7.3.

## 3. Approved pass through amount

Rule 6A.7.3(b) of the NER states that, if a negative change event occurs, the AER may require the Transmission Network Service Provider to pass through to transmission network users a negative pass through amount as determined by the AER under clause 6A.7.3(g).

To calculate the negative pass through amount, we have relied upon ElectraNet's estimate of the inertia service costs it considers it is likely to save as a result of the reduction in the expected volume of inertia network services to be provided in 2024–25.

We note that the actual costs of inertia network services that ElectraNet will incur in the 2024–25 year remains uncertain. In part, this is because the services in question are only required in the event that South Australia is 'islanded' from the National Electricity Market. The cost of providing service depends on whether an islanding event occurs and, if so, its duration.

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<sup>4</sup> NER, Chapter 10 (definition of 'materially').

<sup>5</sup> ElectraNet, *Inertia shortfall event 2023*, 2 February 2024, p. 14.

<sup>6</sup> NER cl 6A.7.3(j).

Based on the information provided by ElectraNet in its written statement, we are satisfied that ElectraNet has identified the best estimate of the likely costs it will incur (and therefore the savings it will achieve) in the circumstances. At the time of submission, ElectraNet had commenced but not concluded negotiations with FFR providers in respect of FFR contracts for 2024-25. The proposed pass through amount necessarily reflects assumptions regarding the structure of those contracts, and that those negotiations will be concluded consistent with ElectraNet's expectations. We consider this to be reasonable in the circumstances. We also note that any difference between the new forecast amount and the actual costs ElectraNet incurs in providing inertia network services in 2024-25 will be reconciled through the annual network support pass through process.

Our 2023–28 revenue determination for ElectraNet made an allowance for forecast inertia network service costs of \$8.15 million (\$2022-23) in the 2024–25 year. ElectraNet's revised cost estimate for inertia network services is \$2.0 million (\$2022-23). Therefore, the likely saving in inertia network service costs in the 2024–25 year is \$6.15 million (\$2022-23).

Consequently, we determine that a negative change event has occurred and that the required pass through amount is \$6.15 million (\$2022-23). This amount will be removed from allowed revenues for the next regulatory year (2024–25) and result in lower transmission charges for network users (other things being constant).