

Level 11, 1 King William Street
Adelaide SA 5000
GPO Box 3131
Canberra ACT 2601
tel: (08) 8213 3444
www.aer.gov.au

Our Ref: 16211690
Your Ref: ERC0375
Contact Officer: Chris Ridings

11 January 2024

Ms Anna Collyer
Chair
Australian Energy Market Commission
GPO BOX 2603
SYDNEY, NSW, 2001

Dear Ms Collyer

Re: Calculation of system strength quantity

The Australian Energy Regulator (AER) welcomes the opportunity to comment on the draft rules and determination made by the Australian Energy Market Commission (AEMC) regarding calculation of the system strength quantity (SSQ).

As part of the *Efficient management of system strength on the power system* rule, the AEMC introduced a system strength charge which would be paid by connecting inverter-based resources opting-in to the centralised framework. This charge is to be reflective of the costs to remediate the connecting party's system strength impact and would flow on to reduce the total costs passed on to consumers. The SSQ is one component of this charge which is indicative of the connection's system strength 'consumption'.

This rule change aims to address concerns that the formula for calculating the SSQ overstates the actual value and is inconsistent with the formula for determining the system strength 'consumption' via self-remediation. This could result in higher than appropriate system strength charges and may act as a disincentive to opt-in to the centralised framework.

As noted in the draft determination, on 5 September 2023 the AER provided a letter to Energy Networks Australia for circulation to its relevant electricity transmission and distribution members, which advised of the AER's views on the compliance concerns expressed by networks arising from AEMO's revised methodology for the calculation of SSQ under the National Electricity Rules¹. In particular, the letter noted the AER's view that, should a System Strength Service Provider (SSSP) adopt AEMO's revised methodology for

¹ 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>

calculating SSQ when calculating system strength charges, we do not intend to take any action in relation to the resultant non-compliance with clause 6A.23.5(j) of the NER.

We noted that the AER's position was subject to a rule change request to allow the revised SSQ methodology under the NER being lodged with, and progressed by, the AEMC as a priority which we consider is being met through this rule change process. The letter notes that, once the AEMC has issued its final rule change determination, the AER will re-assess its position on what is a compliant approach under the NER for new connections looking forward.

As such, the AER 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 System Strength Impact Assessment Guideline both meets the policy intent of the original rule and is also in the long-term interests of consumers.

Yours sincerely



Mark Feather
General Manager, Policy
AER