

System security network support payment guideline

For ex-ante determinations on draft system
security network support payment contracts

AER guideline

November 2024

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1 Introduction

The Australian Energy Regulator (AER) exists to ensure energy consumers are better off, now and in the future. Consumers are at the heart of our work, and we focus on ensuring a secure, reliable, and affordable energy future for Australia as it transitions to net zero emissions.

As the independent regulator, the national energy objectives guide the AER's work in the long-term interests of consumers.

The purpose of this Guideline is to outline how the AER will determine whether proposed expenditure for a system security network support (SSNS) service, as set out in a draft contract between a transmission network service provider (TNSP) and SSNS service provider (i.e. typically a generator or battery), is likely to be prudent and efficient (i.e. consistent with the operating expenditure objectives, criteria and relevant factors, and network support pass through factors in the NER).¹ The AER is required to make these determinations and publish this Guideline under the [Improving Security Frameworks for the Energy Transition Rule Change](#), published on 28 May 2024.

1.1 The AER's role

The *Improving Security Frameworks for the Energy Transition rule change* (the ISF Rule), published on 28 May 2024, changes the way TNSPs recover the costs of SSNS payments made for system security services. System security services include system strength, inertia, and network support and control ancillary (NCAS) services typically provided by a synchronous generator or battery to ensure the power system is secure as we transition to more renewable generation.

In addition to introducing a revised method for forecasting and recovering TNSP expenditures for SSNS services through a new annual transmission pricing process² and revisions to the existing ex-post network support payment (NSP) pass through process,³ the ISF Rule:⁴

- allows (but does not require) TNSPs to seek an ex-ante determination from the AER that an expenditure for a proposed SSNS payment, or a methodology for such a payment as set out in a draft contract between the TNSP and SSNS provider (e.g. a generator or

¹ ISF Rule, NER, 6A.6.6A.

² ISF Rule, 6A.23.3(h)(2). This rule change does not require a change to the AER's existing [Transmission Pricing Methodology guidelines](#).

³ ISF Rule, 6A.7.2(i)(3a). The AER Guideline [Procedural guideline for preparing a transmission network support pass through application June 2011](#) outlines the existing (pre-ISF Rule) process for undertaking annual NSP pass throughs. The AER is currently considering what, if any updated may be needed to this guideline to reflect the modified annual cost pass through approach in the ISF Rule.

⁴ ISF Rule, NER 6A.6.6A.

battery) will likely be prudent and efficient (i.e. consistent with the operating expenditure objectives, criteria and factors, and relevant NSP pass through factors)

- requires the AER to publish a guideline by 1 December 2024, setting out a process for the AER to undertake these ex-ante determinations in relation to select (i.e. large) draft SSNS payment contracts.

The primary aim of this Guideline is to set out how the AER undertakes these ex-ante determinations. Specifically, this Guideline sets out the processes, eligibility criteria and thresholds, timing, consultation processes and information the AER may have regard to when assessing the prudence and efficiency of proposed payments or payment methodologies in draft SSNS payment contracts. Enabling TNSPs to seek the AER's view on the prudence and efficiency of significant (i.e. large) draft contracts aims to improve TNSP confidence in cost recovery processes, thereby improving the efficiency and ability of TNSPs to enter these types of contracts and levelling the playing field between network and non-network solutions to meeting system security requirements.⁵ The AER will only be reviewing a subset of all the SSNS payment contracts TNSPs are required to enter into to meet the planning standards specified in Schedule 5.1 of the NER. This Guideline may also inform TNSP decision making when contracting the wider set of SSNS payment contracts required under Schedule 5.1.

Appendix A of this Guideline provides a flowchart showing key (numbered) decision points a TNSP may need to navigate in contracting SSNS services, and how this Guideline, and the AER's related *Efficient Management of System Strength Framework* guidance, can help inform TNSP decision making.⁶

Appendix A shows that after completing the network planning and regulatory requirements to identify preferred options for meeting system security standards (1) and procuring offers for required SSNS services (2), a TNSP may, including by having regard to section 3.5 of this Guideline, consider whether a draft contract payment terms are likely to be prudent and efficient (3). Where the TNSP concludes this is the case, it may choose to sign the contract without AER review (4a), or may apply for an AER ex-ante determination on the draft contract, and sign the contract if prudence and efficiency is confirmed (4b).

Where a TNSP concludes the contract terms are unlikely to meet the prudence and efficiency criteria in section 3.5 of this Guideline, the TNSP may:

- reapproach the market seeking better payment terms

⁵ AEMC, *Rule determination, National Electricity Amendment (Improving security frameworks for the energy transition) Rule 2024*, 28 March 2024, p. 42.

⁶ The flow chart also shows how the AER's *Efficient Management of System Strength Framework* guidance, developed in parallel with this Guideline, may inform TNSP decisions to proactively plan for, and procure system strength services under the *Efficient management of system strength on the power system* rule change, made on 21 October 2021.

- seek AER approval of an alternative (lower cost) option to the preferred options identified through the initial network planning and regulatory processes, where one is available (i.e. under a 'material change in circumstances' (5a)
- not sign the contract on the basis that it considers it has made 'reasonable endeavours' to proactively plan for and procure the required level of system strength but concluded that the best available offer likely represents unreasonable costs. Section 3.1 of the AER's *Efficient Management of System Strength Framework* guidance note, November 2024, provides further guidance on the issues a TNSP should consider when assessing whether a package of steps taken to meet a system strength standard may constitute reasonable endeavours.

The AER notes that there should be a financial incentive for the suppliers of SSNS services (i.e. generators and batteries) to make reasonable offers to TNSPs procuring SSNS services to meet the planning standards specified in Schedule 5.1 of the NER. This Guideline and the related *Efficient Management of System Strength Framework* guidance note aims to do this by establishing a framework under which suppliers of SSNS services are likely to be better off making reasonable offers that can be contracted, relative to being uncontracted and compensated if their services are needed and they are directed on by AEMO.

We encourage TNSPs to engage with us before applying for determinations dealt with in the Guideline. This will help to ensure that parties are making high quality applications that are appropriately justified by relevant information included with the application, and that can be decided in a timely manner.

1.2 Consultation on the Guideline

The AER released its draft Guideline on 9 October 2024 and called for submissions on the Guideline. The AER received 6 submissions, which are available on the [AER's website](#). The key issues raised in submissions, our responses and changes between the draft and this final version of the Guideline are summarised in the Guideline Explanatory Statement available on the [AER's website](#).

1.3 Confidentiality

The AER's obligations regarding confidentiality and the disclosure of information provided to it by a TNSP is governed by the *Competition and Consumer Act (2010)*, National Electricity Law and the NER.

This Guideline discusses information that may be commercial in confidence and / or confidential. When a TNSP provides us with information in an application seeking an ex-ante determination or in subsequent information provided, it can claim confidentiality over any part of the information. To make a claim for confidentiality, we ask that the confidential information is clearly identified, and reasons are provided to support the confidentiality claim. Any such information must be of a genuinely confidential in nature and not otherwise publicly available. We encourage parties to limit confidentiality claims to the extent possible, so that the AER can conduct reviews as transparently as possible.

Further details on how TNSPs should make confidentiality claims over information submitted to us is provided in the [AER's Confidentiality Guideline](#). Further guidance on how the AER

collects, uses and discloses confidential information is available in the [ACCC/AER Information Policy](#).

1.4 Structure of the Guideline

The Guideline is structured as follows:

- Chapter 2: Regulatory framework for ex-ante determinations of SSNS payment contracts
- Chapter 3: Processes, timelines, eligibility criteria and thresholds, and information we may have regard to
- Chapter 4: Information requirements to make an application
- Appendix A: TNSP decision tree on contracting system security network support services

1.5 Process for revision

The AER may amend or replace this Guideline from time to time. This Guideline is not subject to the Transmission Consultation Procedures under NER 6A.20.

2 Regulatory framework

This chapter outlines the regulatory framework established under the ISF Rule for the AER's ex-ante determination of draft SSNS payment contracts.

2.1 Purpose of the determination

The purpose of the ISF Rule clause 6A.6.6A of the NER is to enable TNSPs to seek a determination from the AER that an expenditure for a proposed payment or payment methodology in a draft SSNS payment contract will be consistent with the relevant opex and network support payment criteria, which we collectively refer to as 'prudence and efficiency'.

Box 1 lists the full NER requirements under clause 6A.6.6A, including the NER criteria we must have regard to in making an ex-ante determination, and the nature of the SSNS payment Guideline.

The AEMC states that the aims of these ex-ante determinations include:⁷

- providing a level of comfort to TNSPs, before signing a contract, about the AER's expectations and approaches to making ex-post assessments of expenditures incurred under the executed contract (i.e. as part of the AER's subsequent network support payment (NSP) pass-through determinations). This should improve TNSPs' confidence when entering into a contract that they will be able to recover efficient operational costs.
- improving the efficiency and ability of TNSPs to contract SSNS services
- leveling the playing field between network and non-network expenditure in meeting system security needs.

Clauses 6A.6.6(e)(13a) and 6A.7.2A(i)(3a)(iii) also require the AER to take into account an ex-ante determination made on a draft contract in any future related NSP pass through determination for costs incurred under the same contract.

Where the AER has made an ex-ante determination with respect to a payment or payment methodology, any future related NSP pass-through determination will not re-examine whether that payment or payment methodology is consistent with the relevant opex and network support payment criteria. It will examine whether the costs being assessed in the pass-through determination were incurred by the TNSP in a manner that is consistent with the contract's payment methodology that was the subject of the ex-ante determination, alongside the other factors that the AER is required to take into account in making a pass-through determination under clause 6A.7.2(i). If a TNSP alters the payment methodology contained in a contract that was the subject of an ex-ante determination, then the AER may, in any related NSP pass-through determination, reconsider whether the payment or payment methodology used was prudent and efficient.

⁷ AEMC, *Rule determination, National Electricity Amendment (Improving security frameworks for the energy transition) Rule 2024*, 28 March 2024, pp. 51-52.

Box 1: NER clause 6A.6.6A AER power to make advance determination with regard to future operating expenditure

- (a) The AER may, on application by a Transmission Network Service Provider, make a determination that expenditure for a proposed system security network support payment, or a methodology for such payment, specified in the determination, will be consistent with:
 - (1) the operating expenditure objectives (6A.6.6(a));
 - (2) the operating expenditure criteria (6A.6.6(c));
 - (3) the operating expenditure factors (6A.6.6(e)); and
 - (4) the factors in clause 6A.7.2(i) relevant to a system security network support payment.
- (b) An application submitted by a Transmission Network Service Provider under paragraph (a) must comply with any relevant requirements in the system security network support payment guidelines.
- (c) The AER may (but is not required to) consult in a manner it considers appropriate on the application submitted under paragraph (a) before making a determination.
- (d) A determination made by the AER under paragraph (a) must be consistent with the system security network support payment guidelines.
- (e) The AER must make and publish, and may amend, guidelines (system security network support payment guidelines) that set out:
 - (1) the information to be included in an application submitted under paragraph (a);
 - (2) any eligibility criteria or thresholds that will apply for system security network support payments before the AER will accept an application for under paragraph (a);
 - (3) the process and timeframes for the AER to make its determination under paragraph (a); and
 - (4) any other matters the AER considers relevant.
- (f) The transmission consultation procedures do not apply to the making or amendment of the system security network support payment guidelines.

2.2 Nature of the determination

The opex objectives, criteria and factors under clause 6A.6.6A (a)(1)-(3) of the NER are the same criteria the AER is required to assess when deciding whether to accept a TNSP's proposed forecast opex in a revenue determination under clause 6A.6.6. In the context of a revenue determination, we interpret these criteria together as requiring consideration of whether forecast opex can be reasonably considered to be 'prudent and efficient'.

Clause 6A.6.6A(a)(4) of the NER also requires the AER to determine whether expenditure for a proposed payment or payment methodology in a draft contract will be consistent with the factors in clause 6A.7.2(i) relevant to a SSNS payment. However, clause 6A.6.6A(a)(4) does not explicitly specify which factors in clause 6A.7.2(i) are relevant.

Box 2 lists the factors in clause 6A.7.2(i) that we consider relevant to a system security support payment.

Box 2: Factors in clause 6A.7.2(i) relevant to a system security network support payment

We consider that all factors in clause 6A.7.2(i), except clause 6A.7.2(i) (2) and (3), are relevant to a system security support payment due to the opening text “except to the extent subparagraph (3a) applies”. The meaning of this expression is that if subparagraph (3a) is applicable, subparagraph (2) and (3) does not apply. As subparagraph (3a) specifically relates to system security support payment, it would always be a relevant factor to the AER’s assessment under clause 6A.6.6A(a)(4). It follows that subparagraphs (2) and (3) would not be regarded as relevant factors to a system security network support payment for the purposes of the ex-ante determination under clause 6A.6.6A(a)(4).

Therefore, the relevant factors from clause 6A.7.2(i) for the purposes of an ex-ante determination include:

(1) the matters and proposals set out in any statement given to the AER by the Transmission Network Service Provider under paragraph 6A.7.2(c);

....

(3a) in the case of a network support event to which a system security network support payment relates (for both a negative network support event and a positive network support event):

(i) the total costs for system security network support payments the Transmission Network Service Provider incurred in the preceding regulatory year;

(ii) (the efficiency of the Transmission Network Service Provider's decisions and actions in relation to the risk of the event, including whether the provider has failed to take any action that could reasonably be taken to reduce the magnitude of the system security network support payments and whether the provider has taken, or omitted to take, any action where such action or omission has increased the magnitude of the amount in respect of that event; and

(iii) if applicable, a determination made by the AER under clause 6A.6.6A;

(4) the time cost of money based on the allowed rate of return for the provider for the relevant regulatory control period;

(5) the need to ensure that the provider only recovers any actual increment in costs under this paragraph (i) to the extent that such increment is solely as a consequence of a network support event; and

(6) any other factors the AER considers relevant.

We will interpret the factors under clause 6A.6.6A (a) (1)-(4) of the NER together as meaning that the AER can, on application from a TNSP, make a determination on whether a SSNS payment, or a methodology for such a payment, as described in a draft contract provided by the TNSP, is likely to result in future expenditure which can be reasonably considered to be prudent and efficient.

We note that we do not approve a specific forecast amount of expenditure as part of an ex-ante determination, rather we assess if the proposed payment or payment methodology in the draft contract is likely to result in a prudent and efficient amount of expenditure if the contract terms are followed. We are also not required to provide a view on other terms in the proposed draft contract, or on the efficiency of AEMO's operational enablement of the contract, once executed, to meet real-time system security needs. However, the AER may, at its discretion, comment on any component of the draft contract that it considers is relevant to its overall assessment of prudence and efficiency.

2.3 Operationalising clause 6A.6.6A

Chapter 3 sets out how we will implement clause 6A.6.6A, including:

- the processes and timeframes for the AER to make its determinations
- eligibility criteria and thresholds that will apply before the AER accepts an application for determination
- the information we may have regard to in order to:
 - determine that a draft contract is eligible for review (under 6A.6.6A(e)(2))
 - make a determination on the prudence and efficiency of a proposed payment or payment methodology in a draft contract (under 6A.6.6A(a))
- any other matters the AER considers relevant.

3 Processes, timelines, thresholds and information we may have regard to

This chapter outlines the processes, timelines, eligibility criteria and thresholds, and information we may have regard when undertaking an ex-ante determination of a draft SSNS payment contract.

Appendix A of this Guideline provides a flowchart showing key decision points a TNSP may need to navigate in contracting SSNS services, and how this Guideline, and the AER's *Efficient Management of System Strength Framework* guidance note, may help inform TNSP decision making.⁸

3.1 Pre-application

We encourage TNSPs to engage with us before applying for a determination. The primary aim of any early engagement is to provide targeted assistance to TNSPs to enable them to make eligible and high quality applications that provide all the relevant information needed to enable the AER to make a timely determination.

Early engagement will be at the AER's discretion. Generally, we will not provide advice at this stage on whether a proposed payment, or payment methodology is likely to be considered prudent and efficient, and early engagement will be limited to circumstances where:

- any RIT-T and related regulatory processes have been substantially completed
- there is sufficient information available on payments or payment methodologies
- there is a material need to engage before an application can otherwise be made
- AER resourcing is available.

3.2 Lodging an application – timing

Applications to the AER for an ex-ante determination should be made after the regulatory investment test for transmission (RIT-T)⁹ and any related regulatory processes to identify the preferred option have been completed, but prior to contract execution.

Generally, RIT-Ts should be complete, including the resolution of disputes. Similarly, AER approval of 'secondary options' based on a 'material change in circumstances' should be completed. Tender processes should be largely finalised to enable TNSPs to provide

⁸ The flow chart also shows how the AER's *Efficient Management of System Strength Framework* guidance note, developed in parallel with this Guideline, may inform TNSP decisions to proactively plan for, and procure system strength services under the *Efficient management of system strength on the power system* rule change, made on 21 October 2021.

⁹ Where required.

information on costs, payments and payment methodologies in an application that is likely to reflect the contract that is executed.

3.3 Lodging an application – eligibility & thresholds

Consistent with clause 6A.6.6A(b), an application submitted by a TNSP must comply with all relevant requirements in this Guideline, including any eligibility criteria or thresholds that apply before the AER will accept an application for review under clause 6A.6.6A(e)(2).

Box 3 lists the eligibility criteria and materiality threshold that the AER will apply under clause 6A.6.6A(e)(2) before we will accept an application for determination.

The eligibility criteria and materiality threshold will ensure that the AER has all relevant information needed to begin and undertake a timely assessment of an application, and that reviews will target only financially significant SSNS payment contracts as intended by the ISF Rule.

Chapter 4 outlines the type of information and supporting documentation TNSPs must include in an application to demonstrate a draft contract meets the eligibility criteria and the threshold set out in **Box 3**.

Box 3: Eligibility criteria and materiality threshold to make an application for an ex-ante determination

Eligibility criteria

- The application should be made after completion of all relevant regulatory processes (including completion of RIT-T disputes and AER determinations on ‘material changes in circumstances’), and before a contract is executed.
- All services in the draft contract being reviewed must be ‘preferred options’ under a completed RIT-T, or a ‘secondary option’ approved by the AER following a ‘material change in circumstances’.
- The application must include the relevant information outlined in Chapter 4 of this Guideline.

Materiality threshold

- The expected average annual payment under a draft contract, or a portfolio of draft contracts with the same payments or payment methodologies, must exceed 1% of AER approved unsmoothed revenues in a regulatory year for the current regulatory control period.¹⁰

¹⁰ Or 1% of forecast revenues for intending (newly regulated) TNSPs.

- Draft contracts in a portfolio must meet the same need and be substantially identical in regard to their proposed payments or payment methodologies.¹¹ There must also be a material benefit in having the contracts reviewed by the AER as a group.¹²

3.4 Consultation on an application

Clause 6A.6.6A(c) states that the AER may, but is not required to, consult in a manner it considers appropriate on the application before making a determination.

We propose to adopt a similar consultation approach as used for pass through applications under the NER.¹³ In the case of an ex-ante determination, this means the AER may consult with the relevant TNSP and such other persons as the AER considers appropriate, on any matters arising out of application as the AER considers appropriate.

In practice, the consultation process may include:

- publishing notification that an application has been received, and the likely timeframe for the assessment
- publishing a summary of the application with appropriate redactions for confidential and commercial-in-confidence information, including an outline of the payments and payment methodologies being assessed
- calling for submissions on the application
- using information requests and targeted consultation with the TNSP or other parties as necessary
- publishing a summary of the determination with appropriate redactions for confidential and commercial-in-confidence information, including our reasoning for decisions on the prudence and efficiency of the payments and payment methodologies assessed.

3.5 Assessing prudence and efficiency

Consistent with clauses 6A.6.6A (a)(1)-(4), this section describes the information the AER may have regard to when determining whether an expenditure for a proposed SSNS payment, or a payment methodology described in a draft contract provided by the TNSP, is likely to result in future expenditure that can be reasonably considered to be prudent and efficient.

This Guideline provides principles-based guidance on how the AER will interpret the relevant criteria under clause 6A.6.6A of the NER to determine the prudence and efficiency of

¹¹ This may be demonstrated through an independent review and assessment of the draft contracts in the portfolio.

¹² The AER will accept an application that includes a portfolio of contracts at its discretion and subject to resourcing.

¹³ NER 6A.7.3 (i).

expenditure for a proposed SSNS payment, or payment methodology. The specific information the AER considers in any assessment will vary on a case-by-case basis depending on the nature and circumstances of the draft contract being reviewed and the available information and evidence.

Prudency is based on providing sufficient evidence and information to enable the AER to establish that there is a reasonable need to contract for the service that is subject to the proposed SSNS payment or payment methodology in the draft contract being reviewed.

Information we could have regard to determine prudency includes whether the payment or payment methodology in a draft contract is for a SSNS service that:

- has been identified by the TNSP as being required to meet a network standard as defined in the NER, or other binding AEMO declaration
- has been identified by the TNSP as a 'preferred option' through the RIT-T process, or an amendment to the process, or is a 'secondary option' approved by the AER following a material change in circumstances (for example, on the basis it is a lower cost option than the RIT-T preferred option).

AEMO has identified payment components that a SSNS payment contract should include for enablement, including transfer of energy revenue, activation and usage payments.¹⁴ There may be a variety of prudent contract structures, and payment or payment methodologies depending on circumstances. The AER may have regard to the prudency of the contract structure and components of a proposed payment or payment methodology, the mix or structure of the components, and conditions for triggering a payment or component of a payment. For example, the AER may consider whether a draft contract includes unnecessary cost components, unnecessarily large cost components, or triggers for cost components that could be considered unnecessary, or overly ambiguous and likely to result in unnecessary costs being incurred.

Efficiency is based on providing sufficient evidence and information to enable the AER to establish that the payment or payment methodology in a draft contract is reasonably likely to reflect efficient costs, or the least cost that the TNSP could reasonably achieve in the circumstances.¹⁵

Information we could have regard to determine this includes the extent to which the payment or payment methodology for a given service:

- is the outcome of a competitive approach to market, or where a competitive process is not available, reflects the least cost the TNSP could reasonably achieve in the circumstances through a direct / negotiated approach to a SSNS service provider

¹⁴ AEMO, [Provisional Security Enablement Procedure \(Improving Security Frameworks\)](#), 30 June 2024.

¹⁵ Circumstances can include, but are not limited to, location, the number, type and costs characteristics of available SNSS service provider(s), and available technology.

- is not unreasonable, having regard to:
 - the economic cost and / or other relevant cost information used in the RIT-T process, including any early or indicative quotes from SSNS service suppliers (e.g. generator or battery)
 - the costs of realistic alternatives for obtaining the same service, including the direction compensation that the SSNS service supplier (e.g. generator or battery) would otherwise receive in similar circumstances if directed on by AEMO, having regard to AEMO's direction compensation recovery approach¹⁶ with reasonable additional compensation for a SSNS service supplier guaranteeing its availability by entering a contract factored in
 - the level of compensation needed to recover all reasonable costs incurred, net of alternative revenue sources, in providing the SSNS service
 - payments or payment methodologies for similar services in similar circumstances, including in other draft SSNS payment contracts reviewed by the AER or other publicly available information
- does not include unreasonable costs, cost components, mix of cost components, or triggers (i.e. there is no evidence of unnecessary costs or an unreasonable risk that triggers of cost components will lead to unnecessary costs).

Chapter 4 outlines the type of information and supporting documentation TNSPs must include in an application to demonstrate a payment, or a payment methodology in a draft contract is prudent and efficient.

3.6 Timeframe for decision

We propose to adopt a similar timeframe for a decision as set out by the NER for assessing cost pass through applications.¹⁷ In the case of an ex-ante draft contract review, the AER will make a determination within 40 business days from the later of the date it receives an application that meets the eligibility criteria and materiality threshold out in section 3.3, or the date it receives the additional information sought by the AER in a subsequent information request.

This timeframe aims to balance the need to ensure that a draft contract subject to review can be executed in a timely manner, while allowing for any consultation processes that the AER may carry out as part of the determination process, including seeking further information from the relevant TNSP, or other parties as necessary.

¹⁶ <https://aemo.com.au/en/energy-systems/electricity/national-electricity-market-nem/data-nem/settlements-data/direction-compensation-recovery>

¹⁷ This timeframe is consistent with the timeframe for a cost pass thought determination under NER clause 6A.7.3(e).

If the AER is satisfied that the making of a determination involves issues of such complexity or difficulty that the 40-business day limit should be extended, the AER may extend that time limit by a further period of up to 60 business days. In this case, the AER will advise the TNSP in writing of the additional time required. It is expected this option to extend the timeframe for a decision will only be used in exceptional circumstances.

4 Information requirements to make an application

Consistent with clause 6A.6.6A (e)(1), this section sets out the information a TNSP must include in an application for an ex-ante review of a draft SSNS payment contract:

- to demonstrate the draft contract meets the eligibility criteria and threshold set out in section 3.3
- to demonstrate expenditure for a proposed payment or payment methodology in a draft contract is prudent and efficient as set out in section 3.5.

4.1 Demonstrating eligibility and thresholds

The AER considers that TNSPs must provide the following information to demonstrate that the application meets the **eligibility criteria** for an ex-ante determination:

- all relevant details for the draft contract, including the SSNS services being engaged, the service provider(s), the proposed payments and payment methodologies in the draft contract, and details of any other costs, costs components and triggers for all other potential expenditures included in the draft contract
- a statement with supporting documentary evidence demonstrating that:
 - the TNSP has completed all relevant regulatory processes (including RIT-T appeals and any ‘material change in circumstances’) and that the draft contract has not yet been executed
 - all SSNS services in the draft contract have been identified by TNSPs as ‘preferred options’ under the completed RIT-T process, or ‘secondary options’ approved by AER as a lower cost option than RIT-T preferred options under ‘material change in circumstances’
 - all required information outlined in Chapter 4 of this Guideline has been provided.

Where an application includes a portfolio of draft contracts, a TNSP must demonstrate that:

- all draft contracts in a portfolio meet the same need and are substantially identical in regard to their proposed payments or payment methodologies (for example, via an independent review and assessment of the draft contracts)
- clearly document in summary form how the payments or payment methodologies in the draft contracts are substantially identical, and the nature and reasons for any variations in an individual contract’s payment or payment methodology
- there is a material benefit in having the contracts reviewed as a portfolio.

To determine that an individual draft contract, or portfolio of draft contracts, meet the **threshold**, the TNSP must provide the AER with details of all assumptions and calculations used to show that the expected average annual payments of the draft contract, or portfolio of draft contracts, is forecast to exceed 1% of the TNSP’s AER approved unsmoothed revenues in a regulatory year for the current regulatory control. This information should be presented in a spreadsheet that shows how the expected average annual SSNS payment was calculated, the basis of the AER approved unsmoothed revenues, and include the application of CPI,

and estimates of the time cost of money. The spreadsheet should show all formulas and input data.

4.2 Demonstrating prudence and efficiency

In addition to the information provided in section 4.1, the AER considers that the TNSPs must provide the following information to demonstrate a payment or payment methodology in a draft contract is **prudent**:

- an explanation with supporting documentary evidence outlining why the TNSP believes contracting the SSNS service(s) in the draft contract is prudent (necessary). This can include:
 - a statement with supporting documentary evidence showing that any payment or payment methodology in the draft contract is for a SSNS service(s) that:
 - has been proactively identified by the TNSP as being required to meet a network standard as defined in the NER, or other binding AEMO declaration
 - has been identified by the TNSP as a 'preferred option' through the RIT-T process, or an amendment to the process, or a 'secondary option' approved by the AER on the basis it is a lower cost option than the RIT-T preferred options.

The TNSP must also provide an explanation and supporting documentary evidence to demonstrate the prudence of the structure of the components of the payments or payment methodologies, and the conditions for triggering a payment or component of a payment in the draft contract. For example, unnecessarily large cost components, or unnecessary cost components may be considered not prudent. Likewise, triggers for costs that could be considered unnecessary, or overly ambiguous and likely to result in unnecessary costs being incurred may be considered not prudent.

The AER considers that the TNSPs must provide the following information to demonstrate a payment or payment methodology in a draft contract is **efficient**:

- an explanation with supporting documentary evidence outlining why the TNSP believes the payment or payment methodology in a draft contract is efficient. This can include:
 - a description of a competitive tender or procurement process used to establish the payment or payment methodology in a draft contract, including the type of approach(es) used, the offer(s) received, any subsequent negotiations or actions taken to achieve a competitive payment or payment methodology
 - where a competitive process was not available, a description of why a competitive process was not possible, the approach(es) to supplier(s) used in place of a competitive process, the offer(s) received, what steps the TNSP took to achieve the least cost offer, including any subsequent negotiations or actions to achieve the best available offer in the circumstances
 - an explanation of why the payment or payment methodology is efficient and does not result in unreasonable costs, or an unreasonable risk of unnecessary costs.

Where a TNSP seeks a determination on a draft contract that is part of a portfolio of draft contracts, the TNSP should consider what / if any information from the other draft contracts

in the portfolio (which may or may not be eligible for an ex-ante determination) may be relevant to enable the AER to assess the prudence and efficiency of the draft contract being reviewed.

Glossary

Term	Definition
AEMC	Australian Energy Market Commission
AEMO	Australian Energy Market Operator
AER	Australian Energy Regulator
NEO	National Electricity Objective
NER	National Electricity Rules
RIT-T	Regulatory Investment Test for Transmission
SSSP	System Strength Service Provider
TNSP	Transmission Network Service Provider

Appendix A: TNSP decision tree on contracting system security network support services

