

9 September 2022

Mr Arek Gulbenkoglu
General Manager
Expenditure
Australian Energy Regulator

Dear Arek

re: **Network Support Pass Through Application for 2021-22**

A network support allowance was approved in ElectraNet's revenue determination for the 2019-2023 regulatory control period based on the ongoing requirement for network support services at Port Lincoln on the Eyre Peninsula.

This allowance was based on the historic costs incurred under a network support services contract which expired in December 2018 and was subsequently replaced with a new contract at prevailing market rates through a competitive procurement process.

The pass through of network support costs to Transmission Network Users is required under clause 6A.7.2 of the National Electricity Rules. The AER has established a Procedural Guideline for preparing a transmission network support pass through application to provide further direction on this process.

The following network support pass through application for the regulatory year ended 30 June 2022 has been prepared in accordance with these provisions and addresses the specific information requirements of the Guideline. The relevant calculations are contained in a separate spreadsheet model accompanying this application, in accordance with the reporting template accompanying the Guideline.

1. Network support allowance

The applicable regulatory allowance for network support is \$9,060,529 (\$Jun 2022) for 2021-22. This is equivalent to the allowance contained in the AER's final revenue determination for 2019-2023 of \$8,373,333 (\$Jun 2018) as reflected in the currently approved PTRM (as amended for approved contingent projects and updated annually by the AER for the cost of debt).

2. Actual network support expenditure

A total amount of \$11,070,461 (\$Jun 2022) was expended on network support during 2021-22. This total represents direct costs incurred in the provision of network support services during the 2021-22 regulatory year, comprising contract payments and other costs directly incurred in providing the network support service.

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3. Network support pass through amount (\$m) including time cost of money calculations

A positive network support event (i.e. under-recovery) therefore occurred in respect of 2021-22, totalling \$2,009,932 (\$Jun 2022). After the required time value of money adjustments, this positive pass through amount totals \$2,175,336.

This represents the amount that ElectraNet proposes to recover from Transmission Network Users as a revenue under-recovery in setting transmission prices for 2023-24, to be published by 15 March 2023.

4. Reasons for variation

The ongoing variation in expenditure compared with the original allowance, as detailed in previous years, reflects:

- the impact of the charges payable under the updated network support services contract which commenced in January 2019; and
- the impact of charges which commenced in July 2019 under the contract for the new load bank facility which is required in order to maintain the reliability standard in the face of declining demand levels at Port Lincoln.

There was one outage which required the use of the Port Lincoln network support service during the year. Periodic testing was also undertaken as required under the terms of the service arrangements, with the network support service tested three times during 2021-22.

5. Verification of actual network support expenditure (audited regulatory accounts)

The information presented in this application is derived from audited statutory financial statements. The expenses incurred are also subject to the annual audit of ElectraNet's regulatory accounts, which will be submitted to the AER by end October 2022, as required.

6. Date network support pass through application is submitted to AER

The date of lodgement of this application is 9 September 2022.

7. In some cases, details on contractual arrangements

ElectraNet completed a detailed assessment of long-term electricity supply options for the Eyre Peninsula region through the Regulatory Investment Test for Transmission (RIT-T) which concluded in October 2018.

The assessment identified the replacement of the existing single circuit Cultana to Port Lincoln transmission line with a new double circuit line as the preferred option that maximises net economic benefits. The preferred option will also avoid the future need for network support services to meet the applicable reliability standard at Port Lincoln.

The AER confirmed the outcomes of this RIT-T assessment in April 2019 and approved a contingent project application for this project in September 2020.

The project is expected to be completed by early 2023, followed by a period of commissioning and testing. As a consequence, the network support service for Port Lincoln is no longer forecast to be required after April 2023.

On 30 June 2022, the AER issued a decision in relation to a cost pass through application for inertia network services required to be provided by ElectraNet in 2022-23 to address an inertia shortfall declared by AEMO.

The AER determined that ElectraNet's process to procure and contract for the provision of inertia network services in 2022-23 is likely to have resulted in an efficient estimate of the price of procuring the services. The AER also noted that, under the requirements of clause 6A.7.2

of the NER, ElectraNet will be able to recover costs efficiently incurred to provide inertia network services in 2022-23 under the network support cost pass through arrangements.

ElectraNet therefore intends to recover these costs in its annual network support pass through application for 2022-23 to be lodged in 2023.

The inertia service costs were forecast at \$4.159m for 2022-23, including both fixed and variable costs, with the variable component reflecting assumed operating times based on historical outcomes. The actual variable costs incurred in 2022-23 will be determined by the extent to which AEMO calls upon the service during the year.

8. TNSP decisions affecting the magnitude of the network support event

The network support service was operated during the year as outlined above. There were no decisions taken by ElectraNet that impacted on the network support amount incurred during the period.

I trust this information fully satisfies the requirements of the Guideline and relevant provisions of the Rules. Should you have any queries in relation to this letter, please contact Greta Doyle in the first instance on [REDACTED]

Yours sincerely

[REDACTED]

Simon Appleby
Manager Regulation and Investment Planning

Encl. calculation spreadsheet