

17 February 2022

Ms Clare Savage  
Chair  
Australian Energy Regulator

Email: [REDACTED]

Dear Clare

**re: Inertia Network Services Cost Pass Through Application 2022-23**

Please find enclosed a cost pass through application, submitted under clause 6A.7.3 of the National Electricity Rules in relation to an inertia shortfall event which occurred on 5 November 2021 and which will materially increase our costs of providing prescribed transmission services for the 2022-23 regulatory year.

Inertia is a critical requirement for a secure power system. Under clauses 5.20.B.2(a) and (c) of the Rules, the Australian Energy Market Operator (AEMO) must determine and publish the inertia requirements for inertia sub-networks, such as South Australia. When it does, ElectraNet is responsible for meeting those requirements.

AEMO has concluded that there is an inertia shortfall in South Australia and, accordingly, we are required to make inertia network services available under clause 5.20B.4 of the Rules. This constitutes an inertia shortfall event, which in turn is a cost pass through event under clause 6A.7.3(a1)(6) of the Rules.

Following a rigorous market tendering process intended to secure the required services at the lowest cost to electricity customers, we have concluded that the likely cost of making the relevant services available in 2022-23, and therefore the eligible pass through amount, is \$4.15 million.

This eligible pass through amount reflects our best estimate of the likely costs of complying with this requirement. The actual cost of making these services available in 2022-23 may be more or less than the estimated cost depending on the number and duration of events that occur that require the service to be dispatched.

Under the Rules, any variation between the eligible pass through amount and the actual cost we incur will be refunded to, or recovered from, customers through the network support pass through process. This will ensure that customers pay no more than the actual costs of making available the required inertia network services each year.

Accordingly, ElectraNet seeks approval from the Australian Energy Regulator to pass through a positive pass through amount of \$4.15 million prior to contracting the required inertia network services for the 2022-23 regulatory year.

To be recovered in 2022-23, these costs must be included in our transmission prices for 2022-23, which must be published by 15 March 2022. We therefore seek a decision on this Application from the AER by early March 2022 for this to be achieved.

I note that this matter has been the subject of discussions with the AER over an extended period, and that the AER team is currently reviewing a draft of the cost pass through application we provided previously.

I also note that AEMO has foreshadowed additional inertia shortfalls beyond the 2022-23 regulatory year. These are not the subject of this pass through application, though they may lead to other applications in the future if additional pass through events occur.

Due to the commercially sensitive nature of the tender outcomes and the resulting service costs, these details have been redacted in the application. For completeness, both public and confidential versions of the application are enclosed.

We look forward to working with the AER through the assessment of this application.

Please direct any queries to [REDACTED] in the first instance on [REDACTED]

Yours sincerely

[REDACTED]  
Rainer Korte  
**Interim Chief Executive**