



Ref. A5062353

30 November 2022

Mr Paul Harrigan  
Director, Network Pricing  
Australian Energy Regulator  
Level 25, 32 Turbot Street  
BRISBANE QLD 4000

Sent via email: [REDACTED]; [REDACTED]

Dear Paul,

### **SYSTEM STRENGTH CHARGING AMENDMENTS TO PRICING METHODOLOGY**

Powerlink Queensland (Powerlink) provides its proposed amended Pricing Methodology to introduce system strength charging arrangements consistent with the Australian Energy Market Commission's (AEMC's) Efficient Management of System Strength on the Power System Final Rule (October 2021). For transparency, we have provided a marked-up version of our current Pricing Methodology, which the Australian Energy Regulator (AER) approved in April 2022 for our 2023-27 regulatory period.

Once approved, our amended Pricing Methodology would commence on 1 July 2023 and apply until 30 June 2027. We consider that our proposed amended Pricing Methodology complies with the National Electricity Rules (the Rules) and the AER's updated Pricing Methodology Guidelines (August 2022).

We have worked with other System Strength Service Providers (SSSPs), which include other transmission network service providers and the Australian Energy Market Operator (AEMO), to develop a consistent approach to set a system strength unit price (SSUP) for each system strength node based on a forward-looking, long-run average cost (LRAC) methodology.

SSSPs also engaged with the AER prior to lodgment to discuss specific aspects of the system strength charging amendments. We acknowledge and appreciate the constructive approach adopted by relevant AER staff.

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## Key Issues

SSSPs are particularly conscious of the limited information available to set unit prices for the first system strength charging period. For Powerlink, this period is 1 July 2023 to 30 June 2028. As explained in our proposed amended Pricing Methodology, there is:

- limited historical data to inform our forecast revenue from system strength charges over this period; and
- no information available regarding the likelihood that connection applicants will elect to pay the system strength charge in relation to a proposed new connection or alteration to a generating system or other connected plant.

While SSSPs expect the current paucity of information to improve over time, it is important to highlight these practical challenges.

A related issue is the uncertainty of future costs of providing system strength services. However, it is reasonable to expect that the costs of providing system strength services may decline over time. While batteries may ultimately provide a lower cost alternative to network solutions, such as synchronous condensers, the provision of system strength services as specified by AEMO must be met within designated timeframes by the SSSPs. In some cases, synchronous condensers may be the lowest cost option to address AEMO's specified requirements, despite the potential for technological change and lower cost solutions becoming available in future. This prospect creates a challenge to determining SSUPs. There are two competing objectives:

- to recover the actual costs of providing system strength services from connecting parties; and
- to avoid connecting parties from self-remediating in circumstances where the SSSP could provide the system strength services at a lower cost.

As set out in our proposed amended Pricing Methodology (including the examples in Appendix F), we propose to consider both the actual and forward-looking costs of providing system strength services. This pragmatic approach is consistent with the Rules and the AER's justification to select LRAC as its preferred pricing methodology, which is that it would:

- result in stable pricing across system strength charging periods. This in turn would support investor confidence and more optimal location decisions; and
- allocate more of the costs of providing system strength transmission services to the parties that require those services, and thereby reduce the costs to be recovered from customers via prescribed common transmission service prices.

Powerlink also notes that the AEMC has published its Draft Determination on the Operational Security Mechanism (OSM). The interface between the OSM and the system strength charging arrangements has not yet been settled. To recognise the possible implications of the final OSM Rule for system strength charging arrangements, our proposed amended Pricing Methodology

notes that the capital and operating costs of providing system strength capacity at a system strength node will have regard to the National Electricity Amendment (Operational Security Mechanism) Rule 2022 once finalised.

### **Next Steps**

If you have any questions or require further clarification on our proposed amendments, please contact me or Anthony Rossiter.

Yours sincerely,

Jennifer Harris  
**GENERAL MANAGER, NETWORK REGULATION**

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